

‘Review of the effectiveness and efficiency of HEFCE’ – Commentary by the Review Group

1. There has been a long-standing commitment – made in HEFCE’s 2006-11 strategic plan – to review its performance in 2009. The Review of the effectiveness and efficiency of HEFCE has been delivered by an independent Review Group, supported by the work of Oakleigh Consulting Ltd.

Purpose of the Review

2. The purpose of the Review was to examine the effectiveness of HEFCE’s delivery in four core roles:

- Policy development, advice and implementation.
- Allocation and administration of funding.
- Regulation of the sector and accountability for public funding.
- Promoting good practice within the higher education (HE) sector.

3. Additionally the Review was tasked with assessing the overall performance and efficiency of HEFCE. The Review focussed on HEFCE’s performance over the past five years, but it also had a prospective element, considering HEFCE’s ability to implement the vision of the Higher Education Framework,¹ and more generally to evaluate HEFCE’s capability and capacity to meet the demands of the future.

4. We, the Review Group, are grateful to the consultants for the thoroughness of their work. We endorse the key findings of the Oakleigh report that HEFCE is a high performing organisation that has secured the confidence of the government, HE institutions, and its wider stakeholders.

5. The consultants’ detailed findings and recommendations are set out in the accompanying report ‘Review of the effectiveness and efficiency of HEFCE’ (HEFCE 2010/07, ‘the Oakleigh report’) which we have thoroughly debated and strongly support. The conclusions are based on written and oral evidence that has been comprehensively tested. In large part the recommendations are framed to address the needs of a profoundly different and more difficult external context in the future. Here we develop some additional comments about how HEFCE will need to respond in the longer term to the changing context of its work.

The importance of the UK higher education sector

6. Although this Review is concerned with HEFCE and its relationship with the English HE sector, it needs to be placed within the context of the importance of higher education as a whole to our economy and society. The UK’s HE institutions play many inter-connected roles, and make a huge contribution to the economy in their own right (estimated at over £59 billion a year when direct outputs are combined with the impact generated on other sectors, with gross export earnings estimated at £5.3 billion).²

¹ Higher Ambitions: The future of universities in a knowledge economy (BIS); November 2009.

² The impact of universities on the UK economy (UUK); November 2009

7. Past public investment has assisted the development of a world-leading HE sector in the UK with strong performance across many different fields of research.³ Teaching in UK universities and colleges is usually excellent and highly regarded: it is underpinned by an internationally respected system for assuring quality and standards, is positively evaluated by students, and demand from overseas students is strong (the UK is second only to the USA as a destination for overseas students). Completion rates are high by international standards, and the large majority of students complete their programmes successfully within the minimum course duration. They and their employers report that they are satisfied with their experience.⁴

8. Universities and colleges are also increasingly outward-facing organisations playing a key role in national economic growth. They produce graduates who work at high skill levels in the economy and most universities and colleges are engaged in knowledge exchange as part of their mission. They also have a very significant economic and social impact on their locality and region, working with businesses in the private, public and voluntary sectors; enriching lives through HE level study, cultural and other opportunities; and delivering wider economic benefits that result from the presence of a university or college.

HEFCE's role and culture

9. HEFCE values and supports higher education, and sees itself as providing expert and technical advice to government to sustain and further develop it. Because higher education is primarily provided through institutions, HEFCE is situated at the interface of government and universities and colleges.

10. HEFCE has a well-developed style and culture that has had at its heart a concern to respect institutional autonomy. It is an unusual organisation combining a number of roles (as a funder; a regulator; a deviser and implementer of policy; and a promoter of good practice).

11. HEFCE has many stakeholders but the most delicate balance it has to strike is between government and the sector. Its relationship with its sponsoring department (through legislation, a Financial Memorandum and the Secretary of State's advice as set out, inter alia, in the annual remit letter) sets the boundaries of the HEFCE Board's scope to act, and constrains the Board's decision making in issues such as the overall balance of funding between teaching and research. HEFCE also has statutory limitations on its powers to direct universities and colleges (for example, in terms of admissions or staffing).

12. Since its formation HEFCE has cultivated a broker role which is valued both by government and in the sector, and has developed a consultative and consensual style in implementing government policy. However, Oakleigh identifies "working within a framework of informed consent" with the sector and government as crucial to HEFCE's ability to add value. The consultants also note, however, that HEFCE's role as a broker is considered to be "fragile and depends critically on buy-in from institutional leaders".

³ International comparative performance of the UK research base (Department for Innovation, Universities and Skills); July 2008, Evidence Ltd.

⁴ National Student survey 2009 (Ipsos MORI) and National Employers Skills Survey (Learning and Skills Council); May 2008 (LSC).

The challenging economic context

13. Along with the wider public sector, the HE sector is facing significant funding challenges. The benign environment of the past 10 years, with steadily increasing resource for both capital and revenue, will be replaced with a more constrained public funding environment, whichever party is in government. The policy environment will also be subject to much change, as the government following the general election grapples with the challenges of an economy emerging from recession, while needing to reduce the public sector deficit. Although there continues to be support for a strong and vibrant HE sector to support economic prosperity and social cohesion, priorities and affordability will come under great scrutiny.

14. In this constrained public funding context, institutions will be increasingly reliant on their private sector income streams (whether from student fees, private sector partnerships, research grants and contracts, international student recruitment or international partnerships). However, the more volatile environment will increase threats to these income sources too, testing institutional sustainability on a scale not experienced by the majority of institutional leaders or by HEFCE staff, with an expectation of a larger number of institutions at higher risk.

15. All of these factors could result in HEFCE trying to exert the same (or more) influence through funding but providing proportionately less resource. Here we consider HEFCE's style and capability in this new world.

Policy development, advice and implementation

16. One of HEFCE's significant responsibilities has been to respond to initiatives emanating from government or the Department. It has done this at varying stages of the policy cycle, but particularly in terms of providing implementation options through consultation and scenario modelling, and then developing the detailed policies and processes for implementation.

17. In its interactions with government, HEFCE's operating style has tended to be discreet, working closely with the department with little external visibility, and then seeking to explain the challenges of policy proposals to the sector. This way of working has been intentional, to foster a trusted relationship with the Department, and thus attain a level of influence unlikely in a more visible organisation. The extent to which HEFCE is perceived to be an innovative and proactive organisation can therefore be misunderstood.

18. Survey research⁵ found a substantial majority of stakeholders within universities and colleges describing HEFCE as "respected", "approachable", "efficient", "in touch", and "transparent", compared to roughly half of respondents describing HEFCE as "proactive", "flexible" or "innovative". This may not be unexpected for an organisation with funding and regulatory roles. Nonetheless HEFCE should consider the implications in a future policy making environment likely to require pace, innovation and imagination in developing policy, and greater speed of implementation. We are aware that the Council is actively looking to assess its strengths and weaknesses in these areas.

⁵ Survey of Communications and Relationships between HEFCE and Universities and Colleges (Ipsos MORI); February 2008.

Challenges for the future

19. The Oakleigh report identifies examples where HEFCE's policy development has been visible and influential (e.g. the development of the Research Excellence Framework). However, there are other relatively new areas of policy such as "support for workforce development for business and other organisations" which was seen as an area of less strength in the 2007 Ipsos MORI survey of universities and colleges. Some stakeholder perceptions also suggest that the Council is seen as being more reactive in these areas rather than actively setting the policy debate. HEFCE has intentionally adopted a culture and style that has sought to stimulate debate rather than take a visible leadership role.

20. The issue of openness in policy debate is sensitive. HEFCE recognises the delicate and nuanced balance that it has to manage. There are clearly tensions between the pressure from some commentators for HEFCE to be more visible, and HEFCE's preferred style of working. We suggest that HEFCE should reflect on the extent to which it sometimes chooses to be lower profile or discreet in its operating style, rather than taking the lead in its varied arenas of policy interest. But at the same time, we are aware that it needs to avoid the criticism that it has been 'captured' by either the government or the sector (or both) in its policy role. There are also potential costs of stepping into the public domain of open debate in terms of the risk of losing political trust and influence. Entering this domain also requires clarity about its role in the context of Universities UK (UUK) and GuildHE, and the various mission groups. These are finely judged questions for the Council which we recommend it keeps under review.

Funding allocation

21. The Oakleigh report finds that overall HEFCE's approach to its funding allocation role is highly efficient when compared to other bodies responsible for public funding.

22. In recent years, in seeking to reduce "the burden of accountability" for universities and colleges HEFCE has moved further towards a formula funding approach to the sector and away from special initiatives or 'contested' funding. HEFCE has developed considerable expertise in understanding, managing and moderating formula funding and achieves consistently high levels of accuracy in, for example, its grant calculations.

Challenges for the future

23. There has been criticism that the funding method for teaching is now too complex and difficult for institutions to understand the link between inputs and outcomes. HEFCE acknowledges this and has initiated a review of its approach, with timing aligned to the outcomes of Lord Browne's HE funding and student finance review.

24. HEFCE wishes to retain the position that government will look to it for help and advice on how to approach and implement some potentially very difficult decisions. Working through the implications of the Browne Review is likely to require rapid and radical responses and place very substantial demands on staff.

25. Potentially, the most significant challenge is likely to be management of a system of contestability – particularly if this was extensive. This would represent a significant change from formula funding methods which have aimed to support institutional autonomy. Although HEFCE has had experience of using expert advice in previous approaches (for example, peer review in the Research Assessment Exercise), contestability will necessarily mean a significant increase in

scale which would require a corresponding increase in capacity. There are also issues of capability: for example, the challenges in creating frameworks which acknowledge institutional diversity.

26. Additionally, a greater level of staff resource by HEFCE (and universities and colleges) would be needed in any funding approach where there was a requirement for greater evaluation of value for money and more explicit outcome measurement: both are more likely under a tighter fiscal environment.

Regulation of the HE sector and accountability for public funding

27. HEFCE is principally a financial regulator although it also has statutory responsibility for quality discharged through the Quality Assurance Agency for HE (QAA) and public information initiatives. Much has been written elsewhere about quality assurance and recommendations stemming from Colin Riordan's work over the past year, and that is being taken forward by a range of parties including HEFCE, UUK, GuildHE and the QAA. Assurance on delivery of high quality teaching and learning is the foundation stone of HE both in terms of the confidence to invest as a student or funder, and as a basis of value attributed to universities and colleges' outputs.

28. In the five-year period under review, HEFCE's regulation and assurance systems have been appropriate and effective. The Oakleigh report cites evidence showing that HEFCE's approach to financial and data assurance has become increasingly sophisticated and the Council has been on the 'front foot' in evolving its approach to assurance and institutional risk. The introduction of the 'single conversation' (annual accountability returns) reduced the accountability burden, as did the replacement of some bidding schemes with formula based funding streams. However, an emphasis on contestability is likely to reverse that trend and HEFCE, and universities and colleges, will need to address the implications of that reversal in a short timescale.

Challenges for the future

29. Pressures on institutional finances in the new environment suggest that HEFCE will have to deal with more issues of institutional sustainability in the future. HEFCE's position is that universities and colleges are autonomous institutions that live with the consequences of their decisions. HEFCE sees its role as "providing information and insights that can help institutions make good decisions and, where appropriate, enable them to seize opportunities by sharing some forms of risk through strategic development funding".

30. However, we note that HEFCE does not, and cannot, operate in a completely 'hands-off' manner. It has supported universities and colleges in turning around poor financial performance or achieving sustainable futures, sometimes through mergers with other institutions. The justification for these interventions has been primarily to protect the student interest and existing public investment, as well as the reputation at home and overseas of the higher education sector – crucial in attracting overseas investment and achieving a low cost of borrowing.

31. All parties benefit from a well run and efficient system of regulatory control. The current system requires effective institutional governance and healthy interactions between institutional governance, leadership and management. While there is no inherent reason why the current system should not continue, we face difficult times ahead. HEFCE may need to be – and be seen

to be – more interventionist, having identified early warning signs from its systems work, and must find new ways of working with governing bodies at a time when HEFCE's relationships with universities and colleges and their governing bodies are becoming more complex and placed increasingly under strain.

32. If it is likely that we will see an increase in the number of institutions in financial difficulty, there is a question about the capacity of the Council to take on the increased workload. Certainly failures in institutional performance will need a regulatory response that maintains public confidence. The skills and capabilities of HEFCE's Assurance service are likely to be significantly tested and we recommend that they are reviewed to ensure they are capable of responding to increasing numbers of institutions in difficulty: for example, HEFCE may wish to review the capabilities of its teams in terms of corporate recovery expertise and experience.

33. HEFCE remains formally accountable for the sustainability of the sector through its responsibility for both financial and quality assurance. Parliament, through the National Audit Office (and ultimately the Public Accounts Committee) and the Select Committees for Education and Skills, and Science and Technology, will hold HEFCE responsible for public funding and for the outcomes that funding is intended to achieve. Recently HEFCE has been consulting on amendments to the Financial Memorandum. The draft Financial Memorandum is intended to give much greater clarity to university and college Boards about the role and importance of governance in the stewardship of public funds. In many ways this makes explicit the formal responsibilities of governors and their relationship to HEFCE. However, the strains on institutions and therefore governance mean more attention needs to be given to HEFCE's relationship with governing bodies.

34. Given the tightening financial climate, we see an area where HEFCE could add significant value. This is in the terms of the further scope to reduce the accountability burden, if other public funders of HE were to rely more on HEFCE's systems. We note that this proposal has been made on previous occasions and we would hope that this agenda could now be moved forward by government, recognising both the need to reduce costs on institutions and on the public sector generally.

Promoting good practice within the higher education sector

35. Evidence from the Review found support for HEFCE's work in promoting good practice: it is seen as a valuable contribution to sector-wide performance improvement. Part of this good practice work could be seen as an investment in enhancement activities such as for learning and teaching and the leadership, governance and management agenda. HEFCE has taken a proactive stance in supporting wider sector bodies to encourage engagement with an enhancement agenda.

Challenges for the future

36. The style of HEFCE's consensual engagement in working with the sector has offered particular benefits to both institutions and government. HEFCE is able to take an overview of the diverse institutions in the sector, identifying what works well. It can undertake benchmarking or commission case studies on practice, inviting institutions to participate. The sector benefits because individual institutions would not themselves be able to gain this knowledge at such low cost. The government benefits from the provision of data and evidence on outcomes. As greater

contestability and reduced public funding put strains on government, the funding council and institutions, consensual engagement could be much more difficult to achieve.

37. HE institutions exist in an environment of uneasy balance between competition and collaboration. Greater resource pressures may mean less willingness to engage in collaborative enhancement work. In addition, as institutions experience tightening of resource, competition may become more evident, and collaboration less supported.

38. Whether in a more constrained environment, the resource for this activity will be under pressure, or whether central initiatives that deliver value (for example, in procurement or shared services) may be more important, will remain to be seen, but in either case, HEFCE would need to ensure that the value of its good practice work is commensurate with its investment.

Conclusions

Culture

39. We agree with the analysis of the Oakleigh report that HEFCE has responded successfully to changes in the past and understands the challenges it will face in the future. HEFCE is facing very difficult issues in trying to develop approaches that will meet the needs of a sector that is already diverse, and may become even more disaggregated. HEFCE is also being encouraged to be more visible in some policy areas. These developments pose questions about the sustainability and the relevance of the existing – and currently effective – culture of HEFCE.

40. The Oakleigh report examined the relationship of the Council with institutions during a period of financial growth. HEFCE's culture will be far more difficult to maintain in a climate of financial reductions: greater pressure on public funding is likely to require a much sharper prioritisation of policies and funding, to drive more complex and time-consuming models of resourcing such as contested bidding. The ability to plan for alternative realities, and to be ready to implement policy quickly, will be crucial skills requiring imagination and innovation. At the same time HEFCE will need to deliver difficult solutions while facing pressure on its own resource.

41. HEFCE has established a great deal of trust within the sector because of its consultative and consensual methods of operating. Maintaining this trust will be a severe challenge at times of economic difficulty and falling funding levels. HEFCE may also be required to implement changes more quickly, potentially reducing opportunities for consultation.

42. HEFCE's future consultations must recognise the inherent conflict in meeting all needs while at the same time articulating the coherence of the policy response in meeting Government objectives. Some of this style has been in evidence in the past few years, but it has been in the context of a resource envelope which has enabled a 'safety net' to be put in place to mitigate the effects or to be balanced by other funding approaches. The prospective financial context is unlikely to permit this approach in future.

43. HEFCE also will need to think carefully about its relationships with governing bodies and how to adapt and respond as an organisation to assist them to fulfil their roles.

44. We have identified potential future challenges in all four core roles for HEFCE's consensual mode of working with the sector. The Oakleigh report recommends that "The risk that HEFCE's role as an effective broker between the sector and government may be compromised

should be explicitly incorporated in the Board's register of strategic risks." We strongly endorse this view.

Capability and capacity

45. HEFCE unusually combines a number of roles: while we do not advocate the separation of those roles, we note the substantial challenges that the more difficult public funding environment will place on the organisation, and particularly the regulatory role.

46. The Oakleigh report has identified a number of actions HEFCE is taking to build 'adaptive capacity' to cope with changes in its operating and financial environment. We acknowledge the progress that has been made and given likely constraints on running costs, endorse the recommendation that further investment in flexible working and resourcing will be necessary, together with prioritisation of business-critical functions and active management to ensure it is able to continue to recruit and retain key personnel at all levels.

47. The new environment and changed ways of working are likely to demand greater resource at a time that budgets are more constrained, requiring some current work to cease. Also the difficulties in the economic context are so great, and the political demands of contestability are so significant, that the question must be asked whether HEFCE has the capacity and analytical capability to meet the demands placed on it.

48. HEFCE will face major challenges in the coming period: a challenge to its culture and style, requiring pace and probably less consensus; a challenge to its traditional ways of working, requiring more and different skills in its workforce; a challenge to the stability of the sector, and its financial sustainability, which will result in greater pressure on the relationships with the funding council.

Issues for HEFCE to address

What model of operation should HEFCE adopt if time and cost pressures, and possibly more polarised positions, strain the consultative model to a point where it is no longer sustainable?

How will staff adapt to the new environment; how can HEFCE ensure it has the strategic and analytical capability to work up options, analyse costs and benefits and recommend tough decisions; and how will structures and processes facilitate rapid and radical responses?

How will HEFCE respond to significant changes such as a potential lifting of the cap on variable fees, in terms of its own funding methods and the effects on institutions?

How will it develop 'frameworks for contestability' that are both feasible and practical and acknowledge institutional diversity?

How can it develop relationships with, and assist governing bodies to fulfil, the responsible role of effective governance of institutions and the duties set out in the draft Financial Memorandum?

How can its Assurance service evolve in both capacity and capability to meet the significant demands it faces?

How will HEFCE ensure that the value of its future good practice work is commensurate with its investment?

How will HEFCE adapt its good practice role to take account of pressures on institutions which are likely to strain their engagement with HEFCE, and collaborative work with other institutions?

How will HEFCE monitor the impact of its discreet operating style with regard to government policy and policy fora under review?