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Better accountability revisited: review of accountability costs 2004

A report to HEFCE by PA Consulting

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1. MANAGEMENT SUMMARY

In May 2000, HEFCE published a report ‘Better Accountability for Higher Education’ (HEFCE 00/36), based on work undertaken by PA Consulting on the impacts, drivers and costs of external accountability demands on higher education institutions (HEIs). Five years on from the original fieldwork, HEFCE commissioned PA Consulting to revisit their assessment of the impacts of external accountability demands on HEIs – as required by HEFCE and other stakeholders – and to advise whether the perceived (and measured) costs of meeting those requirements had increased or decreased.

There is an ongoing debate within the HE sector over the extent to which the accountability requirements identified in these studies should be regarded as burdensome impositions or part of the ‘business-as-usual’ responsibilities of an institution operating in publicly funded markets. Judgements of ‘burden’, as our original report demonstrated, are complex and depend heavily on the perspective of the observer. The current report does not enter this debate. Our remit was to investigate changes in accountability-related costs *‘as perceived by the sampled universities’*. The study has sought to identify and measure the activities and associated costs attributable to external accountability requirements, which the institutions visited, believed were additional to the operating costs they would otherwise be incurring. While we did press our respondents to substantiate the additionality of the costs concerned, we have not attempted any judgments of the reasonableness of particular requirements.

This report thus provides an update and some sample evidence for one side of the continuing debate over accountability burdens in HE. While we have included observations from the sampled institutions’ experiences of their engagement in accountability-related activities, with HEFCE and with other stakeholders and agencies, we were not remitted to explore the stakeholder perspective on the issues raised.

There have been many changes in accountability arrangements within HE since our 2000 review, some of them reflecting the objective of minimising accountability burdens on institutions that has been formally embraced by the DfES and by HEFCE. The most important of these changes include:

- *Quality Management and Assurance* - significant changes in the arrangements for teaching quality assurance, under the Quality Assurance Agency (QAA), have been made; moving from subject based Teaching Quality Assessments to a system (the Quality Assurance Framework or QAF) based on assurance of institutions’ own quality management processes.
- *Research Assessment Exercise* (RAE) - the next RAE will be in 2008, and will follow different procedures intended to reduce some of the burdens on institutions. The introduction of a ‘graded profile’ is intended to reduce the additional efforts and tactical judgements required for the submission of research activity around the ‘cusps’ between different research ratings.
- *Bidding and Tendering* - HEFCE has eliminated a number of separate competitive bidding programmes by allocating the relevant funds to all institutions on a formula basis, provided institutions produce acceptable plans for use of the funds. There have in addition been some new discretionary funding schemes introduced since 2000, for which additional bidding requirements have been imposed.

- *Consultations* - HEFCE has always sought to consult the sector on proposals for changes in policy or funding schemes. However in 2003, the number of consultations rose considerably, both from HEFCE and also direct from the DfES and from HM Treasury. When looking at accountability costs, we sought to draw the distinction between the 'direct impacts' of generating and responding to specific accountability requirements and the 'indirect impacts' factored into ongoing institutional operations. We have further distinguished between the measured costs and unmeasured or intangible cost impacts.

Based on this approach, the magnitude of external accountability costs across all HEIs is conservatively estimated at around **£211m** for our 2004 study. By comparison, our 2000 review estimated that the total cost impact on HEIs from external accountability demands amounted to around £250m (equivalent to £280m in 2004 prices). This represents a **reduction** in the overall costs of meeting accountability demands on institutions of around **25**% in real terms over the past four years. Adjusting for inflation, the current costs amount to some £188m (in 2000 prices), over £60m less than in 2000. While this represents a significant and welcome improvement, a total cost equivalent to the annual income of two large universities is clearly a cause for continued attention.

A slightly disconcerting finding from this review has been the number of new accountability requirements imposed on HEIs since our first review. By no means all of these extra demands have been instigated by HEFCE; several have come from other stakeholders, notably the Department of Trade and Industry (DTI), HM Treasury and DfES as a direct consequence of the Government's White Paper for HE. Several new demands relate to 'third leg' activities, which have become more important over the past few years as additional resources are made available for them. Beyond these, all four universities we visited expressed concerns about the further impositions likely to be generated by new accountability developments, notably the introduction of changes with regard to

- The Office for Fair Access (OFFA)
- Teaching Quality Information (TQI)
- Full Economic Costing.

Of these, the potential impacts and burdens generated by OFFA are seen by institutions as particularly worrying, although much depends on how OFFA chooses to interpret and administer its eventual remit.

Overall, the picture emerging from this review compared with the situation in 1999/2000 is that there has been genuine progress towards the shared objectives of reducing the imposed costs of external accountability requirements, but that scope remains for further improvements. Such improvements should be sought from two directions. From the stakeholder side, the newly formed Higher Education Regulation Review Group should continue to challenge both current and new regulatory developments, drawing on the principles established through the Better Accountability through Partnerships programme and subsequently by the Better Regulation Review Group. From the institutions' side, continued refinement of corporate governance, control and information systems, benchmarked against best practice across other sectors and countries, will strengthen their arguments for greater self-regulation of their publicly- funded activities.

2. INTRODUCTION

In May 2000, HEFCE published a report 'Better Accountability for Higher Education' – HEFCE Report 00/36, 2000 – based on work undertaken by PA Consulting on the impacts, drivers and costs of external accountability demands on higher education institutions (HEIs). This report concluded that HEIs were experiencing heavy demands from externally-imposed accountability requirements, which extrapolated across the sector represented an opportunity cost in staff time equivalent to some £250 million a year. These costs were incurred mostly in response to external quality assurance processes, both for teaching and research, and also from various competitive bidding schemes and external reporting requirements. The report observed that there was significant scope for rationalising the extent of external stakeholders' demands on institutions, and also for institutions themselves to streamline their internal systems for responding to such demands.

Five years on from the original fieldwork for the first Better Accountability report, HEFCE commissioned PA Consulting to revisit their assessment of the impacts of accountability demands on HEIs, and to advise whether the perceived (and measured) costs had increased or decreased. This report summarises the findings from this review.

The original fieldwork in 1999 was undertaken with the University of Leeds and Leeds Metropolitan University. These universities were selected as being representative of large pre- and post-1992 institutions. The current review followed the same methodology, but with some refinements, as the first study, with the University of Leicester and De Montfort University[1], selected on the same rationale. In addition, we visited the University of Southampton and Middlesex University to conduct further research on their experiences with the new QAA Institutional Audit arrangements, since these have not yet been applied with the two universities in Leicester. The findings from this element of the research have been documented separately in 'Assessing the Impact of the New QAA Arrangements – Part1'.

We were able to undertake over 55 interviews with a representative selection of staff at all levels across the four universities, which was a larger sample than the first study. We could not have done this without the active help of both universities, which was freely given. We would like to express our thanks to the Vice-Chancellors and staff of all four universities for making us welcome in their institutions.

[1] The methodology used to derive the cost burden is not impacted by relative size difference in the sample universities, and the extrapolation of costs across the sector will be as accurate as possible with this size of sample.

3. CHANGES IN ACCOUNTABILITY ARRANGEMENTS

There have been many changes in accountability arrangements within the sector since our 2000 review, some made in response to the 'Better Accountability for Higher Education' report and others the result of policy changes. The principle of minimising accountability burdens on institutions has been formally embraced by the DfES and by HEFCE, and has been further encouraged by the Cabinet Office's Better Regulation Task Force[2]. Some of the most important changes are listed below, grouped by the accountability themes used for this review.

Quality Management and Assurance

There have been significant changes in the arrangements for teaching quality assurance under the QAA, moving from subject based Teaching Quality Assessments which effectively inspected provision in every subject area on a rolling programme, to a system (QAA Institutional Audit) based on assurance of institutions' own quality management processes. This new regime is being introduced on a progressive basis through an interim programme of 'Developmental Engagements' that are preparatory academic reviews.

Research Assessment Exercise

The 2001 RAE came after our first review, and was reflected mainly through institutions' estimates of the staff time likely to be involved. The next RAE will be in 2008, and will follow different procedures intended to reduce some of the burdens on institutions. The details of the 2008 exercise are still being finalised, but the introduction of a 'graded profile' should reduce the additional efforts and tactical judgements required for the submission of research activity around the 'cusps' between different research ratings.

Bidding and Tendering

HEFCE has eliminated a number of separate competitive bidding programmes by allocating the relevant funds to all institutions on a formula basis. However these formula based bids require a separate plan for how the funds will be spent against HEFCE's stated criteria. Areas affected by such changes include estates capital, staff development and widening participation. There has also been a number new bidding schemes introduced over recent years, notably the Higher Education Innovation Fund (HEIF), which replaced the Higher Education Reach-out to Business and the Community Fund (HEROBC), and most recently the Centres for Excellence in Teaching and Learning (CETLs).

Consultations

HEFCE has always sought to consult the sector on proposals for changes in policy or funding schemes. Between 2000 and 2002 it undertook around four or five such consultations each year. However in 2003 the number of consultations rose considerably, both from HEFCE and direct from the DfES and from HM Treasury. There were over 20 major consultation documents issued during the year. Given that 2003 saw the publication of the Government's White Paper for HE and also the review of the RAE methodology, the year might be viewed as exceptional in this regard. However, this view is not shared by senior staff in the universities we visited, whose experience is that the

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[2] Higher Education: Easing the Burden, Better Regulation Task Force July 2002.

range and frequency of consultation exercises from all areas of Government has shown an overall continued growth into 2004.

Corporate and Operational Planning

As adjuncts to the corporate strategic plans and annual operating statements which have been required since 2000, HEFCE now also requires institutions to produce functional plans and progress reports with regard to those elements of funding which are earmarked within the block grant. These functional plans cover widening participation, learning and teaching strategies, estates and human resources development.

Financial Reporting and Audit

The main changes in this area relate to HEFCE's audit and assurance arrangements. A new Audit Code of Practice has been introduced under which HEFCE's assurance of institutional governance and controls is based mainly on document reviews, with no more than 3 days of on-site visits every five years. In addition, HEFCE has introduced new guidance on institutional risk management, and expects institutions to maintain and manage a detailed risk register.

Statistical Reporting

Following the first Better Accountability report, a multi-stakeholder group known as the Information Management Taskgroup for HE (IMT) was established with a continuing remit for rationalising data standards and reporting requirements. The main success from this initiative to date has been the abolition of the December return to the Higher Education Statistics Agency (HESA), although we are aware that other opportunities for rationalisation are being investigated.

4. *QUANTIFYING ACCOUNTABILITY IMPACTS*

4.1 METHODOLOGY FOR ASSESSING COST IMPACTS

In our 2004 study, in order to maintain consistency as much as possible, we emulated with some refinements the approach adopted in 2000, which is outlined below. It is important to note that the cost data reported here were derived from in-depth discussions with only two universities – selected as broadly representative of large institutions – and supplemented by information on quality assurance changes at two more.

We have drawn a distinction between the ‘direct impacts’ of generating and responding to specific accountability requirements, such as data returns, audit visits, etc, and the ‘indirect impacts’ factored into ongoing institutional operations. In each category, we have further distinguished between the measured costs and unmeasured or intangible cost impacts.

Impacts on Higher Education Institutions	
Direct Impacts	**Indirect Impacts**
Measured Costs (Eg. Attributed admin time and academic time.)	**Administration Costs** (Eg. Enhanced information systems, bought in services, etc)
Unmeasured Costs (Eg. Unattributed staff time and non-staff costs)	**Behavioural Costs** (Eg. Quality assessment and bidding ‘game playing’, planning uncertainties, staff stress)

The total costs incurred by HEIs as a result of external accountability arrangements are represented by the four quadrants in the diagram. **For the purposes of this study, we have concentrated on identifying areas and activities where external accountability requirements impose costs that the institutions believe would not otherwise be incurred.** Certain imposed requirements may have beneficial impacts, for example encouraging improvements to internal management processes; we sought through our interviews to identify instances of such benefits and to discount the associated “additionality” accordingly.

Our efforts to quantify the cost impacts of external accountability requirements had to address several complicating considerations:

- Direct costs (mostly staff time) are generally not measured, even if they relate to formal accountability activities (such as meetings and document preparation)
- The extent to which external accountability requirements represent an addition to ‘normal’ administrative requirements varies according to HEIs’ internal policies, processes and systems
- Much of the perception of burden is qualitative in nature and does not always match to what a quantitative analysis would show.

We built up an indicative picture using structured interviews covering a cross-section of both academic and corporate staff within both the universities cooperating in the study.

4.2 SUMMARY OF OBSERVED ACCOUNTABILITY COSTS

An improvement upon the methodology of assessing cost impacts used in 2000 has been to organise the quantitative element of the structured interviews around seven themes of potential sources of accountability burdens:

- Quality Management & Assurance
- Research Assessment Exercise
- Bidding and Tendering
- Consultations
- Corporate and Operational Planning
- Financial Reporting and Audit
- Statistical Reporting.

This framework has allowed the refinement of our earlier methodology, and in particular has enabled several elements of previously 'unmeasured' cost to be reassigned to 'measured costs'. To allow an easier comparison of 2004 to 2000 results we have initially built up the measured costs using the original methodology to allow a like for like comparison, before adding previously unmeasured costs into the measured category.

4.2.1 Changes in Measured Direct Impacts

We drew on the quantifiable findings from the structured interviews at both universities to estimate the direct impacts of external accountability demands. Our findings with respect to attributed academic and administration time for the staff involved, costed at the institutions' hourly staff cost rates (including on-costs at 16%) are summarised in the table below.

	Annual Costs	
	2000 Study[3]	2004 Study
Student Records	£33,600	£17,900
HESA Finance Statistics Record (FSR)	£5,600	£5,000
Research Assessment Exercise	£896-952 (per research active FTE)	£1,200[4] (per research active FTE)
Developmental Engagements	N/A[5]	£12,000
Bidding Schemes	£1,120 - £10,080[6]	£6,000[7] – £14,500[8]

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[3] Up-rated by 12% to reflect staff cost increases since 2000, using the Higher Education Pay and Prices (HEPPI) index published by Universities UK.

[4] This includes a loading (£95 per research active FTE) for the central co-ordination of the RAE 2001.

[5] The equivalent 2000 figure is not directly comparable to the 2004 figure due to changes in the QAA regime.

[6] Excluding the Joint Infrastructure Fund (JIF).

[7] An average of a ASN, CETL's, SRIF2, FDTL2 or R&DS2 style bid across both universities .

Estimates for student records include all requirements for returns to HESA, HEFCE (the annual student data return – HESES), the Teacher Training Agency, the NHS, Workforce Development Confederations (WDC) and the Student Loans Company, which all use elements of the same set of base data. The estimate is considered to be representative of the sector; both universities have aligned their internal information systems with external accountability requirements, although one university is investing more time than the other in the manual manipulation and amendment of data. This variability is not untypical of experiences across the sector as a whole.

The HESA Finance Statistics Record is the most important of several external reporting requirements which the institutions told us does not align, primarily due to differing information needs, with their standard published and management accounting formats and to that extent is perceived to generate a cost burden. The additional costs reported here reflect the manual effort required to manipulate the data into the formats required. Both universities acknowledged that a factor in these costs was the inflexibility of their financial and management information systems.

There is currently a programme to roll out QAA Learning & Teaching Institutional Audits across the sector to replace QAA Continuation Audits and Subject Reviews. The transition between the old programme and the new has been covered by interim 'QAA Developmental Engagements'. The detailed assessment of the impacts of the new QAA Institutional Audit arrangements is covered in a separate report 'Assessing the Accountability Impact of QAA Arrangements', and we have included here the one-off costs of the Developmental Engagements. This cost should not be used for projecting the future costs of teaching quality assurance once the new arrangements are fully introduced.

In our 2000 study the projected RAE (2001) costs, based on 1996 estimates[9], produced estimates of c£896-£952[10] per active researcher. In 2004, based on the actual experience of RAE (2001), an increase of c21% over this figure was found in the estimated actual burden per research active FTE. However to a certain extent the burden of the RAE is driven by the amount of effort the institution chooses to commit in pursuit of the best possible ratings for the staff entered. In the case of the 2001 RAE both universities confirmed that the level of costs incurred reflected, in part at least, their own decisions to present the best possible case, beyond the demands of basic compliance.

During the period 2000 to 2004 several changes have affected the level of bidding and tendering activities and the associated costs for HEIs:

- New rounds of established bidding schemes (Additional Student Numbers, a fifth round of the Fund for the Development of Teaching and Learning, and a second round of Rewarding and Developing Staff)
- A new, and apparently more burdensome, scheme (HEIF) to replace HEROBC, which entails several different review panels
- Completely new bidding schemes have been introduced (CETLs)
- Other competitive bidding schemes (e.g. estates capital) have been replaced with conditional specific formula allocations.

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[8] An average of a HEIF2 bid across both universities. Much more burdensome due to collaborative nature of the bids and involvement of Regional Development Agencies and industry.

[9] Based on both universities forecasts and a HEFCE Survey.

[10] Up-rated by 12% to reflect staff cost increases since 2000, using the HEPPI index published by Universities UK.

To the extent that several of these developments are associated with new funding schemes, and additional total funding, it might be argued that costs associated with securing a share of such funds are the natural concomitant of business in a competitive market. But the overall objective of reducing the number and complexity of bidding schemes, as endorsed for example by the Better Regulation Task Force, appears not to have been met.

4.2.2 New Measured Direct Requirements

In addition to the new bidding schemes mentioned above, we found that direct costs had increased on account of other new requirements, arising with regard to:

- Financial Reporting and Audit
    - Risk Management, a new requirement for HEIs, but well established in the private sector, commenced in April 2001
- Statistical Reporting
    - Higher Education-Business Interaction (HE-BI) Survey (2002), an iteration of a survey that has been introduced
    - NHS - WDC Student Numbers, a new requirement that commenced in April 2001
- Quality Management & Assurance
    - The requirement for monitoring and reporting on intellectual property (IP) and spin-out companies
    - TQI, a new requirement that will build up towards the December 2004 launch.

Below is a summary table of our findings with respect to attributed academic and administrative staff time for these requirements, calculated using the institutions' hourly rates (including on-costs at 16%).

New Measured Direct Costs	**Annual Costs**
Risk Management	£39,200
HE-BI Survey	£3,600
NHS-WDC Student Numbers	£10,400
Monitoring role for IP & Spin-out Companies	£45,000
HE Course Approval	£18,700[11]
TQI	£4,400[12]

[11] Based on 7 or 8 HE visits per year.

[12] Based on an 'incremental cost' estimate required to collect and publish additional information in the formats required for TQI, but doesn't include costs of maintaining that information.

4.2.3 Previously Unmeasured Costs re-allocated to Measured Direct Impacts

In the 2000 study we referred to a survey of 2,600 academic staff undertaken by the Association of University Teachers [13] to estimate the 'hidden' or unmeasured staff costs associated with external accountability requirements. However for the current study, a more comprehensive methodology for assessing cost impacts has allowed us to capture several elements of previously 'unmeasured costs' and include them in 'measured costs'.

These additional items arise in the areas of accountability requirements:

- Corporate and Operational Planning
    - Institutional Sub-Strategies
- Quality Management & Assurance
    - Periodic Department Reviews
    - Programme Approval Days
    - Student Surveys
    - Programme & Module Specifications
- Consultations
    - Senior Management Discussion (Hourly Rate).

Below is a summary table of our findings with respect to the cost that can now be captured and moved from 'unmeasured costs' to become 'measured costs' in the 2004 study.

Unmeasured to Measured Costs	Annual Costs
Institutional Sub-Strategies	£24,000[14]
Periodic Department Reviews	£34,400[15]
Programme Approval Days	£8,300[16]
Graduate Surveys	£4,900
Programme & Module Specifications	£10,000[17]
Senior Management Discussion (Hourly Rate)	£16,000[18]
Total of Previously Unmeasured Costs	**£97,600**

[13] '*The Use of Time by Academic and Related Staff', by Stephen Court,* in Higher Education Quarterly*, Volume 50, No.4, October 1996.*

[14] Based on an average generating 2 strategies a year.

[15] Based on an assumption of 7 reviews a year.

[16] Based on 4 programme approval days a year.

[17] Based on one course re-write per faculty per year.

[18] Based on 2 hrs of discussion time and 20 consultations per year, but not including any reading or response preparation time.

4.2.4 Unmeasured Costs

Our earlier estimates of hidden or unmeasured direct staff costs – in addition to the measured costs discussed above - equated to some c£747,000[19] on average for each HEI. The capture of the items referred to above has the effect of reducing this total by c13%. Beyond this, it was clear from our interviews with university staff that the work of responding to external accountability demands is increasingly undertaken by central or sometimes faculty level administrative staff, rather than by 'front line' academic staff. This professionalisation of accountability management has significantly shifted the impact of imposed requirements, and has materially reduced the extent of unmeasured staff efforts involved with them. We believe it would be quite reasonable to infer that the informal or unmeasured burden on academic staff has reduced by 20% since 2000 due to this effect. We conclude therefore, with due caveats, that the hidden or unmeasured element of accountability costs has reduced by c33% overall between our two reviews.

4.2.5 Indirect Administration Costs

As in the 2000 study there is no easy way of separating 'business as usual' administrative support costs – both in staff time and non-staff costs such as systems developments - from the incremental demands of the external accountability burden. However, during our structured interviews great emphasis was placed on differentiating costs attributable to external accountability requirements from those attributable to the 'Good Management' of the institution.

Since 2000 significant management effort and money has been invested in enhancing institutions' internal management processes and information systems, for example to reduce manual intervention required when extracting data for the creation of annual HESA and HESES returns. In contrast to the 2000 exercise, the institutions were both clear that this had been done more for internal reasons than to satisfy external demands. Both also offered the view that further improvements of their information systems would enable them to be smarter and more efficient in providing flexible and timely information and reports.

As in the 2000 study, total indirect Administration Costs committed to meeting external accountability requirements cannot be calculated exactly. We would nonetheless be confident in suggesting that this element of accountability costs is significantly lower than in 2000, because:

- More costs have been captured as directly observed activities, reducing the indirect impacts
- The extent of external cost impositions, for example to develop and assess investment options simply to satisfy bidding requirements (e.g. for capital funding bids) has been greatly reduced
- Institutional administration systems and processes are much smarter and efficient than even four years ago

For these reasons, we believe it reasonable to infer a reduction in the tangible indirect costs of accountability impositions of 20%, equivalent to some c£149,000 a year per institution on average.

[19] Up-rated by 12% to reflect staff cost increases since 2000, using the HEPPI index published by Universities UK.

4.2.6 Behavioural Costs

The 2004 study has reconfirmed that academic and administration staff alike often work long hours to fit accountability-related work around their day-to-day teaching, research and administrative commitments. Elements attributable to the external accountability burden were often seen to be the driver for excessive hours worked, especially in the run up to internal or external quality assessments, the RAE and bidding rounds. As a consequence of these ‘extra’ hours of work, several staff cited ‘stress’ as an impact of externally imposed accountability, although it is not possible to attach a money equivalent to this impact.

The RAE, but not only this exercise, can be viewed as putting academics’ and the institutions’ professional reputation on the line. It is not surprising therefore that the RAE is perceived to affect staff morale, especially when departments do not do as well as expected, and may well contribute to the reported problems of staff retention and recruitment.

Although to a great extent the uncertainty over the outcome of bidding rounds has reduced with the shift towards formula-driven funding allocations as opposed to competitive bidding, HEIs may still have to wait months to know the outcome of particular bids and allocations, during which time other decision-making processes may be held up. Successful bids that require the management and reporting on specific streams of funding separately have an adverse effect on the amount of HEI resources tied up. This activity is felt by institutions, sometimes at least, to be disproportionate to the overall size of the funding stream.

The above factors combine to produce impacts that are, by their very nature, not quantifiable, but nevertheless represent real ‘costs’ to institutions.

4.3 EXTRAPOLATIONS TO THE WIDER SECTOR

The table also offers estimates for annualised costs for the HE sector in England if the results from this study were to be extrapolated, based on the cost drivers shown.

4.3.1 Changes in Measured Direct Impacts

		Annual Costs	Cost Driver	Extrapolation (£000's)
Measured Direct Impacts	Student Records	£17,900	Number of HEIs[20]	£2,363[21]
	HESA Finance Statistics Record (FSR)	£5,000	Number of HEIs	£ 660
	Research Assessment Exercise	£1,200	Number of research active staff	£7,743[22]
	Institutional Audit	£180,000[23]	Number of HEIs	£ 3,960[24]
	Bidding Schemes	£6,000 – £14,500	Number of bids placed	£2,541[25]
	Total			**£17,267**

4.3.2 New Measured Direct Requirements

		Annual Costs	Cost Driver	Extrapolation (£000's)
New Measured Direct Impacts	Risk Management	£39,200	Number of HEIs	£5,174
	HE-BI Survey	£3,600	Number of HEIs	£475
	NHS-WDC Student Numbers	£10,400	Number of HEIs	£640[26]
	Monitoring role for IP & Spin-out Companies	£45,000	Number of HEIs	£2,970[27]
	HE Course Approval	£18,700	Number of HEIs	£2,468[28]
	TQI	£4,400	Number of HEIs	£580
	Total			**£12, 307**

[20] The number of HEIs within the sector has been taken as the 132 English institutions funded by HEFCE.

[21] The cost driver used here is the number of HEIs in preference to the number of students.

[22] Annualised over 6 years.

[23] Including central co-ordination cost of £120,000 and an average of 5 Discipline Audit Trails per audit.

[24] Based on 132 HEIs audited once every 6 years.

[25] Based on every HEI bidding for 2 of the following - ASN, CETLs, SRIF2, FDTL2 or R&DS2 - plus HEIF every 2 years.

[26] Based on 70 HEIs offering courses aligned with RAE Units of Assessment 1,2,3,10,11.

[27] Assuming this affects 50% of the assumed number of HEIs.

[28] Based on 4 HE Course Approval visits per HEI per year.

4.3.3 Unmeasured to Measured Direct Impacts

		Annual Costs	Cost Driver	Extrapolation (£000's)
Unmeasured to Measured Costs	Institutional Sub-Strategies	£24,000	Number of HEIs	£3,168
	Periodic Department Reviews	£34,400	Number of HEIs	£4,541
	Programme Approval Days	£8,300	Number of HEIs	£1,095
	Graduate Surveys	£4,900	Number of HEIs	£647
	Programme & Module Specifications	£10,000	Number of HEIs	£1,320
	Senior Management Discussion (Hourly Rate)	£16,000	Number of HEIs	£2,112
	Total			**£12,883**

4.3.4 Summary Impacts

Total Measured Costs	£42,457
Unmeasured Direct Costs (estimate)	£79,293
Indirect Administration Costs	£89,600
Behavioural Costs	Not Quantifiable
Total Sector Extrapolation	**£211,350**

4.4 COMPARISONS WITH 2000 FINDINGS

Our 2000 review estimated that the total cost impact on HEIs from accountability demands equated to around £250m across the sector. That total would be equivalent to £280m[29] at 2004 wage costs.

The small sample size used for this exercise and the variations we found between the two universities in the measured costs indicate need for caution in extrapolating the findings across the sector. With this caveat, extrapolation from these observations indicates that the magnitude of "additional" costs across all HEIs can be conservatively estimated at around ***£211m*** *for our 2004 study.*

The comparison between our two reviews is shown below.

		'Better Accountability for Higher Education' – 2000[29]	**'Better Accountability Revisited' – 2004**
Direct Impacts	Measured Costs	£56m	£42m
	Unmeasured Costs	£112m	£79m
Indirect Impacts	Administration Costs	£112m	£90m
	Behavioural Costs	Not Quantifiable	
	Total	**£280m**	**£211m**

These estimates suggest that the overall costs to institutions from external accountability demands have reduced by some ***25****% in real terms over the past four years. If we discount the 2004 figure back four years, to when the costs where first calculated, we would be comparing a figure for 2004 of* ***£188m*** *with the 2000 figure of* ***£250m***.

[29] Up-rated by 12% to reflect staff cost increases since 2000, using the HEPPI index published by Universities UK.

5. ACCOUNTABILITY THEMES AND ISSUES

We collected information about each university's experiences of external accountability requirements under seven themes, the quantifiable impacts of which were summarised in section 4, above. In this section we summarise the qualitative experiences and observations of university staff within each of these themes.

5.1 QUALITY MANAGEMENT & ASSURANCE

Key Issues

With the reduction in the external accountability requirement of the new QAA Institutional Audits, there were concerns that other external stakeholders' (Ofsted, NHS, Professional Bodies, etc) quality assurance requirements may increase. Some accountability requirements of the other external stakeholders, Ofsted in particular, are already considered to be very burdensome[30].

The expectation (and earlier experiences) across both universities is that the burden involved in the collection, publication and maintenance of quality information required for TQI (on the HERO web site) will be sizable.

Impact

If other external stakeholders do increase their quality assurance requirements the net benefits attributable to QAA Institutional Audits will be eroded. The reduction in effort attributable to QAA Institutional Audits will be further offset by the new requirements of TQI.

5.2 RESEARCH ASSESSMENT EXERCISE

Key Issue

The requirements of the 2008 RAE are not expected to differ greatly from those of 2001, but the self-imposed burden to super-satisfy reviewers is expected to go up as HEIs jockey for position, even though the introduction of a 'graded profile' will eradicate the tactical efforts needed to maximise the prospects for units and staff working around the 'cusps' between the upper research ratings.

Impact

It is generally expected that the overall burden of the RAE will remain significant for most institutions, notwithstanding the introduction of graded profiling, simply because the exercise is so important to institutions' strategic planning and for the careers of the staff concerned. It is perhaps worth noting that the Roberts Review of the RAE found that most HEIs favoured keeping the RAE in some form.

5.3 BIDDING AND TENDERING

Key Issues

The move to conditional formula allocations to replace competitive bidding for specific funds has been welcomed for removing the uncertainties and some of the costs of previous bidding schemes. However the costs associated with providing plans (and then

[30] DfES has already commissioned a study into the 'Cost of Teaching' within Schools of Education.

monitoring reports) for how these funds will be used is still sizable and at times is perceived by some institution managers to be disproportionate to the financial benefits. The number of continued and new bidding schemes represents a significant cost for most institutions.

Impact

The overall demands of bidding schemes, whether competitive or conditional, remain high for central functions and senior management across the sector.

5.4 CONSULTATIONS

Key Issues

The considerable growth in the number of consultations experienced in 2003 may well have been as a result of the Government's White Paper for HE and the review of the RAE methodology, but the perception within HEIs is that the growth trend has continued into 2004. Senior staff in the universities we visited suggested that the range and frequency of consultation exercises from all areas of Government has shown an overall continued growth into 2004.

Impact

The amount of expensive senior management time involved in responding to each consultation is significant and therefore has financial implications for every HEI, especially when the consultation is perceived as an empty exercise. An initial estimate of the senior management time involved, based on 2 hours of discussion time per consultation and 20 consultations per year, but not including individual reading or response preparation time, generates a figure of c£16,000 per institution per year.

5.5 CORPORATE AND OPERATIONAL PLANNING

Key Issues

Both of the universities visited expressed the view that the formats required for reporting on their Corporate and Operational Plans are unduly prescriptive and constraining. This view has been challenged by HEFCE, who have stated that 'there is no prescribed format' and that institutions need only submit plans in the formats used internally. The concern appears to apply mainly to the functional sub-plans (widening participation, human resources, estates, Teaching Quality Enhancement Fund, etc) required as conditions for releasing earmarked funding. The perception expressed by HEI staff is of HEFCE appearing to apply a 'checkbox' approach to such plans, to ensure consistency and conformity across the sector. This has sometimes led to a 2-tier approach to functional planning in HEIs: an external plan produced for the benefit of HEFCE and an internal plan used within the institution.

Impact

These perceptions have created duplication of effort and the feeling of 'external micro management' within HEIs as a direct result of demands attributed to HEFCE. The fact that HEFCE are surprised by this perception suggests scope for clarification of expectations and of the use made of such plans.

5.6 FINANCIAL REPORTING AND AUDIT

Key Issues

The increased instances of funding requirements to track, and report on, 'earmarked' funds (human resources, widening participation et al) has created a 'whole industry' of reporting that was not present before these separate pots of money existed. This is viewed as burdensome, especially when the funds in question represent a small part of the HEI's total income.

Transparency and full cost accounting, initially for research, will increase staff costs, and both universities alluded to plans for the recruitment of several full-time management accountants to complete this specific activity.

Impact

The move to less intrusive and time consuming HEFCE Assurance Service audits, outlined in the new Audit Code of Practice has been welcomed by HEIs, but the savings in effort have been offset by the impact of the above issues.

5.7 STATISTICAL REPORTING

Key Issues

The continued updating and reformatting of HESA data requirements, both to improve the quality of information gathered and also in response to new requirements such as the accounting SORP, generates significant work for institutions' central staff and systems.

This problem is compounded by weaknesses in institutions' internal Management Information Systems where the requirements identified by HESA do not necessarily coincide with the standard formats of systems designed to meet internal resource management requirements

Impact

This means that, year-on-year, the effort required in manual manipulation of data reports is not reducing as much as would be desirable if reporting requirements and formats could be stabilised.

6. *FINDINGS AND CONCLUSIONS*

6.1 SUMMARY FINDINGS

Our 2000 review estimated that the total cost impact on HEIs from accountability demands amounted to around £250m (equivalent to £280m in 2004 prices). The current study has estimated the total equivalent costs in 2004 at around £211m. This represents a reduction in the overall impact of accountability costs to institutions of some **25%** % in real terms over the past four years. In direct comparison to our previous estimate of £250m, the current impact would equate to some £188m (in 2000 prices). While this represents a significant and welcome improvement, a total cost impact equivalent to the annual income of two large universities is clearly a cause for continued attention both by institutions and stakeholders

There is room for debating the extent to which the accountability costs identified here should be regarded as burdensome or part of the 'business-as-usual' management of the institution. We did not enter this debate, beyond testing the extent of perceived additional costs concerned, since our remit was to investigate the costs *'as perceived by the sampled universities'*.

Our analysis of accountability costs and experiences at the two universities in Leicester suggested significant changes since our 2000 study in the nature and experience of accountability impacts. These changes are summarised in the figure below, and discussed further in the following paragraphs.

	Direct Impacts	Indirect Impacts
Measured Costs	▪ total measured costs reduced ▪ greater proportion of costs now measured ▪ significant new burdens ▪ greater proportion of costs incurred by central functions	▪ internal systems better aligned to stakeholder demands ▪ less of a requirement for inflated bidding costs ▪ 'light touch' demands more from internal systems and processes
Unmeasured Costs	▪ responsibilities moving to central services ▪ teaching quality burdens much reduced ▪ better response systems mean fewer hidden costs ▪ RAE remains a heavy demand	▪ bidding risks and distortions reduced by formula allocations ▪ stakeholder requirements better understood ▪ earmarked funding constrains institutional planning ▪ low perceived value from reports

In headline terms, after allowing for inflation, the measured direct impact of 'like for like' accountability requirements appears to have been reduced substantially since 2000, due mainly to the streamlining of QAA-led teaching quality assurance. This finding is all the more encouraging given that (a) the current study has captured a higher proportion of accountability costs than its predecessor, and (b) the extent of unmeasured costs, in terms of academic staff time, has reduced by the centralisation of effort. The latter change reflects the greater professionalisation of accountability activities in most institutions, with central functions taking on more of the work of responding to stakeholder requirements, coupled with the closer integration of internal management and information systems with external demands.   .

There has been a slight increase in the proportion of accountability costs incurred by central management functions within institutions, offsetting reductions in the ‘hidden’ or unmeasured element of accountability costs on academic staff time. There has also been a significant reduction in the indirect cost impacts of stakeholder requirements, partly due to the better alignment of internal and external systems – notably for quality management, and also for institutional governance and risk management – and also because of the reduction in capital bidding requirements which entailed expensive and often large costs for surveyors, consultants, etc, to develop cases and options. However there are some notes of concern. Although real efforts have been made towards lighter touch requirements at the ‘point of contact’ with stakeholders, this has sometimes been at the cost of increased costs for institutions’ planning and information processes. For example, confirmation of formula-based funding allocations such as estates capital or widening participation funds depends on production of strategies, plans and monitoring arrangements, which may go beyond – and certainly may differ from in form and detail – the plans that would otherwise be produced for internal management.

It was suggested to us that, while QAA Institutional Audits are much less burdensome than the previous QAA regime, the total effort on teaching quality management required to satisfy the expectations of external reviewers was no less than before, it has merely been ‘internalised’ within the institution’s own quality management programme. New requirements such as TQI reports similarly go beyond the information that institutions might otherwise collect and publish.

Another important concern voiced by universities we visited was the limited value for them of the various reports and data they provide, both in themselves and for subsequent contacts with HEFCE and others. It is far from clear to institutions what use is made of the strategic planning and other reports they provide to HEFCE, especially when, on occasion, they find themselves being asked for information that has already been supplied.

6.2 NEW AND EMERGING DEMANDS

Another slightly disconcerting finding from this review has been the number of new accountability requirements imposed on HEIs introduced since our first review. Several of these relate to 'third leg' activities, which have of course become more important over the past few years. In particular, the old HEROBC scheme has been replaced by HEIF, which our analysis shows entails bidding costs 2½ times heavier than for other competitive funding schemes. In addition, institutions must now provide new reports on their interactions with business and for IP and spin-out activities. The fact that these requirements come from different stakeholders – HEFCE, DTI, the Regional Development Agencies et al – adds to the burdens for institutions since queries can come from different quarters, and may be requested in differing forms or using different base data sets; responses are not always shared among the interested parties.

The four universities we visited all expressed concerns about the further impositions likely to be generated by new accountability developments, notably with regard to:

- OFFA
- TQI (defined, but yet to become a reality)
- Full Economic Costing.

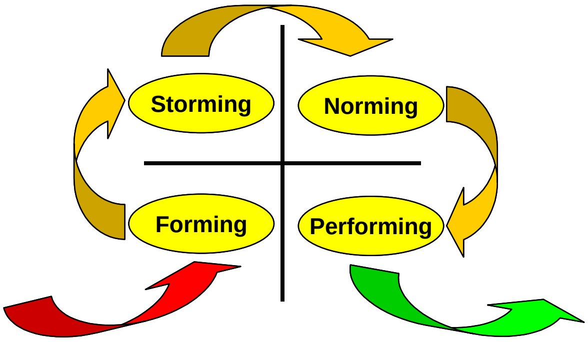
Of these, the potential impacts and burdens generated by OFFA are seen as particularly worrying, although much depends on how OFFA chooses to interpret and administer its eventual remit. The planned introduction of full economic costing for research activities, in response to the acknowledged weaknesses of current costing systems, will also entail significant costs for institutions; both Leicester and De Montfort Universities estimate that they will need to employ three to four additional qualified accountants to fulfil this requirement.

It is clear that in a continually evolving policy environment there will be a widening range of stakeholder interests in the performance and management of HEIs, articulated through new accountability expectations. While the established accountability requirements around funding and results for teaching and research are becoming better managed and less burdensome, both for stakeholders and institutions, the same is not always true for some of the newer funding streams (notably for third-leg activities), which also involve new stakeholders.

The imperatives for sharing good practice among stakeholders, matched to the best management practices within institutions, are as strong now as they were four years ago. At the same time, institutions must recognise the rising general expectations of good governance and management being placed on all public service enterprises, for example with regard to risk management, and that they must be seen to respond to these developments.

6.3 FROM 'STORMING' TO 'NORMING'?

The picture emerging from this review of current accountability relationships in HE, when compared to our findings from the 2000 exercise, resonates with the notions of 'forming, storming, norming, and performing' familiar from team theory (illustrated below).



The mutual frustrations between institutions and stakeholders that we recorded in our 2000 study can be seen as typical of the 'storming' stage of partnership building, characterised by resistance to required tasks, arguments about priorities, and limited progress towards shared goals. A major contributory factor in this, we argued, was that insufficient efforts had been made by stakeholders with regard to the 'forming' stage of accountability relationships, in terms of being clear – and communicating – what information they needed from institutions, for what purposes, and how these requirements might be met with minimum additional burdens.

Returning to the issues four years on, we found that the accountability relationships, certainly between HEFCE and the universities, had moved on and matured into something more akin to the 'norming' mode of partnership operation. There is better mutual understanding between institutions and stakeholders (particularly with HEFCE), and a greater willingness from both sides to align their systems and reporting requirements to the needs of the other. It was clear that many external requirements which had previously been perceived as distorted impositions – such as QAA's quality management expectations - have now been internalised into institutions' own systems, reducing the experienced burden of compliant reporting. On the other side, HEFCE has shown greater willingness to rely on institutions' own governance and management systems, notably in their institutional audits. This progress is reflected in the reduced level of 'like for like' burden indicated by this review.

While this development is encouraging and can be built upon, there is no room for complacency. Many current requirements remain rooted in the 'forming' and 'storming' phase, and represent significant burdens to institutions; the HEIF bidding process and Ofsted inspections of initial teacher training were both cited in this regard. Also the fact that the institutions do regard many of the HEFCE requirements as burdensome indicates that the shared understanding of purposes and requirements that HEFCE has been promoting has yet to be fully realised. The number of new accountability requirements introduced since 2000, with more in prospect, does not fit well with the Government's commitments to reducing accountability burdens. While the 'good practice' guides (on for example human resources and widening participation strategies) are of value to HEIs, on the whole the institutions think that the sharing of their strategies and forward plans with HEFCE is of limited value, and only goes part way in meeting HEFCE's declared aim of developing strategic dialogues with the sector.

The Better Accountability through Partnerships programme went some way towards developing a vision for 'performing' accountability relationships, which deliver real value for stakeholders and for institutions. This review shows that, while progress is being made, there is some way to go before that aim of a truly 'performing' mode of partnership operation can be realised.

Abbreviations

CETL	Centre for Excellence in Teaching and Learning
FTE	Full-time equivalent
HE-BI Survey	Higher Education-Business Interaction Survey
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIF	Higher Education Innovation Fund
HEPPI	Higher Education Pay and Prices Index
HEROBC	Higher Education Reach-out to Business and the Community Fund
HESA	Higher Education Statistics Agency
HESES	Higher Education Early Statistics Survey
IP	Intellectual property
OFFA	Office for Fair Access
QAA	Quality Assurance Agency for Higher Education
RAE	Research Assessment Exercise
TQI	Teaching Quality Information
WDC	Workforce Development Confederation