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**Issues paper**

This report sets out the findings of an independent effectiveness and efficiency review of the Higher Education Funding Council for England.

# Independent Review Group review of the effectiveness and efficiency of HEFCE

**Final report**



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## **1. Executive summary**

This report sets out the findings of an independent effectiveness and efficiency review of the Higher Education Funding Council for England (HEFCE) for the period 2004-09. It has been informed by an analysis of existing evidential sources and extensive sector and stakeholder consultation involving over 120 representatives from 47 higher education providers<sup>1</sup> and 80 from 30 other organisations. The review was conducted between August and December 2009.

HEFCE was founded in 1992 and its primary function is to distribute government funding to higher education (HE) in England and act as a sector regulator. As of March 2009 it employs 267 staff (246.6 full-time equivalent (FTE)) with its main base in Bristol. In 2008-09 its running costs were £16.74 million and it distributed and assured some £7.5 billion of public expenditure.

The views expressed in this report are those of Oakleigh Consulting Ltd and not necessarily those of the Review Group for whom this report has been prepared.

### **1.1. Key findings**

Our analysis of the available evidence indicates that HEFCE:

- Is a high performing organisation that has secured the confidence both of government and of the sector.
- Provides good value for money to the taxpayer by being efficient both in the use of its own resources and in the processes it administers for funding the sector.
- Is generally effective in delivering its core functions.

Government values HEFCE for its expertise in developing detailed policy and in its efficient administration of public funding in higher education. The Council is perceived to be professional, expert in discharging its functions and responsive to the development of public policy.

The English HE sector, consisting of some 130 autonomous and heterogeneous institutions, values HEFCE as a policy broker, funder<sup>2</sup> and proportionate regulator. The Council plays a crucial role in managing the interface between government and individual institutions and is generally judged to have contributed to a climate in which higher education institutions (HEIs) of all characters have been able to thrive and grow.

Although HEFCE is founded on a statutory basis, to be truly effective it has always had to work within a framework of informed consent with both the sector and

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<sup>1</sup> Comprising 45 higher education institutions and two further education colleges.

<sup>2</sup> HEFCE also funds higher education courses in 125 further education colleges.

government. The effective management of stakeholder relationships is consequently a core competence that it has generally developed to a high degree.

The Council is for the most part reflective and self critical in character, which has resulted in it having a good grasp of where it needs to improve performance or adjust its processes and policies in the light of changes to the external environment. The need for such change in the past five years has been most evident in the ongoing process of development in its assurance and regulatory activities and in how the Council manages its interactions with HEIs through its regional (now institutional) teams.

In summary, the Council is a well established agency that in several respects could be judged to exemplify the best of what can be achieved by the public sector.

## **1.2. HEFCE's value proposition**

What is HEFCE's underlying value proposition – the essence of its purpose and rationale for its existence?

For the government the Council provides a mechanism through which public policy may be executed, investment efficiently directed and expert advice sourced. It also provides real insight into the sector not available from other sources.

To the sector of 130 autonomous and heterogeneous HEIs, HEFCE is a funder, market regulator and a catalyst for improvement.

To both it is an agent of communication and understanding and hence HEFCE is at once both interlocutor and agent, broker and policy manager, investor and regulator.

To be effective it must build and maintain the trust of institutional leadership, civil servants and ministers. Regardless of its statutory basis it can only function properly if it has the informed consent of all. The sector looks to HEFCE to operate systems and policies that respect and maintain institutional autonomy. Government understands this but also has clear expectations as to the role of HE in the context of learning and teaching, research, and national and regional social and economic development.

To be efficient HEFCE must design and operate proportionate funding systems and means of regulatory oversight (encompassing teaching, research, capital investment and specific initiatives).

In support of the common good HEFCE also stimulates and invests in improved practice at an institutional and cross-sectoral level.

*“I sometimes envisage HEFCE as like the Roman god Janus, having to simultaneously face in two directions, though it would be nice to have his purported gift for seeing into the future.”*

***A senior manager, HEFCE***

In practical terms HEFCE actually faces in more than two directions and the degree to which it has built and sustained the confidence of both the sector and government in doing so is key to understanding its overall effectiveness.



Institutional autonomy is highly valued and rightly recognised as underpinning a successful and thriving HE sector by all who understand higher education. The breadth of difference in institutional missions, purposes, ambition and character of English HEIs underpins the sector's world-class performance. Clearly HEFCE is not directly responsible for the success of English HE but it is a key enabler and could equally be a hindrance were it to lack the necessary competence and sensitivity to understand how HEIs and the sector actually work.

### **1.3. Performance, people and stakeholders**

HEFCE has well developed systems for evaluating its own performance and actively engages in a range of improvement initiatives. The Council also undertakes a range of benchmarking activities and it is of note that in 2008 HEFCE successfully applied for recognition under the European Foundation for Quality Management (EFQM) models of excellence scheme (achieving the highest possible assessment of five stars).

One other important means HEFCE uses to assess its performance is the regular and systematic gathering of stakeholder perceptions (which cover staff, HEIs and non-HEIs). The results of these surveys have informed a sustained initiative by the Council to improve the quality and sophistication of its relationships with its key stakeholders. These have informed changes in policy, practice, systems and organisational structure in the past five years that in respect of non-HEIs have collectively contributed to demonstrable improvements in stakeholder relations.

The organisational arrangements for engagement with HEIs were most recently changed in 2008 with the establishment of three 'institutional teams'. It is too early (and the available evidence too inconclusive) to determine their impact. Given their critical importance we recommend they be formally reviewed before the end of 2010.

HEFCE has also been putting in place measures to critically assess workload prioritisation and increase its underlying flexibility. These are laudable and necessary. We believe their continued development will be important to HEFCE's future resilience and recommend a managed growth in the recently established 'Strategic Response Team' and the more structured and regular use of secondments.

### **1.4. Evidence of effectiveness**

HEFCE's effectiveness is evidenced by the extensive third party analyses conducted over time of the impact and value for money achieved from the wide range of policy initiatives for which it has been either accountable or held lead responsibility. This evidence, when combined with the qualitative perspectives secured through this review, provides a rich and detailed picture.

*"HEFCE does a difficult job very well. We like it because it's:*

- *Cheap (i.e. it offers value for money).*
- *Effective.*
- *Stable.*

- *Purposeful in policy implementation.*
- *Sector sensitive”.*

***A Vice-Chancellor (in summarising the views of over a dozen other institutional leaders)***

Government and its various agencies share similar, albeit differing perspectives. Underpinning their generally positive assessment is how HEFCE executes its role as both a broker and policy developer; the fact that the Council is more than simply a distributor of funds is important to both Ministers and Vice-Chancellors (VCs).

The Department for Business, Innovation and Skills (BIS) and other agencies of government see HEFCE’s policy, funding and assurance expertise together with its understanding of how to engage effectively with the sector to be crucial to their confidence in its ability to deliver its remit.

For its part the sector sees a significant and inherent value in having an independent agency manage these processes at arm’s length from government and in so doing supporting and nurturing an environment in which autonomous institutions may thrive.

One issue regularly raised by many parts of the HE sector concerns how the dynamics of HEFCE’s relationship with government are perceived to have changed in recent years:

- Many institutional leaders and other sector consultees told us they felt there was an increasing risk of HEFCE’s effectiveness as a broker being eroded through the actions of government. The instance most regularly cited in support of this view is that of the funding changes made in respect of Equivalent or Lower Qualifications<sup>3</sup> (ELQs) – although the handling of this by HEFCE was also lauded.
- Some consultees (a small minority and including no institutional leaders) expressed the view that HEFCE’s role as a broker has already been materially eroded and consequently now has little real value.

These views reflect the premium placed on HEFCE’s statutory independence.

Other concerns that we encountered (primarily expressed by sector consultees from across all types of HEIs) related to:

- Mitigating the complexity around the teaching funding model (which is indeed one of the objectives of the recently initiated review into this topic).
- The need to continue to improve the quality and consistency of interaction via its Institutional and Assurance teams.

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<sup>3</sup> This refers to a government policy to no longer provide funding for students aiming for an equivalent or lower qualification compared to those they already hold.

- The balance of support provided by HEFCE in its engagement with higher risk HEIs. We encountered a general weight of opinion that the policy for supporting what many perceive to be ‘poorer performing’ HEIs should not be at the cost of investment and support for those not at ‘higher risk’ – especially in the coming period of tight public funding. This was sometimes euphemistically (and perhaps unhelpfully) paraphrased as HEFCE needing to be seen to ‘act with greater confidence’ in engaging with higher risk HEIs.

Whilst we make recommendations to address these and related issues in the body of the report (including specifically identifying HEFCE’s role as a broker within the Board’s register of strategic risks) it is important to emphasise that the weight of evidence clearly points to a high level of stakeholder satisfaction. This is indicated by independently commissioned stakeholder surveys:

- Among institutional stakeholders, support for HEFCE has continued on a steep upwards trend since the first survey conducted in 2000 (84% today, compared with 76% in 2003 and 61% in 2000); HEFCE leads other comparator organisations when it comes to the combination of familiarity and favourability.<sup>4</sup>
- The analysis of how effectively HEFCE discharges its roles against the perceived importance of these functions shows that, generally, stakeholders consider HEFCE to be performing effectively on those measures which are most important such as “*managing change in relation to government HE policy*” and “*support for the strategic development of universities and colleges*”.<sup>5</sup>

## **1.5. HEFCE’s four key functions**

What are some of the more detailed findings regarding each of HEFCE’s four key functions?

### ***1.5.1. Policy development***

HEFCE’s capacity to support and inform the development of policy is well developed and valued by BIS and other agencies of government. Policy development and implementation is a prime example of the Council discharging its role as an intermediary between government and the sector.

The sector (and for the most part government as well) believes the role of a broker to be crucial to the success of HE and, together with institutional autonomy, a significant enabler of a high performing and heterogeneous sector.

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<sup>4</sup> 2007 Survey of Communications and Relationships between HEFCE and Universities and Colleges (Ipsos MORI); February 2008.

<sup>5</sup> 2009 Survey of Communications and relations between HEFCE and non-HEI stakeholders and staff (Ipsos MORI) August 2009.

Specific instances of where the Council's work on policy development and refinement has been regularly and positively cited by both sector and government include:

- The handling of stakeholder consultation in the development of proposals for the Research Excellence Framework (REF).
- The Economic Challenge Investment Fund (ECIF) which demonstrated HEFCE's ability to respond rapidly to a high priority requirement.
- Stimulating provision through the programme of investment supporting Strategically Important and Vulnerable Subjects (SIVS).

However, HEFCE is aware that it needs to address stakeholder perceptions regarding its support for 'workforce development for business and other organisations'. The requirements of the HE Framework<sup>6</sup> also set the Council new challenges in overlapping and related policy areas. Consequently we recommend the future structure, resourcing and focus of its work in these fields be closely reviewed.

### **1.5.2. Funding**

The evidence is that HEFCE administers the funding of the sector effectively and efficiently and with a high degree of accuracy. Comparative analysis of the costs of HEFCE-administered processes compared to those incurred by other funders (HE and other sectors) further supports this conclusion.

#### ***Funding for teaching***

Whilst formula-based funding for teaching is cost effective, the complexity of the model means it is increasingly less well understood outside of the Council itself. In addition to the issue of complexity, the model's alignment with sector wide policy objectives (concerning, for example, student completions) has been regularly raised by almost every HEI that contributed to this review. Hence we recommend both these issues be directly addressed by the recently commenced review of the present formulaic funding system for teaching funding.

#### ***Funding of research***

The future funding of research by means of the REF is the subject of ongoing stakeholder consultation. The feedback on HEFCE's handling of this process (irrespective of the outcome) has been consistently positive from many quarters and is the subject of a case study in the body of this report.

### **1.5.3. Financial/data assurance and regulation**

There is clear evidence to show that HEFCE's approach to financial/data assurance has become increasingly sophisticated in the past five years. The Council has also

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<sup>6</sup> Higher Ambitions. The future of universities in a knowledge economy, BIS, (November 2009) <http://www.bis.gov.uk/policies/higher-ambitions>

been a key contributor to the introduction and operation of a much more proportionate regulatory environment. However, HEFCE is but one public funder of the HE sector and this trend has not necessarily been mirrored by other funding bodies. There is also concern (expressed by many parts of the sector) that recent proposals to increase the proportion of HEFCE-administered funding that may be contestable will add unduly to the regulatory burden experienced by HEIs.

The evolution of HEFCE's financial assurance regime into a more distinctively risk-based model than hitherto has proven both necessary and timely. However, a minority of HEIs to whom we have spoken told us they consider the definitional profile used by HEFCE in dealing with HEIs ('at higher risk' or 'not at higher risk') to be overly simplistic. There is an argument for employing a more refined delineation and we recommend HEFCE examine this issue further.

Recent demands on the Council's assurance and institutional functions have been significant and unprecedented. The workload of the Council in this regard will certainly rise further in the medium term commensurate with a significant forecast increase in the number of HEIs likely to be at serious risk by early 2010. In addition HEFCE has told us that still more HEIs may fall into the 'higher risk' category within the coming two years. Whilst the Council has invested in some additional resource for its Assurance service we are not persuaded this will be sufficient for future need. Consequently we recommend a detailed workload and skills analysis be performed to better understand and develop future resourcing requirements.

#### **1.5.4. Good practice**

HEFCE's work in support of the promotion of good practice in HEIs has manifested itself in a range of generally complementary catalytic initiatives with a strong emphasis in the past five years upon leadership, governance, procurement, estates and human resource management (HRM) and more recently upon sustainable development, carbon and shared services. These are generally perceived as being valuable contributions to sector-wide performance improvement with one of the most significant being the Council's investment in improved HRM practice and in particular through the Rewarding and Developing Staff (R&DS) initiative.

#### **1.6. Assessing efficiency**

HEFCE's efficiency is evidenced by the Council's contribution to the Comprehensive Spending Review cycle and by comparison to other bodies:

- For 2008-09 HEFCE's running costs were 0.27% of total expenditure, lower than either the Scottish (0.54%) or Welsh (0.66%) equivalents. They are also substantially lower than any other relevant comparator (Figure 1 in section 6.2 provides further details).
- Since 2004-05 the Council has absorbed additional activities<sup>7</sup> equating to an increased workload of some 10% (by reference to staff time) whilst reducing

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<sup>7</sup> These additional activities encompass SIVS, the REF, employer engagement, Islamic Studies, ELQs and 'areas of under-provision of HE – New University Challenge'. Of these,

its year on year running costs from £17.2 million in 2004-05 to £16.74 million in 2007-08.

Other evidence which supports this assessment includes HEFCE's:

- Systematic oversight of its 13 related bodies – all of which are being challenged to respond to the new funding paradigm (see section 11, though we do recommend closer working between the Council staff who manage the relationships with these bodies).
- Changed working practices that have enabled resources to be released or redirected from legacy activities (e.g. estates policy, see section 12.2.3).

## **1.7. Conclusion**

It is clear that the coming period will be turbulent and for the most part we believe the sector and government can be confident that the Council is both alive and responding to the many different challenges it must face. These will at least include:

- There being substantially less public funding for HE. This is already changing the dynamic of HEFCE's relationships with HEIs as it manages the consequent adjustments in funding distribution.
- The likelihood of HEFCE's own running costs being reduced.
- The certainty of an increase in those HEIs requiring HEFCE to engage in close and resource intensive regulatory oversight because of challenges to their medium term sustainability.
- The need to meet policy priorities in response to government initiatives and sector needs – whilst managing the inherent tension between developing and implementing policy at the pace that may be sought by government with the structure, rhythm and business processes of the sector.
- The responsibility HEFCE will have as a key contributor to the success of the government's recently published HE Framework ('Higher Ambitions'). This indicates that HEFCE may have to both accelerate and extend some existing initiatives as well as develop new programmes especially in skills for employment and the provision of information for students.
- The changing face of sector funding that may arise following the conclusion of the fees review as well as the implications of greater contestability on core funding (with the attendant administrative systems and costs such schemes necessitate).

How well equipped is HEFCE to face the future?

In terms of its systems of governance, the capability of its leadership and the sophistication of its understanding of the issues, HEFCE appears well prepared.

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work on the REF and employer engagement represent material tranches of work (see section 6 for further details).

There is clear evidence of the Board deliberating about how it may have to adjust the performance of its key functions, reassessing existing priorities and implementing new ways of working. We also recommend HEFCE reviews the skills and capabilities it will require to fulfil its assurance functions and those mandated by the HE Framework.

Is this enough? One possible consequence of these challenges is that the model of consensual and consultative policy development that has characterised much of HEFCE's work may be undermined. HEFCE has already demonstrated the capacity to develop and implement initiatives quickly and with minimal sector consultation e.g. the ECIF. However, this approach will certainly not suit the development of all initiatives. The risk is if the Council is obliged to offset sector consultation in favour of pace, but also because of its own limited resources, then its core value proposition as a broker may be materially compromised.

We have established that HEFCE's role as a broker is important to both the sector and government – but it is also fragile and depends critically on buy-in from institutional leaders which may come under pressure as public sector funding tightens. How HEFCE actively manages this issue will be key to its future effectiveness and we therefore recommend it be formally incorporated within the Board's register of strategic risks.

We conclude that HEFCE is a lean and well established agency that is effectively led and managed. It delivers good value for money and is efficient in both its internal operations and in its distribution of public money to support higher education in England. The Council is also generally effective in its role of shaping public policy in relation to the sector. It is a learning organisation that has responded to change, understands the issues it must address in the coming period and for the most part is addressing what this will mean for its people, structure and processes. The model of flexible resourcing it has adopted based on a more strategic management of its various functions should be built on and supported by a very focussed but light touch application of best practice project and programme management.

All this must be done in a way that does not compromise the successful model of sector relationship management that the Council has developed over the period of its existence.

The next section provides a schedule of the recommendations made in the body of the report.

## **2. Schedule of recommendations<sup>8</sup>**

### ***Recommendation 1***

The Secretary of State should be invited to encourage nominations for HEFCE Board membership from heads of institutional governing bodies.

### ***Recommendation 2***

HEFCE should continue its investment in flexible working through:

- The managed growth in the Strategic Response Team.
- A more structured and regular use of secondments as a further means to enhance the flexible use of its limited resources.

### ***Recommendation 3***

The risk that HEFCE's role as an effective broker between the sector and government may be compromised should be explicitly incorporated into the Board's register of strategic risks.

### ***Recommendation 4***

HEFCE should:

- Maintain a systematic analysis of the sectors from which its employees are drawn.
- Assess (following an adequate period of operation) the impact of the generic job description in use for policy and institutional roles.

### ***Recommendation 5***

HEFCE should complete a post implementation review of the operation of the institutional team arrangements.

### ***Recommendation 6***

HEFCE should develop and implement a shared strategy for relationship management between the Council and HEI governing bodies.

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<sup>8</sup> The genesis and basis for each recommendation is fully detailed in the body of the report and where HEFCE has evidenced that it is already progressing the issues raised this is duly cited.



***Recommendation 7***

HEFC should examine both the resourcing and focus of its support for workforce development for business and other organisations.

***Recommendation 8***

The Council should (in its review of teaching funding) address the funding model's:

- Perceived complexity.
- Alignment with sector wide policy objectives and priority outcomes.

***Recommendation 9***

The Council should consider the adoption of a more informative and clearer expression of its risk assessment when communicating to HEIs.

***Recommendation 10***

HEFCE should perform a detailed workload and skills needs analysis to identify its potential future resourcing requirements in light of forecast increases in 'higher risk' HEIs.

***Recommendation 11***

HEFCE should strengthen the means by which its relationship managers interact and exchange information concerning their oversight of related bodies. This should be overseen by a senior manager accountable for the periodic briefing of the Chief Executive's Group and the Board.

***Recommendation 12***

HEFCE should review the skills/capabilities required to deliver future policy priorities (including but not limited to the HE Framework).

***Recommendation 13***

In its support to the HE funding and student finance review HEFCE should contribute its knowledge and experience in assessing the policy and administrative implications of the key options under review.

### 3. Background to this study

This review was commissioned in response to a requirement of the Secretary of State for HEFCE:

*“To review our effectiveness and efficiency in consultation with our stakeholders, including in the areas of policy development and advice to others, policy implementation, accountability for public funding and the promotion of best practice within HEIs”.*<sup>9</sup>

The research leading to the publication of the report was conducted between August and December 2009 by Oakleigh Consulting Ltd under the direction of an independent Review Group chaired by Dame Sandra Burslem.

The Oakleigh team has examined extensive evidence of HEFCE’s performance and consulted widely with interested parties. The review’s purpose was to examine the effectiveness of HEFCE’s delivery over the past five years in four core functions, and to assess the overall performance and efficiency of the Council, using existing evaluative evidence sources and benchmarking against other similar funding organisations.

The review’s terms of reference explicitly excluded considering whether these are the right functions, the Council’s fundamental powers or whether HEFCE as an organisation continues to be required. They did address the capabilities and resourcing of HEFCE, including future requirements, its effectiveness in partnership working and its capacity to realise the government’s latest framework for the development of higher education.

The independent Review Group was particularly concerned to ensure the evidence base used by the consultants was robust and closely informed by stakeholder perspectives. Consequently, the preparation of this report has involved a systematic review of existing evidence supplemented by extensive consultation with:

- The Board, managers and staff of the Council.
- Government departments, in particular BIS.
- Vice-Chancellors, Chairs of Council and senior academics overseeing teaching and research and who interact regularly with HEFCE.
- Registrars, Directors of Finance and Heads of Planning.
- Education, skills and industry bodies.

The consultants and the Review Group wish to express their gratitude to all those who contributed to the review.

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<sup>9</sup> HEFCE’s 2006-11 Strategic plan.

## **4. The organisation and its people**

HEFCE is a non-departmental public body that exercises some of its statutory functions independent of government. It works within a policy framework set by the Secretary of State for Business, Innovation and Skills, but is not part of that government department. HEFCE operates at arm's length from government ministers and is theoretically free from direct political control.

The Council has been operating in its current form (though necessarily subject to periodic development and reorganisation) since 1992. It is therefore an unusually stable organisation and this characteristic has often extended into its relationship with government with (for example) the previous Chair of HEFCE dealing in his period of office with some five Secretaries of State and Ministers of State, three Permanent Secretaries and three Directors General of Higher Education.

### **4.1. Function and strategic aims**

The primary functions of HEFCE are to distribute government funding to HE in England and to act as a sector regulator.<sup>10</sup> It performs these functions within an agreed management and financial control framework.

HEFCE's current strategic plan has five core aims – to:

- Enhance excellence in learning and teaching.
- Widen participation and fair access.
- Foster employer engagement and skills.
- Enhance excellence in research.
- Enhance the contribution of HE to the economy and society.

Underpinning these HEFCE has two cross-cutting aims – to:

- Sustain a high quality HE sector.
- Enable excellence.

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<sup>10</sup> HEFCE was established following the Further and Higher Education Act 1992. This legislation created one unified higher education sector by abolishing the division between universities and polytechnics. From 1 April 1993 HEFCE has funded all publicly funded higher education institutions in England. The Further and Higher Education Act 1992 also required HEFCE to assess the quality of education in the institutions it funds. This activity is devolved to the Quality Assurance Agency for Higher Education.

## 4.2. The Board

HEFCE's Board<sup>11</sup> "consists of up to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for an initial term of two or three years by the Secretary of State.... Appointments are made on the basis of expertise in the field of higher education or experience in industry or the professions."<sup>12</sup>

At the time of completing this report 13 of the 15 places were filled. Eight members were at that time employed within the higher and further education sectors in a Vice-Chancellor/Principal or equivalent capacity. One was of black and minority ethnicity (BME) and four were women.<sup>13</sup>

HEFCE's Board operates under a Code of Best Practice, established in 1994 based on a Treasury model. Updated in February 2009, it reflects recommendations made by the Nolan Committee in its First Report on Standards in Public Life.<sup>14</sup>

### 4.2.1. Performance

Present and past members of the Board and observers of its operations from other agencies and sectors have for the most part judged it to be a highly effective governing body.

*"Capable, experienced, and reflective".*

*"A very high standard of debate".*

*"Respected by the sector".*

*"A better run Board than any other public body I have encountered".*

#### **Board members, various**

Observers judge it to have a good strategic sense and to engage in proportionate scrutiny of the Council's business.

The current Chair, upon his appointment in 2008, conducted a thorough review of the Board's performance which included interviewing all existing members. The outcome of this process generally affirmed the perspectives held by those with whom we have

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<sup>11</sup> Members of the Board, including the Chair and Chief Executive, have collective responsibility for the control and management of HEFCE as a corporate body. The Board is responsible for developing policies and ensuring that projects, programmes and activities undertaken by HEFCE are consistent with the overall provisions of the Further and Higher Education Act and any guidance or directions issued by the Secretary of State.

<sup>12</sup> Source: HEFCE annual report and accounts 2008-09.

<sup>13</sup> One of whom takes up their appointment in June 2010.

<sup>14</sup> First Report of the Committee on Standards in Public Life (Cm 2850, 11 May 1995).

engaged whilst identifying several areas for improvement. These are reflected in our observations below.

#### **4.2.2. Composition of the Board**

In its second report, the Nolan Committee examined local public spending bodies, including further and higher education bodies. One of the recommendations made was that:

*“The Secretary of State for Education and Employment should re-examine the practice of appointing Vice-Chancellors and principals of English institutions to the Board of HEFCE to determine whether an alternative exists, which avoids perceived conflicts of interest, and to ensure that existing rules protect against any potential conflict of interest as the Council is presently constituted.”<sup>15</sup>*

The membership of HEFCE’s Board at the commencement of this review is detailed at Appendix F. In contrast with those of other funding agencies it maintains a proportionately larger number of members holding Chief Executive positions from the institutions that it funds. At the time of the commencement of the review, it also performed poorly in terms of the diversity of its members. However, this has since been addressed.<sup>16</sup>

Other agencies have adopted ‘Nolan’ in a somewhat pure sense, limiting or marginalising the role of sector leaders to the point where they are the minority on the Boards of their sector funding bodies. Whether the governing bodies of such agencies are any more effective than HEFCE as a result is questionable. Most informed consultees to this review who had experience of the Boards both of HEFCE and of these other agencies were clear that they judged significant involvement of institutional leaders in HEFCE’s Board to be an important contribution to its overall effectiveness. They were also consistent in comparing HEFCE favourably with these other bodies.

The primary basis for this view is that the insight and understanding of the sector that such individuals bring adds value to the capability of the Board and the effectiveness of its decision-making. A secondary reason is that through such individuals the Board overall has been able to establish and maintain a subtlety of understanding of the sector that is not always available to agencies that keep institutional leaders at arm’s length. This in turn has been perceived as contributing directly to the credibility of the Board in the eyes of the sector and as a result to the overall reputation of HEFCE as an agency.

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<sup>15</sup> Second Report of the Committee on Standards in Public Life (Cm 3270, May 1996).

<sup>16</sup> We have examined the issue of Board composition with respect to equality and diversity. There was common ground across the Board and the Council overall that its future composition needed to be more reflective of society as a whole. As this review was proceeding four new appointments were announced by the Minister for State for Higher Education, the composition of which substantially addressed these issues.

The concomitant risk, that such members may seek to work to further the benefit of their individual institution or interest group to the disbenefit of the sector as a whole, is well understood. It has not, in the judgement of informed consultees to this study, manifested itself to any evident degree. The combination of the calibre of the people selected for the role, the induction and briefing they receive upon joining the Board and the direction and leadership given by the Chair appear to have effectively mitigated the risk.

The key role of HEI governing bodies is increasingly acknowledged and is supported by HEFCE's own work to improve governance practice across the sector. We agree with the suggestion of the Committee of University Chairs that it is timely to consider whether a University Chair should also sit on the HEFCE Board. An experienced University Chair combining a good understanding of HE with a wide knowledge of other sectors would offer a valuable perspective to the Board's discussions.

### ***Recommendation 1***

The Secretary of State should be invited to encourage nominations for HEFCE Board membership from heads of institutional governing bodies.

### ***4.2.3. Board papers***

The consistent view of Board members past and present is that the papers it receives are of a generally high standard.

The one slightly negative aspect (as identified through the Chair's review in 2008) is that they have not always provided as much room for debate around key options as some Board members would like. It is a generally shared ambition of the Board to have earlier sight of key issues so that these may be more thoroughly considered. We have seen evidence that this is now being taken forward by the Chair and Chief Executive with a greater emphasis on discussion on key issues and a more regular use of pre-Board briefings.

### ***4.2.4. Assessor***

The 'Assessor' is the Board observer from the lead government department for higher education policy (currently BIS). Practically speaking the role enables the department to have a direct channel of communication to the Board (and vice versa).

The terms of reference for the role remain as yet generally undefined despite the Board formally inviting BIS to do so (and that this was flagged in the Board's register of key risks).

### ***4.2.5. Strategic Advisory Committees***

In addition to the main Board (and its audit and remuneration committees) HEFCE has five Strategic Advisory Committees (SACs) covering:

1. Teaching, quality and the student experience.
2. Widening access and participation.

3. Research and innovation.
4. Enterprise and skills.
5. Leadership, governance and management.

They are responsible for advising the Board on the effectiveness of its strategies. To this end they monitor the Council's progress in implementing key performance targets.

Consultees involved in the work of the SACs have told us they find them to be both well configured and developed fora that are increasingly able to both critically appraise existing policy and contribute to new policy requirements. Recent (and now to be annual) cross-SAC events have further positively contributed to these perspectives.

### **4.3. Chief Executive's Group**

The Chief Executive's Group (CEG) comprises four roles:

- The Chief Executive.
- Deputy Chief Executive and Director of Finance and Corporate Resources.
- Director of Research, Innovation and Skills.
- Director of Education and Participation.

The individuals comprising the team are held in high regard by the Board and the majority of consultees with whom they come into contact.

The structure and responsibilities of the CEG have evolved in recent years, in particular to strengthen senior management engagement with external stakeholders. Since 2002 the three Directors below the Chief Executive have directly managed one or more of the Council's institutional teams as well being responsible for interacting with a range of specific non-HEI stakeholders.

The Deputy Chief Executive also fulfils the role of Chief Operating Officer, enabling the Chief Executive to maintain a clear focus on managing the Council's relationship with ministers, BIS, other key government agencies and the sector at large.

Whilst we comment further on the relative effectiveness of HEFCE's strategy and approach for stakeholder relationship management in some detail later in the report we should cite the consistent feedback given by multiple senior sector leaders and representatives as to the value they placed in the accessibility of CEG members.

*"He (the Deputy Chief Executive) will readily come and speak to my senior team or my governing body on the issues of the day. That he also comes to listen and understand our perspective is highly valued."*

**A Vice-Chancellor**

Maintaining a clear 'line of sight' towards sector pre-occupations is as critical to the effectiveness of individual Directors as it is for the Chief Executive in his engagement

with government. It also serves as a wider expression of HEFCE's commitment to communicate and listen – the behaviours exhibited by each member of the CEG directly impact upon HEFCE's credibility in the eyes of its stakeholders.

*“HEFCE's senior people do not curry favour. He (named Director) is a very straight talker. If I want to challenge him on a point I had better have some good evidence – and if I do he will listen.”*

### **A senior university academic**

HEFCE has a well founded relationship with BIS and most of the other key agencies with which it regularly interacts. This is affirmed both through the results of the non-HEI surveys and in the observations made by consultees to this review.

One point that was regularly emphasised by institutional leaders and their senior teams was the importance they placed in the Council's ability to effectively engage with the highest levels of government. A majority of those institutional leaders whom we consulted questioned whether the Council had the necessary capacity at senior levels to do so consistently.

This is not an activity that is carried out in the 'public eye'. Consequently institutional leaders could not, for the most part, provide a clear evidential basis for their concerns. Rather, they were derived from perceptions concerning the underlying dynamic of the sector's relationship with government coupled with a desire for HEFCE to be alert and responsive to this preoccupation.

In exploring HEFCE's interaction with senior levels of government we have not found any evidence to suggest that existing levels of engagement are deficient. We have also seen evidence of active engagement at the very earliest stages of policy development.

However, it is clearly of such great importance to institutional leaders (and in particular given the recent appointment of a new Chief Executive) that we would anticipate that the Board will wish to take a keen interest in how this aspect of the Council's engagement with external stakeholders is being maintained and (where necessary) further developed.

#### **4.3.1. Internal audit**

The Council's internal audit function conducts an extensive programme of risk-based audit reviews across the full range of HEFCE's functions. Of note is that the number of 'high priority' recommendations made in the circa 75 internal audit reports completed in the past five years has remained low. HEFCE is judged to be both an efficient organisation and an effective one by its audit function. One recommendation arising from a recent (summer 2009) internal audit report concerning HEFCE's related bodies is subject to specific comment later in this report.



## 4.4. Structure, people and culture

### 4.4.1. Structure

HEFCE currently directly employs 267 staff, of whom 238 are actively working on Council business.<sup>17</sup> The Council's main place of business is Northavon House in Bristol<sup>18</sup> with a small base in London that is used for Board, committee and other meetings. Staff are located in one of three directorates but also work across the organisation through a system of matrix management and project working (see Appendix G for further details).

### 4.4.2. People and culture

'Enabling excellence' is one of the cross-cutting themes in HEFCE's 2006-11 strategic plan. It sets out how the Council plans to "*ensure that we can effectively deliver our strategic plan, working to the highest standards in all that we do*".

Regular staff surveys are conducted. The key findings from the 2008 and 2009 surveys are detailed in Appendix G. The evidence is that HEFCE performs well against its benchmarks and that it has a good track record in addressing areas where improvement is required.

What distinguishes HEFCE as regards its people, values and organisational culture?

We have been told (by both staff and stakeholders) that the Council exhibits "*the best of the public service ethos*".

*"Committed to and passionate about the sector".*

*"Strong on the detail and in analysis".*

*"Cautious and thorough".*

*"Respect for the individual coupled with (I would guess) a high level of emotional intelligence".*

In addition, senior management of the Council tell us they value and take confidence from the generally open and reflective interactions they have with their staff.

*"I am challenged here if they think I am wrong – directly too. This is a strength of HEFCE's culture and should not be undervalued."*

The latest staff survey indicates high levels of overall satisfaction (84%) including that for empowerment (87%) and "*managers' competence to do their job*" (96%). Nevertheless HEFCE's own senior staff appear comfortable with challenging accepted norms:

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<sup>17</sup> As at 31 March 2009, of the 29 that are not actively working on HEFCE business, nine are on maternity leave, two are on secondment, five are working for the Office For Fair Access and 13 for JISC.

<sup>18</sup> Which is located in (and leased from) the University of the West England.

*“Are we good at thinking outside of the box when it comes to developing solutions to policy or sectoral requirements? Not as often as we will need to be in the future and we can sometimes be too defensive.”*

*“I get a hint of complacency at times which can lead to an unquestioning approach and the best can sometimes be the enemy of the good. We will have to be faster on our feet in the times to come.”*

HEFCE has a culture closely aligned to its core mission and purpose. The values and ethos of its staff have been a major determinant in its performance to date.

The challenge of a changing external environment means it must critically assess how it needs to develop culturally to maintain its overall effectiveness and capability.

The concern is therefore one of how to develop HEFCE’s organisational structure process and underlying culture without losing or unduly undermining the many virtues that have shaped and enabled its performance to date.

This and related issues are explored below.

#### **4.4.3. HEFCE’s response to a changing environment**

The evidence available indicates that the Council has been active in seeking to understand and then plan for changes in its operating environment. A range of activities have been initiated in the last 12-18 months. These form part of a MOP (Managing Our Priorities) exercise which is the overall programme of organisational redesign that HEFCE has been undertaking since 2008 and which led to the three-directorate structure that is now in place.

The desired outcome (as described to us by the Council) has been to instil a culture of ‘adaptive capacity’ and in so doing to challenge and where necessary change historic modes of working.

Key actions taken include:

- Modelling the implications of having to cope with operating budget reductions. HEFCE has been working since February 2009 to understand the implications of having to cope with substantially fewer resources by modelling the impact of reductions in activity levels of between 5% and 15%.
- Refining existing models of resource deployment and work prioritisation. The Council has been developing an activity costing model to inform refinements to resource deployment.
- Challenging and changing normal modes of working through:
  - The formation of a ‘Strategic Response Team’ (SRT). The SRT is charged with providing an immediate line of response to rapidly emergent issues and time-limited projects. It operates as a form of internal consultancy resource focussed upon mostly short term assignments, and consists of a small core team of 3 FTE with other staff flexibly deployed from their ‘home teams’ for between 20% and 100% of their time (circa 1.2-1.6 FTE).

- The introduction of new job descriptions for all staff in institutional and policy teams and the development of a more flexible internal resourcing model that can respond to fluctuating priorities. (Resource allocation is overseen by the head of the SRT and, since its establishment, has informed the allocation of over 100 different assignments and the internal redeployment of 21 staff to new duties).
- Increasing the resources in critical functions. The Council has increased the resources available to its Assurance service through appointing a deputy head and ensuring there are clear ‘call off’ arrangements with external advisory/accountancy firms for additional capacity where required.
- Two internally led research projects into ‘performance management’ and ‘high performance culture’. Both studies are intended to yield insights as to how further to develop and enhance the Council’s underlying ethos and organisational culture.

In addition HEFCE has recently put in place a new ‘People Strategy’ which sets out its key aims in respect of culture, ethos, HRM, recruitment, performance management, personal development and working environment. The strategy expresses the behaviours needed from staff and sets out a three-year rolling plan of key improvement activities.

#### **4.4.4. Assessment of HEFCE’s response**

Combined with the new People Strategy the measures taken to address the key issues relevant to effective forward planning in a new environment are:

- Testing the capacity to operate differently and introducing new ways of working.
- Supporting evidence-based prioritisation of workload.
- Prioritising investment in business critical functions.
- Expressing an overarching strategy for people development aligned to the wider organisational strategy.

We have explored with Council managers and operational staff the day to day effect of these changes and their potential for further development – especially as regards the application of the disciplines of well focussed and light touch project and programme management (PPM), the flexible working practices being engendered in institutional and policy teams and the use of the SRT.

Whilst we found consistent recognition of the necessity and importance of flexible working from the staff to whom we spoke, the relative utility and impact of the present arrangements were the subject of more mixed assessment.

The SRT is small and its use across the Council is therefore limited. Just over half of the Council’s senior managers we spoke to told us they judged the SRT to be too small to be effective in its present role. They also expressed concerns that whilst the Council’s budgetary and line management arrangements remain channelled through

the directorate structure the potential effectiveness of the SRT's 'matrix management' type approach would be limited.

We recognise HEFCE cannot deploy all of its staff to work on a purely PPM basis and there are practical constraints as to how large the SRT might become:

- There are core routine functions that must be discharged for which a PPM based approach is inappropriate. For example some roles need to be consistently delivered by a single individual (for example that of external stakeholder relationship management).
- In the case of policy competence, HEFCE's effectiveness is informed by the degree to which it has access to relevant expertise in specific policy areas (examples include widening participation, learning and teaching, human resource management, estates and shared services). An approach that emphasises flexibility without protecting the capacity of policy experts to work in their core field will itself diminish effectiveness and provide poor value for money.

These issues exemplify the 'creative tension' that is inherent in any model that seeks to flexibly manage scarce resources. Whilst HEFCE is clearly keeping its present approach under close review, we would encourage the Council to further develop the premise of flexible resourcing through the managed growth of the SRT.

Another route to enhancing organisational flexibility is the measured use of secondments from other organisations and sectors. HEFCE has over recent years done this for several posts (one recent example being the head of employer engagement). Secondments can bring a number of benefits:

- Individuals with relevant expertise are deployed in a role that matches their skills (effectiveness).
- The costs of their employment are borne only for the period of the secondment (efficiency).
- The act of secondment stimulates the inward flow of experience, skills and competencies from HEIs/other sectors (HEFCE as a learning organisation).
- Secondment offers a route for personal development for the individual concerned.

For these reasons a majority of senior HEFCE managers that we spoke to would like the Council to develop a more systematic approach to the use of secondments and to increase the regularity with which secondees are used.

HEFCE will undoubtedly be facing a tight financial settlement for the coming period. This will further place a premium upon the flexible and efficient use of personnel.

A managed growth in the SRT coupled with greater use of secondments would, we believe, represent a useful supplement to the measures already in place. We therefore make a recommendation to this effect.

## ***Recommendation 2***

HEFCE should continue its investment in flexible working through:

- The managed growth in the Strategic Response Team.
- A more structured and regular use of secondments as a further means to enhance the flexible use of its limited resources.

### ***4.4.5. Coping with the challenges to come***

HEFCE faces a range of future challenges including:

- There being substantially less public funding for HE.
- Less resources for its own administration.
- More 'higher risk' HEIs requiring support.
- New initiatives such as 'Higher Ambitions' to be resourced.

One possible consequence of these challenges is that the model of consensual and consultative policy development that has characterised much of HEFCE's work may be put at risk.

We recognise that HEFCE has already demonstrated the capacity to develop and implement initiatives at a quick pace and with minimal sector consultation e.g. the ECIF. However, this approach will certainly not suit the development of all initiatives and if the Council is obliged to offset sector consultation in favour of pace – but also because of its own limited resources – then there is clearly a risk that its core value proposition as a broker may be materially compromised.

We have established that HEFCE's role as a broker is considered important by both the sector and government – but it is also fragile and depends critically on buy-in from institutional leaders that may come under pressure as public sector funding tightens. How HEFCE actively manages this risk may be key to its future effectiveness. This reinforces the need for the Council to keep its underlying resourcing model under close and regular review. Consequently we recommend that this issue be included within the Board's register of strategic risks.

## ***Recommendation 3***

The risk that HEFCE's role as an effective broker between the sector and government may be compromised should be explicitly incorporated into the Board's register of strategic risks.

### ***4.4.6. Recruitment***

There are 13 different pay bands (below the level of Director) in the Council linked to a wider job evaluation benchmarking system (see Appendix G for a general commentary on the system in use). Pay bands 11 and 12 (Head of Policy and other senior management functions) are the critical senior management levels below CEG.

In the past two years HEFCE was unable to appoint to three senior management posts on the first attempt.<sup>19</sup> Council managers have indicated that this was due to several reasons including in particular the skills, competencies and experience required for these posts. HEFCE's human resources (HR) team is also concerned that salary levels may be a contributory factor.

HEFCE benchmarks itself for pay purposes with multiple sectors. However, it does not record the career path background of its staff and so it is not possible to say which of the sectors that it tracks are the most relevant. Whilst HEFCE's 'room for manoeuvre' in respect of future pay settlements is limited it would certainly enhance the Council's thinking in this area if it were better able to understand from where it draws its staff.

We have also encountered, both from the majority of sector consultees and from some senior managers within HEFCE, an interest in understanding what proportion of the Council's staff have prior direct experience of HE. There is a clear belief in much of the sector that certain roles fulfilled by HEFCE staff (particularly those in the institutional teams) are better performed by individuals who have previously worked in an HEI. Whilst such experience may be advantageous, HEFCE's position (quite understandably) is that staff should be appointed on their individual merits given the requirements of the post. Whether prior experience of working in an HEI is an important requirement may therefore be reflected in the role specification.

Some HEFCE senior staff we spoke to expressed reservations as to the utility of the recently introduced 'generic job description' for certain policy roles. We understand this arrangement has been introduced to support flexibility in role allocation and deployment. Fears (where raised) concern whether it may unduly limit the specification of specialist skills and competencies and hence impede effective recruitment.

Both this and the issue of pay benchmarking suggest there would be benefit to the Council were it to better understand from where it draws its staff so that it may in future better target its benchmarking analyses. In addition, whilst we have not seen evidence of recruitment of specialists being impeded, the concerns regarding the utility of the present generic job descriptions would appear to merit attention by means of a suitably timed post implementation review.

#### ***Recommendation 4***

HEFCE should:

- Maintain a systematic analysis of the sectors from which its employees are drawn.
- Assess (following an adequate period of operation) the impact of the generic job description in use for policy and institutional roles.

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<sup>19</sup> Regional Consultant, Head of Learning and Teaching, and Head of Widening Participation.

#### **4.4.7. Workforce equality and diversity**

Whilst HEFCE is a strong proponent of equality and diversity there is limited diversity among the senior management layers of the Council with only one woman and no BME staff at the senior level of pay band 12 or above (Appendix G details staff banding). There is also some under-representation of men in lower grades. However, there is clear evidence of the Council setting stretching targets for building a more diverse workforce that encompass these and other issues. These have been approved by the Board and are subject to regular review both as regards progress and impact.

#### **4.5. Conclusion**

The Council is a well led and managed organisation and it has developed a range of initiatives designed to enhance organisational flexibility and responsiveness. Their continued utility in the face of future challenges is being kept under close review. We believe there is an argument for growing the SRT beyond its present small size (3 FTE) and the potential to make more regular use of secondments and we recommend both be pursued further.

A key risk facing HEFCE is whether the consensual model of engagement with the sector will be undermined if its capacity to maintain an effective and regular dialogue is diminished through a combination of reductions in its own resources, increased workload and pressure to deliver certain policies at a quicker pace than hitherto. Consequently we recommend this issue be expressly included in the Board's register of key strategic risks.

## 5. Stakeholder relations

This section assesses:

- The Council's overarching relationship with HEIs.
- HEFCE's effectiveness in working with other UK government agencies and key stakeholders.

HEFCE's 13 related bodies are examined in detail in section 11.

Of note is that HEFCE has commissioned independent surveys of its stakeholder relations with universities, further education colleges, and non-HEI stakeholders at regular intervals since 2000.<sup>20</sup> Consequently the evidence underpinning the following analysis is particularly robust and extensive.

### 5.1. Relationships with HEIs

Relationship management with HEIs is (since 2008) realised through three institutional teams, each of which is accountable to one of the Directors via an Associate Director. These teams are principally responsible for managing and developing effective relations with universities and colleges and other external organisations in their region, and organising direct support to these institutions where required.

The present arrangement has been the result of an ongoing process of change over several years. Initially, seven regional teams were established in 1997 under a single Director of Institutions. Restructuring in 2002 resulted in nine regional teams being established within a four-directorate structure.

However, feedback from the sector indicated that in some instances the regional teams lacked the necessary capabilities and as a result their credibility with institutions was variable. The resilience and skill-set of each team were also concerns owing to their relatively small size. A number of sector consultees have told us that they operated more as a means to gather information from HEIs and were limited in their ability to engage in matters of policy or strategy.

*"If you had asked us what we thought of the quality of HEFCE's engagement via its regional teams four years ago we would have said 'not a lot'."*

#### **Sector representative body**

The tightening of lines of control and the consolidation into three institutional teams with the appointment of the Associate Directors to head them was in part intended to overcome these deficiencies – as well as being a key component of a much wider programme of organisational redesign.

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<sup>20</sup> In brief these comprise: 2009 survey of non-HEI stakeholders; 2007 survey of universities and colleges; 2005 survey of non-HEI stakeholders; 2002-03 survey of universities and colleges; and 1999-2000 survey of universities and colleges.



In consulting HEI stakeholders we have sought to understand what effect these changes have had on the quality and nature of relationships with institutions.

The evidence we have gathered presents a mixed picture:

- About 40% of the HEIs we spoke to told us that the reorganisation is beginning to deliver the desired improvements in effectiveness and in stakeholder relations. This is particularly in respect to the enhanced capability of the new teams to engage and interact on matters of strategic preoccupation as well as operational matters relevant to individual institutions.
- A similar proportion stated that over the past year they felt they had experienced a degree of turnover in those HEFCE staff with whom they were dealing. This was in part ascribed to the impact of the reorganisation and in part to staff leaving HEFCE. A perceived 'absence' of contact was also cited by some HEIs.
- A small proportion (up to 20%) expressed unhappiness with the capability and quality of the staff with whom they engaged at the level below Regional Consultant.

In considering the available evidence we recognise that the changes implemented by HEFCE are still bedding in. However, the perception of the relatively high churn in staff in the regional/institutional teams is borne out by data provided by HEFCE (21% for 2008-09).<sup>21</sup>

Given the recent implementation of the new arrangements we judge it too early to draw any firm conclusions as to their efficacy. However, there are clearly significant risks to HEFCE (and to the sector) if the new structures do not perform as required. As a result we judge it important that the Council maintains a close eye on how arrangements develop and conducts a thorough post implementation review within two years of the new arrangements having been implemented.

### ***Recommendation 5***

HEFCE should complete a post implementation review of the operation of the institutional team arrangements.

#### ***5.1.1. Surveys of HEIs<sup>22</sup>***

The key findings from the latest survey of HEIs conducted in 2007 are that:

- HEFCE is largely viewed in a positive light across its external stakeholder community against a range of measures relating to its mission and strategic plan.

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<sup>21</sup> Staff turnover analysis prepared by HEFCE for this review.

<sup>22</sup> 2007 Survey of Communications and Relationships between HEFCE and Universities and Colleges (Ipsos MORI); February 2008.

- In particular, HEFCE is viewed as ‘effective’ by the majority of the external stakeholder community (78% of HEI respondents).
- Effective delivery of activity relating to policy development is viewed particularly favourably (78% of HEI respondents consider this is carried out effectively).

Both the representative bodies (Universities UK (UUK) and Guild HE) and individual HEIs have been consistent in their support for HEFCE as it is presently configured and with regard to its general performance. This is reflected, for example, in UUK’s overarching statement of principles regarding HEFCE’s role, where the relevant extract states:

*“As an arm’s length non-departmental public body HEFCE provides an essential brokering role between meeting the priorities of the government of the day and working with Universities UK to protect the longer term autonomy and academic freedom of the English HE sector, which is essential to the continued success of the sector.”*

All specific matters arising from our consultation with HEIs are addressed in the relevant section of this report (e.g. funding, policy, regulation etc).

### **5.1.2. Relations with colleges that provide HE**

The HE in further education (FE) providers that contributed to this review expressed generally positive feedback concerning their relationships with HEFCE. Particularly cited were:

- The support given in regard to new initiatives and in satisfying the requirements of the funding model.
- HEFCE’s role as a broker with government and as the guardian of a relatively stable funding environment.
- Overall responsiveness including support provided to the realisation of a College’s recovery plan and subsequent growth in HE provision.

Providers expressed a keen interest in HEFCE investing further in HE in FE provision as a key means to deliver the vision of the HE Framework and, in so doing, provide for additional student numbers and necessary capital funding. HE in FE providers are clearly well placed to support further growth in the vocational, regionally based part-time adult market necessary to the higher skills agenda.

HE in FE providers are also keen for HEFCE:

- To set out how it will develop its approach to engaging in a regional context with regional development agencies (RDAs) as well as more broadly with Sector Skill Councils and employers.
- To develop its overall relationship with, and sophistication of understanding in, the college community.

## **5.2. Relationships with non-HEIs**

As the consultee list for this review reveals, HEFCE works with a multiplicity (circa 30) of stakeholders other than HEIs. By 'non-HEIs' we refer to government departments, agencies, representative and professional bodies and the Council's own related bodies. The basis of the relationship is necessarily contextual. Some of the bodies HEFCE interacts with are dependent upon the Council for their funding. Others are peers in a different domain.

Over the past few years HEFCE has systematically reviewed its relationships with its key non-HEI stakeholders and allocated a named individual to lead in managing the bilateral relationship.

### **5.2.1. Surveys of non-HEIs<sup>23</sup>**

As with HEIs, HEFCE commissions regular surveys of non-HEIs in order to assess the nature and quality of its relationships, the most recent of which took place in early 2009.

The surveys commissioned by HEFCE indicate that:

- HEFCE is largely viewed in a positive light across its external stakeholder community against a range of measures relating to its mission and strategic plan.
- In particular, HEFCE is viewed as 'effective' by the majority of the external stakeholder community (86% of non-HEI respondents).
- Effective delivery of activity relating to policy development is viewed particularly favourably (74% of non-HEI respondents).

Consequently the report notes that stakeholders are broadly positive in relation to the effectiveness of HEFCE, particularly in relation to 'higher education policy development', 'managing change in relation to government policies' and 'support for widening participation'. Measures relating to business, however, are viewed less favourably ('support for links with business' and 'engaging with employers in skills development') and we explore this further in section 8.

### **5.2.2. Key findings from our consultation**

The great majority of the non-HEI consultees to this study were consistent in expressing a high regard for HEFCE's approach to managing relationships with their organisations. The relationships are generally characterised as being subject to regular interaction, clear lines of communication and accountability (at HEFCE's end).

A number (including several of the mission groups) reported a significant improvement in the regularity and quality of interaction with the Council in the past 18

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<sup>23</sup> 2009 Survey of Communications and relations between HEFCE and non-HEI stakeholders and staff (Ipsos MORI); August 2009.

months. Given the increased activism of these organisations as lobbyists for their members we commend this enhanced level of engagement by the Council.

*“They come across as very professional and enormously efficient. Our relationship with them is both effective and mature.”*

#### **Other funding council**

Observations, where merited, are given in Appendix I, except as regards the other main sector funders and several other key agencies on which we comment below.

#### **5.2.3. Training and Development Agency for Schools**

The evidence indicates that HEFCE and the Training and Development Agency for Schools (TDA) have a mature and generally effective relationship. The TDA is a substantive funder in its own right, distributing some £253m to the English HE sector in 2008-09 for Initial Teacher Training (ITT), undergraduate and postgraduate programmes.<sup>24</sup> The TDA acts very much on the supply side of the equation and therefore fulfils a clear planning function as regards the volume and type of provision that it funds.

It was not within our remit to consider changes to HEFCE's responsibilities as a funder. However, we did encounter a strong sentiment in the sector that favoured the Council being more directly involved in some of the funding streams presently administered by the TDA. The arguments put forward included HEFCE's perceived efficiency and relative effectiveness in mitigating changes in funding levels so as to facilitate medium term institutional planning and delivery.

#### **5.2.4. Health**

Together HEFCE and the NHS are the two major funders of HEIs in England. The NHS is split locally into ten Strategic Health Authorities (SHAs). One of the key roles of each SHA is to distribute funding for education in healthcare. This distribution is undertaken by a process of contracting HEIs to undertake the educational provision of learners in their area. In turn, Foundation Trusts and hospitals commission work placements with the HEIs for the learners connected to the funding.

HE income from health and hospital authorities amounted to an estimated £1,124 million<sup>25</sup> in 2007-08. Added to this the ten SHAs provide education and

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<sup>24</sup> The TDA supports a variety of routes into the profession including mainstream postgraduate and undergraduate courses, accounting for over 31,000 trainees. In 2008-09, it provided £253 million for mainstream ITT, £149 million for training bursaries and £87 million to Graduate and Registered Teacher programmes.

<sup>25</sup> The source is Higher Education Statistics Agency (HESA) data (HESA finance record Table 5b) which provides an estimate of income from health and hospital authorities (in £000s). HESA data on the value of income from the NHS to HEIs is a) not split by SHA; b) not disaggregated between medical and non-medical purposes. An assumption has been made about the income from health within the broader 'UK central govt and other local authorities, health and hospital authorities' category.

training for pre-registration nursing and midwifery students and allied health professionals (with an estimate of the total fees paid by NHS to HEIs in 2007-08 being £0.642 million). Hence the total funding amounts to circa £1,766 million.

We have seen good evidence of effective inter-working between HEFCE and the Department of Health (for example on the expansion of medical and dental schools). The complexity of the funding and supply-side environment is such that the relationship requires strong strategic leadership. HEFCE has a key role to play as a facilitator of the partner organisations involved. This it appears to be doing effectively through the recently formed HE Strategic Information Exchange.

The absence of data concerning the administrative costs of SHA directed funding means we cannot draw any specific conclusions regarding its relative efficiency to that administered by HEFCE. This appears to be a missed opportunity and one that might be usefully pursued by some specific benchmarking activity.

### **5.2.5. Quality Assurance Agency for Higher Education**

The Quality Assurance Agency for Higher Education (QAA) conducts external quality assurance through the process of institutional reviews in which peer based reviews determine how well universities and colleges are fulfilling their responsibilities.

HEFCE and QAA have a contractually based relationship that sets out the main activities the latter will perform on behalf of the former. This is negotiated annually. The process is seen by the QAA as being, for the most part, a collaborative one. However, there is a danger that the language of 'partnership of equals' and recognition of specialist expertise can be displaced by the language of contracting, targets and service delivery. HEFCE needs to be alert to how this is perceived both by the QAA and by the other agencies with which it works in close partnership (which is not to say a contractual basis is unnecessary – it clearly is).

The QAA believes it could make a greater contribution to policy development in its areas of expertise and would welcome a strengthening of the opportunities and structures to facilitate this. The high profile of 'quality' as a preoccupation of government and the sector provides a further impetus to such engagement – including (but not limited to) the reviews of the External Examiner process and the Quality Framework amongst other programmes of work that will be taking place over the coming 18 months.

### **5.2.6. Equality and Human Rights Commission**

HEFCE and the Equality and Human Rights Commission (EHRC) have a developing relationship. The EHRC values HEFCE's work on addressing the issue of equality and diversity within the Research Assessment Exercise (RAE) and considers the creation of the Equality Challenge Unit to be an example of good practice not present in other parts of the public sector.

The EHRC is particularly interested in understanding and exploring HEFCE's regulatory and assurance framework and its potential for supporting the realisation of improved equality and diversity across the sector.

In this respect the EHRC is interested in 'outcomes' and establishing relevant indicators of performance. To this end it also wishes to understand the potential of existing data collection processes to inform assessments of the achievements of HEIs. A preliminary analysis of this potential was being completed by the EHRC as this review was underway. This therefore remains a matter of work in progress to which HEFCE will need to continue to make an informed contribution.

### **5.2.7. University governing bodies**

University governing bodies are represented by the Committee of University Chairs (CUC). In contributing to this review the CUC was generally positive regarding its relationship with HEFCE at the level of organisation to organisation (see Appendix I for further details). However, on behalf of its members, it also expressed a clear interest in how the relationship between HEFCE and governing bodies themselves may need to develop in future.

The Financial Memorandum<sup>26</sup> underpins the formal relationship between HEFCE and the institutions it funds with a framework of self regulation by the governing body with the Vice-Chancellor/Principal the 'designated officer'.

However, the roles and relative prominence of university governing bodies have clearly evolved in recent years and the impending period of financial stringency will very likely bring this into further relief. HEFCE has not traditionally maintained a close relationship with the governing bodies of those institutions that it funds. The shared concern of many Chairs of Council is whether past practice will meet future need especially, if as anticipated, more institutions find themselves in financial difficulties.

For this reason we agree there is an imperative for HEFCE and CUC and Guild HE (on behalf of governing bodies) to work together to agree a shared strategy for relationship management.

### **Recommendation 6**

HEFCE should develop and implement a shared strategy for relationship management between the Council and HEI governing bodies.

### **5.3. Conclusion**

HEFCE is generally effective in managing positive and productive relationships with its key stakeholders. We flag up that the new arrangements for managing interaction with HEIs via three institutional teams have yet to bed down and should be closely monitored with a formal review of their efficacy to take place in 2010.

The Council should also reflect with institutional leaders as to if (and if so how) its present approach to relationship management with governing bodies may now need to further evolve.

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<sup>26</sup> The Financial Memorandum sets out the conditions attached to HEFCE funding, with which institutions must comply, and includes audit and accountability requirements.

## **6. Assessing HEFCE's efficiency**

This section of the report examines HEFCE's efficiency on both absolute and comparative terms, making use of benchmarking analyses where salient and available (excepting staff, which was addressed in section 3).

### **6.1. Underlying efficiency**

Overall there is good evidence of HEFCE identifying and acting upon opportunities for embedding efficiency gains.

Since 2004-05 the Council has absorbed additional activities<sup>27</sup> equating to an increased workload of some 10% (by reference to staff time) whilst reducing its year on year running costs (from £17.2 million in 2004-05 to £16.74 million in 2007-08).

General confidence in HEFCE's underlying efficiency was (in 2008) further reflected in the settlement of its running costs budget by the Department for Innovation, Universities and Skills (DIUS), its then parent department.

The Council also has a robust and well founded approach to the oversight of its 13 related bodies – all of which are being challenged to respond to the new funding paradigm (see section 11).

### **6.2. Benchmarking efficiency**

It is clear that extensive benchmarking is well established and is used effectively to measure value for money and to support the development of the organisation and its infrastructure. This includes benchmarking HEFCE against key services as part of wider pan-government activities. We have reviewed this work, are satisfied with its rigour and have tested its conclusions within our own analysis of HEFCE's performance and in interviews with key stakeholders. It demonstrates that HEFCE stands up well in terms of data, process and functional benchmarking.

Figure 1 overleaf sets out a range of benchmark data collected by the Council concerning running costs from bodies that have some similarity in functions. This indicates that HEFCE outperforms the chosen comparators in terms of running costs as a proportion of total expenditure with HEFCE's running costs being 0.27% of total expenditure, lower than either the Scottish Funding Council (0.54%) or Higher Education Funding Council for Wales (HEFCW, 0.66%). Whilst they are also substantially lower than any other relevant comparator it is important to recognise the limitations of this analysis. For example whilst HEFCE funds institutions the Learning and Skills Council (LSC) funds and plans provision which then has to be monitored.

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<sup>27</sup> These activities encompass SIVS, the REF, employer engagement, Islamic Studies, ELQs and 'areas of under-provision of HE – New University Challenge'. Of these, work on the REF and Employer Engagement represent material tranches of work. The estimate of 10% increased workload is derived from an analysis of time spent undertaking these activities as measured by HEFCE's activity recording system.

This demands substantially more reporting and information gathering than HEFCE is required to perform.

**Figure 1 Comparative data on running costs 2008-09<sup>28</sup>**

Organisation	Total expenditure (£m)	Running costs (£m)	Running costs (%)	Staff numbers
HEFCE	7,534	20	0.27	267
Scottish Funding Council (2007-08)	1,840	10	0.54	121
HEFCW	457	3	0.66	56
Learning and Skills Council	12,072	200	1.66	3,229
TDA	739	26 <sup>29</sup>	3.52	337
EPSRC <sup>30</sup>	796	35	4.4	367
AHRC <sup>31</sup>	123	8	6.5	118
ESRC <sup>32</sup>	195	13	6.67	139
BBSRC <sup>33</sup>	465	40	8.6	305
North West RDA	462	68	14.72	431
South West RDA	238	78	32.77	355
East Midlands RDA	223	79	35.43	277

Looking more closely at the costs of administering research funding reveals that:

- The direct cost to HEFCE of RAE 2008 (annualised over seven years) has been calculated to be circa £6.8 million with the total sector cost to HEIs in England being approximately £47 million.<sup>34</sup>

<sup>28</sup> Provided by HEFCE Finance function.

<sup>29</sup> Excluding relocation costs.

<sup>30</sup> Engineering and Physical Sciences Research Council.

<sup>31</sup> Arts and Humanities Research Council.

<sup>32</sup> Economic and Social Research Council.

<sup>33</sup> Biotechnological and Biological Sciences Research Council.

<sup>34</sup> In 2008 PA Consulting carried out a project to assess the total accountability burden on the HE sector in England. They also conducted an assessment of the accountability burden of the 2008 RAE. See [http://www.hefce.ac.uk/pubs/rdreports/2009/rd01\\_09/rd01\\_09.pdf](http://www.hefce.ac.uk/pubs/rdreports/2009/rd01_09/rd01_09.pdf). See also a report of the Research Councils UK Efficiency and Effectiveness of Peer Review Project: <http://www.rcuk.ac.uk/cmsweb/downloads/rcuk/documents/rcukprreport.pdf>



- In comparison (as calculated by the same source) the costs incurred directly by the Research Councils themselves amounted to some £9.8 million, while bidding, developing and submitting proposals to the Research Councils cost English HEIs circa £87.1 million.

### **6.2.1. Other indicators**

Other indicators that inform an assessment as to HEFCE's comparative performance are that:

- In 2008 the Council secured the EFQM award with five stars and it remains one of only a handful of public bodies to have done so across Europe.
- HEFCE is also usually the first, or amongst the earliest, body in the public sector to close its accounts.
- In 2008 it secured certification under ISO14001 for its Environmental Management System.

### **6.3. Procurement**

We have examined the operation of HEFCE's procurement function and the value for money (VFM) achieved by the Council from its procurement activities.

Overall HEFCE procures goods and services to the value of some £8.5 million per annum (including building rent) of which some £2 million is expended upon on a range of third party advisors and consultants.

There is good evidence of it having demonstrably improved the value for money it has achieved in the use of consumables in the past five years and expenses relating to travel and subsistence.

The Council is now focussing more upon the VFM to be secured out of its contracting for professional and advisory services, including those procured through programme (as opposed to running cost) expenditure.

To enhance the effectiveness of procurement the team was recently (2009) integrated into the Council's shared services policy function. The objective is to enhance overall procurement practice across the Council, make better use of existing expertise and ensure necessary compliance with relevant legal frameworks. The Council is also assessing the potential for making greater use of procurement frameworks for certain services involving preferred suppliers and mini-tendering exercises. Overall, the emphasis is upon procurement as an advisory function and source of critical expertise to be drawn upon and valued by those functions commissioning the services in question.

In addition to structural changes, the Council has engaged in an ongoing benchmarking process supported by government (involving 140 organisations) and conducted by KPMG with the Chartered Institute of Public Finance and Accountancy as a partner. The intention is that the results of this analysis may inform further efforts to secure improved procurement performance. This process (which covers Finance, HR, Information and Communications Technology, Property and

Procurement) remains somewhat underdeveloped, as the direct comparability of the data sets provided by the different participating organisations is limited. HEFCE proposes to continue to support and enhance the process.

### **6.3.1. Use of third party consultants**

Another area that we have examined is whether the Council could secure better value for money by enhancing its own audit and governance resources so that it would have the capacity to undertake more of the work currently contracted out to the third party consultants.

The scale of potential benefits would require further analysis (and would include the impact of internalisation of knowledge gained from the review process and not just cost). We recognise there are important considerations other than pure value for money, not least the independence (perceived and actual) of the review process as well as access to the relevant expertise and skill set. However, we judge it likely that the Council's internal audit function has many of the core skills required and suggest the potential of this idea be explored further.

### **6.3.2. The Joint Information Systems Committee**

Aside from procurement directly conducted in support of HEFCE's own operations the Council is also accountable for that conducted by the Joint Information Systems Committee (JISC). It also (as key funder) has an interest in the efficiency and effectiveness of procurement conducted by its community of related bodies. We note that the Council is now proposing to examine the potential for enhancing existing practice with JISC and that, given the extent of programme expenditure this may have the potential to generate material gains in value for money. In view of the imperative of maximising efficiency gains across the community of related bodies we strongly commend this approach.

### **6.3.3. Shared services**

Finally there is the potential for the Council to itself engage directly in the use of shared services and by so doing secure greater VFM from its operations. Of note is that Research Councils UK (RCUK) has recently established a shared services function (located in Swindon). The Council has entered into some preliminary examination of the potential benefits to be derived from this facility and we suggest these continue as the service establishes itself and can provide evidence of its performance and value.

## **6.4. Conclusion**

There is demonstrable evidence of the Council's efficiency in both absolute and comparative terms. There may be opportunities to secure improved value for money in the activities of JISC and in shared services which should be subject to further specific work.

## 7. Assessing HEFCE's effectiveness

The following four sections of the report examine HEFCE's effectiveness with regards to:

- The performance of its core functions.
- Its approach to self assessment and continuous improvement.

The evidence incorporates quantitative and qualitative analyses derived from the work of internal staff, third party consultants under contract to HEFCE, independent evaluators (e.g. assessors for the EFQM) and independent auditors (e.g. the National Audit Office (NAO)).

In addition the regular assessments of stakeholder perceptions (described earlier in this report) are a further important component of this evidential base and encompass staff, HEIs and the non-HEI stakeholders.

To inform our evaluation the following sections draw upon several case studies (commissioned by the review team from HEFCE policy officers) that illustrate the work of the council in discharging its core roles as a broker and interface between government and the sector. These are fully detailed in Appendix J and relevant extracts that serve to illustrate a particular issue are included in the body of this report.

They comprise:

- Case Study 1 – Strategically Important and Vulnerable Subjects (SIVS).
- Case Study 2 – The Higher Education Innovation Fund (HEIF).
- Case Study 3 – The Research Excellence Framework (REF).
- Case Study 4 – The Economic Challenge Investment Fund (ECIF).
- Case Study 5 – Investment in human resource management (HRM).

We have also examined the possibility of benchmarking the effectiveness of HEFCE in discharging its core responsibilities against other organisations. Even more than in benchmarking efficiency this depends critically on the availability of valid comparators. The approach we adopted was to identify a number of organisations with a regulatory role and to take an overview based on a combination of interview and web-based analysis. We reviewed three organisations in some depth: Monitor which regulates prospective and new Foundation Trusts in the NHS; the Homes and Community Agency and the Financial Services Authority.

Our conclusion is that few lessons can be drawn without consideration of the very different circumstances of each in terms of market and organisational maturity, the nature of the bodies being regulated and the regulatory model utilised. This last in particular is beyond the remit of this review. However, there are general insights (in particular the economic evaluation of regulatory activity) that HEFCE could derive

value from (see the economic impact study of Monitor's work, [http://www.monitor-nhsft.gov.uk/sites/default/files/Measuring%20Monitors%20impact\\_published.pdf](http://www.monitor-nhsft.gov.uk/sites/default/files/Measuring%20Monitors%20impact_published.pdf)).

## **8. Policy development and advice to government and others**

This includes learning and teaching, widening participation and fair access, research, employer engagement and skills, increasing the impact of the HE knowledge base on the economy and society, and sustaining a high quality HE sector.

*“It is a key role of HEFCE to devise policy that maintains stability and avoids turbulence through a transparent process.”*

**Senior civil servant**

### **8.1. Learning and teaching**

HEFCE’s external stakeholders have a generally positive perception of HEFCE’s effectiveness relating to ‘support for the enhancement of teaching and learning’. Underpinning evidence for this includes:

- The Teaching Quality Enhancement Fund received a positive review in 2005 with the particular finding that good value for money had been achieved.
- Centres for Excellence in Teaching and Learning (CETLs) were subject to a formative evaluation in 2008 and were assessed as having improved the practice of teaching staff and having supported enhancement of innovation in learning and teaching, although the longer term impact was considered harder to determine.
- The National Student Survey has become a generally well regarded process.

Areas that have required particular attention and development in the period of the review include:

- HEFCE’s strategy for e-learning. This was reviewed in 2005. While the report was complimentary in some areas, a number of significant challenges to realising the strategy were identified. Addressing these required both modification of the strategy and an implementation plan, as well as addressing aspects of the surrounding landscape, such as funding arrangements and the large number of initiatives in this area.
- The work of the Higher Education Academy. This was reviewed in 2008 and the report identified a number of issues and made recommendations to address them. We note that the Academy reported on its progress on implementing these in late 2009 and this will inform its future strategic direction.

### **8.2. Widening participation and fair access**

In 2006 HEFCE identified that institutional commitment to widening participation objectives was high, but that data collection allowing targeting of activities and measurement of impact relating to accessing institutions was weak. Other key points are that:

- A report by the NAO in July 2007 noted that the Council supported widening participation through funding arrangements, publication of performance data, and through sharing good practice. The authors were not able to identify conclusive evidence that amended funding arrangements had impacted on continuation rates.
- A 2008 evaluation of Lifelong Learning Networks concluded that progress had been made in helping institutions put processes in place to meet the overall objective of coherence, clarity and certainty of progression opportunities for vocational learners. However, the authors concluded that it was too early to state whether this actual objective had been met.
- A 2008 NAO report on widening participation profiled the broad investment of the Council in widening participation activities. The authors concluded that changes could not be directly linked to the efforts of the Council and Department owing to the multitude of other factors influencing participation. Recommendations included improving data collection in this area, particularly relating to groups about which little is currently known.
- An evaluation of the Disability Equality Partnership (DEP) in 2008 found that progress had been made, but recommended that HEFCE should work with the DEP to clarify its aims and develop a strategy for the sector. This led to the discontinuation of funding for the DEP as part of wider review and redevelopment of HEFCE's strategy in support of disability equality.

Finally, two evaluations relating to the work of Aimhigher were published in 2008, one focussing on the impact of summer schools and the other on collection and use of data to assess impact. Particular findings were that there has been progress in data collection but not all partnerships had systems to robustly track student progression.

### **8.3. Research**

Stakeholders are broadly positive towards the effectiveness of the Council's 'support for the enhancement of research'.

An investigation of the accountability burden associated with the 2008 RAE determined that the cost of the RAE to institutions had not reduced greatly since 2004. However, the report noted that the exercise was broadly valued by institutions, who associated it with such benefits as positive impact on research reputation and supplementing internal research management. The report made a number of recommendations including the 'internalisation' of the processes – supporting institutions' use of the process as an internal process.

HEFCE has also supported research through capital investment under the Science Research Investment Fund (SRIF). A 2009 review of the second round of this fund reported that project leaders in receipt of funding perceived that without funding a loss of income or personnel would have been probable. Additionality was also achieved in the areas of attracting extra funding and overcoming barriers to funding non-traditional research.

### **8.3.1. Development of the Research Excellence Framework**

The development of the REF exemplifies the role of HEFCE in the brokerage of government and sector perspectives. A case study is fully detailed in Appendix J. Key insights from the Council regarding this major consultative programme include:

- *“The criticality of meeting the differing needs of, and producing results that are acceptable to several constituencies: government (including devolved administrations); the funding bodies; senior and research managers within HE; researchers; users and commissioners of research; and the general public.*
- *Seeking to achieve this by deploying specific skills; in project management; in collecting, using and presenting structured information in both prose and statistical form; and in developing and operating the IT systems required to enable online submission by HEIs.*
- *Deploying important soft skills including building and working from a strong relationship of mutual trust and understanding with government... understanding the needs and aims of HEIs and of active researchers working in these and... understanding and responding to the needs and aims of a wide range of public and private organisations (research users).”*

HEFCE further observes:

*“Crucial to all of these has been our stakeholders’ perception that we understand them and share their aims to some extent – which in practice may mean finding different common ground with each; and that we will operate a complex process to the very highest standards.”*

The Council concludes that it has learnt and sought to absorb several key lessons as the development for the REF has proceeded:

- *“The importance of thoroughly testing proposed changes to the funding and assessment regimes especially if these are radical....*
- *Carrying the HE sector with us can be essential to achieving our aims... but requires very extensive spadework to build the necessary sense of shared ownership and shared purpose.*
- *The process has enhanced our knowledge of the international quality assessment scene; it has also greatly enhanced our understanding of some tools and processes that we have not adopted for present purpose but may need to do in the future....”*

### **8.4. Employer engagement and skills**

Support for ‘workforce development for business and other organisations’ is seen as an area of comparative weakness in terms of HEI stakeholder perceptions of HEFCE’s effectiveness (as reported by the independent surveys).

*“Support for workforce development for business and other organisations is seen to be the Council’s least effective activity within the HE sector, as just*

*34% perceive this to be effective (and more than this, 37%, perceive it to be ineffective). Similarly, support for links with business and community has, at least directionally, declined since 2003 – just over half (53%) perceive that such support is effective, whereas three-fifths (60%) did so in 2003.”*

**Ipsos MORI February 2008**

In 2006 HEFCE was tasked with leading radical changes in HE’s engagement with employers in the design and delivery of HE courses and to increase the numbers of learners in the workplace supported by their employers including through co-funding. This built on earlier work to support HE’s contribution to economic needs, such as the development of two year Foundation Degrees and support for graduate employability.

Since the Ipsos MORI survey a £148 million programme of work has been put in place. This is due to run over 2008-11 with a number of strands, including capacity funding for institutions to test the employer market for HE skills and adapt their systems, sector-based co-funding with Sector Skills Councils, linking HE to business advice services, and support for the HE sector on quality assurance and quality enhancement. The programme aims to deliver 35,000 additional co-funded entrants to HE by 2011 and build capacity for co-funded growth in the longer term to deliver the Leitch Report<sup>35</sup> recommendations for workforce participation in HE.

In 2009 HEFCE provided an additional £27 million to HEIs on a matched funding basis through the ECIF – see 8.5.2 for more details.

HEFCE’s ‘Employer Engagement’ team is at present led by an acting Head of Skills and comprises four policy officers. This structure reflects the team’s current focus on monitoring and project management activities. We recognise this to be a particularly challenging policy area and also that the role of Head of Skills has been one that HEFCE has encountered difficulty in filling (see also section 3). It is also the case that when HEFCE was tasked with driving forward employer co-funding the Council’s response proved to be effective in stimulating sector interest.

It would appear likely that the structure and focus of this policy area will require further development and attention as the Council assesses the implications of the HE Framework.

**Recommendation 7**

HEFC should examine both the resourcing and focus of its support for workforce development for business and other organisations.

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<sup>35</sup> Leitch Review of Skills. Prosperity for all in the global economy – world class skills, HM Treasury, (December 2006) [http://www.hm-treasury.gov.uk/leitch\\_review\\_index.htm](http://www.hm-treasury.gov.uk/leitch_review_index.htm)



## **8.5. Economy and society**

### **8.5.1. Case study – SIVS**

HEFCE's policy and associated programme of work relating to SIVS received positive review from both an external 2008 interim evaluation and from HEFCE's advisory group in this area. SIVS is the subject of a case study (See Appendix J) because it typifies much of HEFCE's policy work.

*“From time to time HEFCE has invested in particular subjects in support of the national interest... but an explicit policy framework to guide our approach towards subjects derives from an intervention in 2004 by the then Secretary of State.... HEFCE was asked to advise on “whether there are any higher education subjects or courses that are of national strategic importance, where intervention might be appropriate to enable them to be available... and the types of intervention which it believes could be considered.”...*

*The background and timing of the request were sensitive: variable fees had recently been introduced and, with it, a concern that a marketised HE system might not deliver the national interest in terms of students opting for science, technology and engineering and mathematics (STEM) subjects.*

*In response to this we convened a Board-level advisory group... with external representation from Vice-Chancellors and other stakeholders. The group was tasked with developing a policy framework to guide our approach to strategically important subjects. An internal project team – comprising directors, data analysts, and other colleagues across HEFCE – supported the advisory group.*

*Over the course of a year, policy was developed through critical challenge and discussion of evidence....*

*The advisory group's report, published in June 2005, set out the principles which have since guided HEFCE's approach towards subjects.... Interventions should be based on good evidence and support a market-led solution. The report identified five 'disciplines' which should be considered to be both strategically important and vulnerable....*

*We learnt that our investments were likely to deliver sound outcomes; that demand-raising activity was a factor in an upturn in interest for STEM subjects; and that HEFCE block grant, combined with other income streams, had enabled universities and colleges to invest in SIVS....*

*The SIVS advisory group has now reconvened with an extended remit to consider graduate supply and demand. This is a demanding agenda as interpretation of the evidence is a far from straightforward task.... A further review of the list of vulnerable subjects is planned for 2011, taking into account a range of factors which may impact on SIVS such as the independent review of tuition fees.”*

### **8.5.2. Case study – Economic Challenge Investment Fund**

ECIF is an example of where the Council has had to respond quickly to a changing environment with an imperative for action. Unlike, for example, the REF, the development of ECIF is characterised by the Council rapidly developing a policy intervention and deploying it with little or no sector consultation.

*“The ECIF was established to help universities and colleges develop and offer a range of support at short notice to individuals and businesses that had become vulnerable during the recession. Our ownership and control of the initiative within the broader government policy framework facilitated its rapid implementation....*

*As the economic situation worsened over the second half of 2008, it became clear that the higher education sector could play a role in helping particular groups....*

*As the year drew to a close, political interest in how higher education was responding to the economic situation increased....*

*While the sector has considerable resources, there is not necessarily significant capacity to respond at short notice, and existing infrastructure is not focussed towards helping the unemployed. We identified a need to provide targeted funding to facilitate a rapid response, and reprioritised existing resources in our Strategic Development Fund in order to establish the ECIF....*

*In view of the urgency, we implemented ECIF rapidly: there was no consultation with the sector. From initial brainstorming just before Christmas 2008, proposals were discussed and agreed by our Board in January, and we were able to invite HEIs and FECs [further education colleges] to submit proposals on 26 January 2009. Institutions were given only four weeks to develop their proposals and secure matched-funding. The deadline for submissions was end of February... and funding awards were... published 9 April.”*

### **8.6. Other areas of work**

Are there other policy areas the Council might address, perhaps through the provision of new guidance or research which is not already subject to specific programmes?

In consulting with the sector two specific instances were commonly cited (though the demand expressed was neither universal nor the view of the majority). These were in the areas of internationalisation of HE provision and the implications of the development of private providers.

### **8.6.1. International strategy**

HEFCE's current international 'strategy' (unpublished) is to:

*"Concentrate on those parts of the world where we can learn of developments that will help inform our policy formulation. To that end we concentrate on a set of strategic countries:*

- 1. Anglophone countries.*
- 2. Bologna signatory countries.*
- 3. Emergent economies (BRIC+<sup>36</sup>)."*

Until 2006 the Council was actively engaged with the international HE collaboration and development agenda. At that point it decided that such work was better performed (on behalf of the whole UK sector) by a UK wide organisation and the International Unit (based at Universities UK) was established.

As a result, the Council has reduced the use of resources *"from around £1 million of programme funds per annum to approximately half of that figure and reduced internal HEFCE resources from around 8 FTE to the current figure of around 2 FTE"*.

HEFCE has told us that senior managers remain actively engaged in international issues as part of their day-to-day work and also support specific programmes.<sup>37</sup>

The stakeholders who raised this issue were concerned whether the internationalisation of the activities of English HEIs is being adequately addressed within the Council's approach to policy formulation and assurance. We have seen evidence of Board members engaging on the subject of internationalisation on such matters as:

- The Bologna process.
- Widening participation in the context of international comparators.
- Learning and teaching as regards the QAA retaining its membership of the European Association of Quality Assurance Agencies.
- Comparative international policy in respect of enterprise and skills and employer engagement.
- Research, including example international practice in respect of research bibliometrics, and assessing impact.

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<sup>36</sup> Brazil, Russia, India and China.

<sup>37</sup> For example HEFCE's Deputy Chief Executive is Vice Chair of the OECD Institutional Management in Higher Education programme that seeks to develop management and governance arrangements in HE in OECD countries and the Chief Executive is a member of the 'Wellington' group of Anglophone countries that looks at major policy issues.

Given that both the European and International units that are hosted by UUK have just been independently reviewed it would appear timely for the Council to clearly express (through publication of its strategy) how it sees its role in this area both now and in the future.

### **8.6.2. Social enterprise and public/private provision**

This issue concerns the role for HEFCE in deliberating with the publicly funded sector the implications of the growth in social enterprises and its engagement with the growing numbers of private sector providers (as well as the growth of the latter as a distinct sector). The subject raises a range of topical issues, not least quality assurance where provision is being sub-contracted to private providers.

We suggest HEFCE consider further the relative priority to be accorded to this area of public policy interest in light of other competing demands upon its limited resources.

### **8.7. Conclusion**

HEFCE's capacity to support and inform the development of detailed policy is generally well developed and certainly valued by BIS and other agencies of government.

The sector (and for the most part government as well) believes the role of a broker to be crucial to the success of HE and, together with institutional autonomy, a significant enabler of a high performing and heterogeneous sector. In particular the Council is seen as having an important function in devising policy that maintains stability and avoids undue turbulence for the sector.

Specific instances of where stakeholders have identified HEFCE as having been effective in policy interventions include:

- The development of the REF. Consultees have been consistently positive in their views as to how the Council responded to various proposals from the Treasury and other stakeholders as to the composition of the RAE's successor, in trialling different models and in its consultative engagement with the sector.
- In addressing the issues surrounding SIVS both through the leadership role it took and the approach to policy formulation and execution.
- In its rapid development and implementation of the ECIF.

## 9. Administration of funding and implementation of public policy initiatives

This covers policy implementation including the design of methodologies and the capacity to manage initiatives originating in government or elsewhere.

### 9.1. Teaching funding

In 2009-10 HEFCE will distribute £4.7 billion as a recurrent grant in support of learning and teaching.

The process for calculating annual grant allocations is generally viewed positively in terms of effectiveness by the Council's HEI stakeholders.

HEFCE cites its consistently high performance in the following areas as evidence of effectiveness in administration of funding:

- Grant payments made consistently on time.
- Data changes requiring calculation of the grant are reducing.
- Consistently high accuracy of the grant calculation.

Whilst the relative cost effectiveness of formula-based funding for teaching is broadly recognised the increasing complexity of the model means it is increasingly less well understood outside of the Council itself.

*“HEFCE has a difficult job to deliver equitable formulaic funding and it does it pretty well. The principle is sound but over time what has been quite a simple concept has suffered from the accretion of ever more requirements, allowances and variables. In addition the Council is required to account for the significant variation on institutional characteristics. Consequently the model has become inherently complex and opaque to the non-expert. But you can be sure it's a lot more efficient to administer than contestable equivalent and its very complexity is a product of the sector's diversity and autonomy.”*

#### **Other government funder**

The matter of the model's complexity has been the subject of much comment in the course of this review. The Council's basic approach has remained unchanged since 1997-98 but *“its incremental development has made it increasingly difficult for HEIs to understand the link between inputs to the method and funding outcomes”*.<sup>38</sup>

Consequently HEFCE has initiated a comprehensive review (to take place between autumn 2009 and autumn 2011), the timing of which has been aligned with the fees and funding review initiated by the government in November 2009.

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<sup>38</sup> HEFCE circular letter 24/2009.

In the course of this review we also encountered consistently expressed concerns from many HEIs as to the alignment of the funding model with policy objectives concerning student completions.

The review of teaching funding clearly offers the opportunity to consider and address these issues and we recommend that it does so.

### **Recommendation 8**

The Council should (in its review of teaching funding) address the funding model's:

- Perceived complexity.
- Alignment with sector wide policy objectives and priority outcomes.

## **9.2. Research funding**

Public funding for research in English HE is administered under a dual support system. HEFCE provides a *“block grant to support research infrastructure and enables institutions to undertake ground breaking research in keeping with their own mission”*. Grants for specific projects and programmes are funded by the Research Councils and other funders.

In 2009-10 HEFCE is distributing £1.5 billion quality-related (QR) research funding.

The basis of research funding is a perennial source of sector-wide debate, often connected to the degree to which a particular institution or mission grouping will be impacted by a particular model. Perspectives as to the ‘fairness’ of the RAE and of the prospective outcome of the REF consultation are therefore variable. What is clear is that the ongoing process for consultation for the REF that is being pursued by HEFCE is generally well regarded.

## **9.3. Other funding**

### **9.3.1. Higher Education Innovation Fund**

HEIF supports knowledge transfer activities by building capacity and incentivising HEIs to work with business, public sector bodies and third sector<sup>39</sup> partners. In its current fourth round, it is due to run to 2011 with a total funding of £150m.

HEIF represents an example of how HEFCE has been able to contribute to cultural change in the HE sector, and also to achieve economic and social benefits. Funding through HEIF has grown significantly since its inception and the growth and scale of the fund, combined with the amount of documentary evidence, means we have selected HEIF as a case study.

The National Audit Office chose to profile HEIF as an example of innovation within its spring 2009 report on innovation across government and a detailed case study is offered at Appendix J.

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<sup>39</sup> Charities, voluntary organisations and social enterprises.

### **9.3.2. Special funding and earmarked capital**

In 2008-09 this amounted to £337 million for special funding and a further £902 million for earmarked capital grants (most of which is either for learning and teaching or for research).

A 2006 evaluation of changes introduced for the capital funding period 2006-08 determined that accountability in this area had reduced the burden across the sector by £2.2 million, approximately half of what it had previously been. The report noted that many institutions were requesting a 'single conversation' in relation to all their funding.

A 2008 review of the extent to which capital funding had achieved the expected outcomes was positive, stating that these had been 'substantially achieved'. However, the reviewers recommended that institutions in receipt of funds should be encouraged to complete more formal benefits-realisation activities and post implementation evaluation to retain learning and promote sustainability. We have been told by HEFCE that they expect HEIs to follow good practice in this area, as well as other areas of decision-making and estate management, when deciding how to invest public capital funding in accordance with the Capital Investment Framework<sup>40</sup>.

### **9.4. Data collection processes**

The majority of sector-wide data collections are administered by the Higher Education Statistics Agency (HESA)<sup>41</sup> with the principle being to minimise the number of organisations that collect data from HEIs.

HESA and HEFCE's formal relationship is set out in a service level agreement and is mostly conducted at an operational level with the Council's Analytical Services team. The relationship is perceived to be effectively managed by both parties and HESA considers HEFCE as being effective in translating policy need into data requirements.

HEFCE is primarily involved in data collection either when a collection is new (for example the initial HE-Business and Community Interaction survey) or where it judges that it is business-critical to its core processes (the Higher Education Students Early Statistics (HESES) return). We note that the Higher Education Regulation

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<sup>40</sup> The Capital Investment Framework is a new methodology to assess higher education institutions' (HEIs) approaches to capital investment.

<http://www.hefce.ac.uk/finance/fundinghe/capital/cif/>

<sup>41</sup> HESA is not a 'related body' in the sense that the QAA and others are. It is primarily accountable to HEIs (which are HESA's 'shareholders'). Thus, HEFCE does not have a presence on HESA's Board although the two bodies interact formally at a more strategic level via the Statutory Business Committee.

Review Group (HERRG) examined the balance of responsibilities and judged them to be optimal at that time.

The majority of the processes regarding HESA collections (including that recently initiated concerning TDA funded places) are operating well.

In exploring with HESA and HEFCE their respective preoccupations there would appear to be an opportunity to develop their strategic and operational relationship in order to:

- Secure opportunities for improving the processes and respective accountabilities for data collections for HE in FE.
- Address the likely increased emphasis in the coming period on the 'value-add' of data (including the greater interest placed from government – and outside the sector – on destination data of students etc, and longitudinal data on progression between school/FE/HE) as well as how the sector and other stakeholders such as students and employers can gain better 'value-add' from data collections, including for example from the HE Information Database.
- Continue efforts to reduce the burden of reporting required of HEIs receiving funding from the NHS. The present arrangement is that SHAs collect data in localised formats. Both HEFCE and HESA are keen to see the introduction of a cohesive national framework for collection.
- Address fairly widespread concerns regarding the utility of the staff return administered by HESA.

As HEFCE and HESA are already working together on a project to develop further efficiencies in these and other areas we conclude no formal recommendation is merited.

## **9.5. Conclusion**

HEFCE is for the most part an efficient and effective funder. The review of teaching funding has a number of challenges to overcome, not least as regards addressing the desire for greater simplicity in the model's configuration and operation – whilst at the same time recognising sector diversity. Resolving the inherent tension in achieving these two objectives will be challenging. Data collection processes generally work well though there are a number of opportunities for improvement and development that are being examined by HEFCE and HESA.



## **10. Regulation of the HE sector and accountability for public funding**

This includes HEFCE's systems of assessing, monitoring and managing the risk of institutions, both individually and across the sector, and also encompasses HEFCE's related bodies. Its effectiveness in performing these functions is important to the safeguarding of those public funds it distributes to HEIs but also in the confidence that it provides to other funders including donors and commercial lenders (see Appendix H for a detailed commentary on this particular interdependency).

### **10.1. Regulatory burden**

In his 2008 report the Chair of the HERRG recommended that the body cease to exist owing to the reduced regulatory burden upon the sector with responsibility for controlling regulation being passed to the sector. This reduction was attributed to a number of factors including *“a major reduction by HEFCE in the number of special funding streams and bidding processes, and the development of its ‘single conversation’ with institutions, together with Memoranda of Understanding between HEFCE and TDA, LSC and RCUK”*.

A review of the accountability burden on the sector published in early 2009<sup>42</sup> reported a 21% reduction in the costs of compliance with sector regulation requirements between 2004 and 2008. The review cited as contributing to reduced burden the importance of HEFCE's 'single conversation' approach with institutions; consolidating multiple accountability returns; and the replacement of some bidding schemes (HEIF and SRIF capital) with formula based allocation of funds.

However, the same report also stated that:

*“These findings combine a complex mix of changes in particular requirements and responses, and conceal wide differences in the experiences and reported costs for individual institutions. The conclusion that direct accountability costs have fallen is also at odds with the strongly held view of many HEIs that overall accountability demands and costs are no lower than in 2004 and are growing in many areas. These perceptions reflect multiple factors – the increased complexity of managing the diversity of HE services, the growth in general public regulations such as health and safety obligations, and the relative novelty of some management innovations such as TRAC [Transparent Approach to Costing] and FEC – in addition to direct experiences of sector-specific accountability.”*

### **10.2. Assurance and institutional risk**

It is clear that projected decreases in public funding allied with harsher economic conditions will challenge the resilience and sustainability of more HEIs than hitherto.

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<sup>42</sup> In 2008 PA Consulting carried out a project to assess the total accountability burden on the HE sector in England, using a sample of HEIs.

We have therefore examined:

- The continued utility of HEFCE's assurance mechanisms which were developed in a much more benign funding and economic environment.
- The resources available to HEFCE in executing its assurance functions.
- The premise of HEFCE's assurance function i.e. what is its core purpose?

HEFCE's capacity to track, assess and determine a proportionate engagement with HEIs that are either moving towards or that are already in the high risk category represents a key element of its regulatory and assurance activities. To perform this function effectively HEFCE requires 'line of sight' on the financial health of the institutions that it funds so that it may assess the degree of risk that they represent.

This is currently achieved by means of an institutional assurance and risk framework driven by three elements<sup>43</sup>:

- Annual accountability returns from institutions in December of each year (previously known as the 'single conversation') involving the concentration of the accountability process between HEFCE and HEIs into an exchange of documents<sup>44</sup> and dialogue during a specific period each year.
- Five-yearly assurance review undertaken by HEFCE officers that will normally consist of a one-day visit to each HEI.
- A programme of data audit.

### **10.2.1. *The appointment of HEFCE as a principal regulator for HEIs in England***

From early 2010 HEFCE will be appointed as the principal regulator for HEIs in England. As principal regulator, HEFCE will have a new duty under the Charities Act 2009 to promote compliance by charity trustees (HEIs' governing bodies) with their legal obligations in exercising control and management of the administration of the charity. Whilst it is intended that this role should complement existing regulatory roles HEFCE has been working with the sector (via the Charities Act HE Forum) and the Charity Commission to develop a proportionate framework for the regulation of HEIs as charities. This is presently the subject of sectoral consultation.

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<sup>43</sup> HEFCE dropped its requirement for a mid-year finance return in 2006 although where an institution's financial position could put HEFCE funds at risk the Council may request additional in-year financial updates.

<sup>44</sup> This includes a range of information sources and supporting processes including but not necessarily limited to HESES, Research Activity Survey, TRAC and Capital Investment Framework returns.

### **10.2.2. Internal audit reports**

There have been regular internal audits of the institutional and related body risk system, the most recent of which comprised a thorough and wide-ranging review which was completed in October 2009. We are also aware that HEFCE has commissioned an internal improvement project which is taking place at the same time as this study. The most recent audit report<sup>45</sup> concluded that:

*“The Council’s institutional and related body risk system is sufficiently robust for the financial and operating environment for which it was created. However, the current economic situation has created a number of additional challenges across the higher education sector, which the Council must address if the risk system is to remain fit for purpose.”*

### **10.3. Assurance and institutional risk service**

The HEFCE Assurance and institutional risk service reviews the systems of internal control, corporate governance and risk management at HEIs and HEFCE’s related bodies. It also monitors and addresses financial and other risks associated with HEIs and related bodies.

Until mid-2009, the Assurance service included internal audit, estates, secretariat and, latterly, the Knowledge Centre. These other activities were then transferred to a new governance team in order to free up Assurance management to focus on the increasing workload and demands from institutional risk work.

In the first few years of the Assurance service, there were deliberate attempts to reduce staffing in order to be more efficient, risk-based and light touch. In the last two to three years the risk environment and the increased emphasis on data assurance have seen the trend reversed and staffing numbers have marginally increased alongside an enriching of the grade mix. However, as illustrated below, overall resource levels in 2009 remain below those of 2003 when the service was first established.

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<sup>45</sup> HEFCE Internal Audit Service Internal Audit Review 08-10 ‘The institutional and related body risk system, A follow up of our 2007 review’ (October 2009).

**Figure 2 Assurance service resources**

Band/Year	2003	2005	2009
12 (Head of Assurance)		0.5	1
11 (Deputy Head of Assurance/Head of Institutional Risk)	1		2
10 (Assurance Consultant)	4	3	4
9 (Assurance Advisor)	2	1	1
8 (Assurance Advisor)	4.6	5	4
7 (Assurance Advisor)	2.6	1	1
6 (Assurance Advisor)	2		
Total FTE	16.2	10.5	13

Throughout the period, the Assurance service has been able to call upon contract support for its routine work and for institutions in difficulty. Several HEIs told us that they have experienced a poor service from such contractors (though we should emphasise that while the following quote typifies the feedback we received we do not know to what extent this is representative of wider sector experience):

*“We were first audited by a third party contractor several years ago. Their personnel lacked much of the necessary knowledge to do their work effectively. This year we were once again audited by a third party contractor (though we had requested HEFCE to deploy its own staff). Again, there were problems with the conduct of the review. It took three months to get the draft report – two months later than scheduled and the informal feedback session was poorly handled. All in all not a good experience.”*

**Academic registrar**

We have seen evidence that HEFCE is both aware of and is acting upon such feedback.

**10.4. Evolution in assurance practice**

In the past five years, HEFCE has gradually developed a more sophisticated approach to assurance. Most recently changes have been driven by the recognition of the more turbulent times faced by the sector (and have been the subject of increasing attention and deliberation by HEFCE senior management, the audit committee and full Board).

The basis of the assurance model remains predicated on:

- The principle of HEIs as autonomous, self governing organisations.
- A proportionate and risk based approach.

We have examined HEFCE’s resourcing of its Assurance function and its model for risk assessment. From our own analysis several issues arise.

#### **10.4.1. Defining and communicating levels of risk**

HEFCE “categorises institutions as ‘at higher risk’ or ‘not at higher risk’ and its risk assessments are based upon assessments of sustainability and accountability, in the light of each institution’s position in the market and its strategy”.<sup>46</sup>

The October 2009 audit report notes that the “Council has revised its definition of ‘at higher risk’ to reflect the need for consideration of longer term risk factors and that the new definition, which has been approved by the Council’s Chief Executive and its Audit Committee is as follows:

*An institution that faces threats to the sustainability of its operations either now or in the medium term, or has serious problems relating to propriety, regularity or value for money.”*

In practice each and every HEI occupies a constantly shifting position in the spectrum of the Council’s assessment of risk by reference to a range of criteria encompassed by HEFCE’s risk model. Consequently, the Council is able to form a view not only regarding those HEIs that are high risk (‘red’) but also those that are exhibiting indications that may be moving towards this categorisation (‘amber’).

The purpose of the risk model is to allow HEFCE:

*“to run different scenarios and to assess the impact of each scenario on individual institutions.... The Council has so far identified... xx ... institutions that it considers may fall into the ‘at higher risk’ category within two years.”*

The evolution of HEFCE’s financial assurance regime into a more distinctively risk-based model than hitherto is both necessary and timely. However, a minority of HEIs (and in particular members of their governing bodies) to whom we have spoken have told us they consider the definitional profile used by HEFCE in dealing with HEIs (‘at higher risk’ or ‘not at higher risk’) to be overly simplistic.

HEFCE has pointed out to us that it sets out in writing any material issues it considers institutions need to address as a result of its risk assessment and that the impact upon any individual HEI being categorised other than ‘not at higher risk’ can be significant (e.g. the banks may decide to reassess aspects of their commercial terms). The Council is also in the process of consulting the sector in respect of a revised Financial Memorandum. We suggest a more subtle and informative delineation could encompass:

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<sup>46</sup> To quote further from HEFCE’s guidance on ‘Accountability for HEIs, new arrangements from 2008’ paragraph 35: “At any one time there are very few HEIs in the higher risk category. Where an institution is deemed to be at higher risk it is generally because its combined financial and market positions require steps to be taken to ensure its long term sustainability. It can also be because the rate, scale and cost of strategic change are stretching the resources and management capacity of the institution. Institutions face risk all the time: the existence of risk is itself not a worry, but it does become of concern in certain contexts and when governors and senior managers do not give confidence that they are managing the risks effectively.”

- Not at risk.
- Moving towards higher risk/exhibiting some of the features of higher risk.
- At higher risk.

We note that an internal audit conducted in 2007<sup>47</sup> expressed a similar concern and we recommend HEFCE keep this issue under close review.

### ***Recommendation 9***

The Council should consider the adoption of a more informative and clearer expression of its risk assessment when communicating to HEIs.

#### **10.4.2. Audit practice**

HEFCE is primarily focussed upon testing HEIs' systems of governance and audit and assessing each institution's systems of accountability, informed by data from the annual accountability exercise.

This model is intended to be aligned with the principle of institutional autonomy and accountability. The question that arises is whether the flow of information from the single conversation and HEFCE's internal processes is adequately attuned to identify those HEIs the Council 'must worry about'.

We note that some of those HEIs that are presently at 'higher risk' are often suffering from 'chronic' difficulties. However, it is the institutions that suddenly arise unpredictably because of a confluence of factors that are often the more challenging and resource intensive for HEFCE to engage with. Hence, the importance of the risk model noted above and the use of relevant trigger points on those key factors that shape institutional resilience. At present these are:

#### *Financial*

- *Historic cost surplus/deficit.*
- *Cash flow.*
- *Liquidity.*

#### *Non-financial*

- *Student recruitment.*
- *Major strategic or operational challenges or projects."*

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<sup>47</sup> HEFCE Internal Audit Service, Internal Audit Review 09-08, A review of the institutional and related body risk system (October 2007).

### **10.4.3. Data audit**

The regularity of data audit has increased from every seven years, to every five years (2007-08) and from June 2009 to every three years. We understand this is because of what HEFCE judges to be systemic concerns with sector data integrity.

A majority of sector consultees to this review involved in this process recognised the problem but also ascribed it to two factors for which they judge HEFCE to be in part accountable:

- The underlying complexity of the formulaic funding model driving greater complexity in the processes required to be followed for making compliant data returns (especially for HESES, the return administered by HEFCE).
- Definitions used by HEFCE's Analytical Services Group for certain data sets (notably student completion).

We note that the former point will be directly considered by the present review of the teaching funding model.

As to the latter, we note HEFCE (in the course of this review) has now released new detailed guidance on its policy (<http://www.hefce.ac.uk/learning/funding/completion/>) the utility of which the Council will no doubt wish to assess in due course.

### **10.4.4. Assurance capability and capacity**

HEFCE has recognised the need to strengthen its Assurance service and has achieved this by:

- Appointing a Head of Institutional Risk.
- Some increase in operational staff.
- Making selective use of external advisors as contracted resource.
- The establishment of the SRT.

However, the forecast increase in institutions at higher risk and the mid-term public sector conditions are such that we are concerned as to whether this represents an adequate investment in capacity and capability:

- A close to 100% increase in the number of HEIs judged to be at 'higher risk' is currently forecast by the spring of 2010.
- There is a further forecast of a yet larger tranche of HEIs that may move into the 'at higher risk' category within the coming two years.

In addition:

- The Council may find itself having to be increasingly involved in facilitating institutional mergers (as signposted in the recently published HE Framework).
- The underlying framework of consensual engagement and brokerage between HEFCE and HEIs may become increasingly stressed with the risk that more institutions may adopt a more combative posture than hitherto.

Our concern is the adequacy of HEFCE's response to the potential impact of these changes in both volume of 'higher risk' HEIs and the conditions in which HEFCE may find itself having to discharge its Assurance function.

The impact on the Council will not be limited to only the Assurance service but will encompass all the functions involved in the cycle of risk assessment – the institutional teams, Finance and Analytical services.

Consequently we judge there is an imperative to perform a detailed workload and skills needs analysis to identify potential future resourcing requirements. This should also encompass an assessment of the need for providing key specialist skills (such as legal expertise in the application of HEFCE's new role as a charity regulator).

#### ***Recommendation 10***

HEFCE should perform a detailed workload and skills needs analysis to identify its potential future resourcing requirements in light of forecast increases in 'higher risk' HEIs.

#### ***10.4.5. London Metropolitan University***

The recent case involving HEFCE's extended and resource intensive engagement with London Metropolitan University has been a topical subject of comment for some stakeholders. However, the detailed handling of the case is not the subject of this review and HEFCE has already published (on its website) the results of a 'lessons learnt review' by KPMG, as well as much of the background documentation pertinent to the case. The university also commissioned its own review by Deloitte's and Sir David Melville, the former Vice-Chancellor of the University of Kent.

HEFCE has demonstrated to us and its internal auditors that it is progressing the recommendations made in the KPMG review.

One topic (that of HEFCE's powers in engaging with 'higher risk' HEIs) was raised regularly by sector consultees. Multiple institutional leaders and senior staff in HEIs expressed concern to us as to whether HEFCE's formal powers are fit for purpose, the general consensus being that there needs to be the capability to apply influence below that of funding withdrawal (which is generally seen as being the 'nuclear option' and consequently of last resort). It is notable that HEFCE's powers are also shaped by the legal status of individual HEIs.

However, the problem with views of this type is that they can be unduly influenced by perceptions (possibly ill-founded) as to the circumstances of a particular case. So whilst we support the argument for a review (which is already in hand and as a topic outside our terms of reference) we would trust that the adage 'hard cases make bad law' will be borne in the minds of those charged with its completion.

#### **10.5. Conclusion**

There is clear evidence to show that HEFCE's approach to financial/data assurance has become increasingly sophisticated in the past five years. The Council has also been a key contributor to the introduction and operation of a much more



proportionate regulatory environment (although other factors outwith HEFCE's direct control mean that the sector does not generally consider the overall burden to have substantially reduced).

The evolution of HEFCE's financial assurance regime into an increasingly subtle and distinctively risk-based model than hitherto is both necessary and timely.

Recent demands on the assurance and institutional functions have been significant and unprecedented. The workload of the Council in this regard will also rise further in the medium term. The evidence indicates that there will be a significant increase in the number of HEIs at serious risk by early 2010 with more HEIs being likely to fall into the 'higher risk' category within two years.

Whilst the Council has invested in some additional resource for its Assurance service we are concerned this will be insufficient for the task in hand.

Consequently we conclude that HEFCE needs to reassess and likely refocus the resources deployed on institutional assurance if it is to be continue to be able to deliver its regulatory responsibilities with the necessary effectiveness.

## 11. Related bodies

### 11.1. Remit and purpose

*“A related body is an organisation that is not a higher education institution or further education college, whose objectives are consistent with ours and with which we wish to have a formal relationship. A related body does not need to be a separate legal entity. In most cases, a related body will be in receipt of significant levels of HEFCE funding.”<sup>48</sup>*

HEFCE, together with the other national funding bodies, presently supports 13 related bodies with each having been established to deliver a specific shared service (e.g. JISC) or to address an area of capacity development (e.g. the Leadership Foundation for Higher Education (LFHE)) or for other reasons of public policy. Most have a UK-wide remit and HEFCE contributes along with the other national funding councils to their running costs. The total funding by HEFCE to March 2009 was £97,219,000<sup>49</sup> of which £55 million was for the running of the JANET network.

Of the current organisations, the Higher Education and Research Opportunities portal (HERO) is in the process of being dissolved and a new body (JISC Advance) is being set up (and therefore does not appear in the figure overleaf). Three of the bodies are not legal entities in their own right: JISC (for which HEFCE acts as the responsible legal authority in legal and contractual matters on behalf of the other funding bodies), Foundation Degree Forward (FDF) and the Research Information Network (RIN).

Those related bodies that are focussed upon ‘common good’ initiatives (e.g. promoting good leadership and equality and diversity) are usually established as a means to promote a specific agenda seen as beneficial to the overall performance of the sector and hence of economic and social benefit to the nation. They also usually involve visible investment and are thus generally subject to close scrutiny.

The basis for deciding the discontinuation of investment in any related body might be most pithily summarised as being either because they have not succeeded or because they have and therefore are no longer necessary. The problem often encountered, however, is that few organisations are able to contemplate their own cessation with equanimity and most will work hard to justify their continuation regardless of the underlying evidence.

Given the overall size of HEFCE’s investment in related bodies (not least in comparison to its own operating budget) and the challenge of withdrawing from an

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<sup>48</sup> HEFCE related bodies framework for corporate oversight and public accountability July 2008. The services of the Quality Assurance Agency were set up in 1997 as a statutory responsibility, and the Higher Education Statistics Agency came into being following the 1993 Government White Paper ‘Higher Education: A New Framework’.

<sup>49</sup> HEFCE annual report and accounts 2008-2009.

existing organisational investment we have been concerned to understand how HEFCE has sought to govern its relationships and assess their relative value.

**Figure 3** *HEFCE's related bodies*

Related Body	Initials	Conception	Date established as related body	P/A funding (£'000) 2008-09
British Universities Film and Video Council	BUFVC	Sector representative body for production, study and use of film and related media, 1948	2006	177
Equality Challenge Unit	ECU	Act as a strategic change agent supporting the embedding of equality and diversity in HE. PSI Report: 'Equal Opportunities and Diversity for staff in Higher Education', 2005	2006	1,149
Foundation Degree Forward	FDF	Supports development of Foundation Degree programmes. Government White Paper 'The Future of Higher Education', 2003	2004	4,589
Higher Education Academy	HEA	Provides curriculum and professional development and strategic advice to higher education. TQEC Report, 2002	2004	20,527
Higher Education Policy Institute	HEPI	Promotes information and evidence-based policy in HE, 2002	2002	227
Higher Education Research Opportunities	HERO	Official e-gateway to HEI and research institutions. UK 'HE Mall' feasibility study, 1998. Dissolved 2009	2001	536
Higher Education Statistics Agency	HESA	Central source for the collection and dissemination of statistics about publicly funded UK HE. Government White Paper 'Higher Education: A New Framework', 1993	N/A	448 (projects only)
JNT Association	JANET(UK)	Responsibility for UK Educational networking programme. Joint Academic Network, 1984; DfES e-learning strategy 'Harnessing technology', 2005	2004	55,731 (via JISC)
JISC Collections	-	Negotiates for quality assured electronic materials providing the HE community with a range of resources to support education and research	2006	5,889

Related Body	Initials	Conception	Date established as related body	P/A funding (£'000) 2008-09
The Leadership Foundation for Higher Education	LFHE	Promotes leadership and governance development in HE senior management. Strategic Framework, 2002. Government White Paper 'The Future of Higher Education', 2003	2004	1,189
Quality Assurance Agency	QAA	Defines academic standards and quality in the UK and safeguard public interests. Further and Higher Education Act, 1992. The QAA was set up in 1997, but its work was conducted by the predecessor body, the Higher Education Quality Council, 1994	N/A	5,386
Research Information Network	RIN	Manages the UK strategy for provision of research information. Research Support Libraries Group Report, 2003	2004	1,325

## 11.2. Oversight framework

The Council has a corporate oversight framework that applies to the related bodies and which is modelled on that for HEIs. This is comprehensive and provides the basis for both collective and individual governance and management arrangements. HEFCE also oversees a periodic review programme for each body (excluding JISC and HESA) that typically involves the appointment of third party consultants to undertake a review of the value, impact and value for money of the organisation in question (HESA is not funded by HEFCE and so it does not fall within the Council's accountability framework).

A recent internal audit report of HEFCE's approach to the oversight of its related bodies found that:

*"Although the funding provided to related bodies by HEFCE is modest in comparison with that passed to HEIs, the work of these bodies remains collectively important to the sector as a whole and to HEFCE.*

*The key finding arising from the review is that, although there is a clear framework and process for HEFCE's risk assessment of related bodies, there is a need for greater consistency in the assessment of the performance of each related body and how this is reported to HEFCE's senior management and Board."<sup>50</sup>*

<sup>50</sup> HEFCE Internal Audit Service report 18-09, Oversight of related bodies, July 2009.

**Figure 4** HEFCE's related bodies – schedule of independent reviews

Financial year ending	2005	2006	2007	2008	2009	2010	2011
BUFVC				Dark Blue			
			Red	Red	Red	Red	Red
Equality Challenge Unit	Dark Blue				Dark Blue		
		Red	Red	Red	Red	Red	Red
Foundation Degree Forward		Dark Blue					
	Red	Red	Red	Red	Red	Red	Red
JISC	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue		
	Red	Red	Red	Red	Red	Red	Red
JISC Collections							
			Red	Red	Red	Red	Red
JISC Advance							
					Red	Red	Red
JANET							
	Red	Red	Red	Red	Red	Red	Red
Higher Education Academy				Dark Blue			
	Red	Red	Red	Red	Red	Red	Red
HEPI			Dark Blue				
	Red	Red	Red	Red	Red	Red	Red
HERO	Dark Blue		Dark Blue		Dark Blue		
	Red	Red	Red	Red	Red	Red	Red
HESA							
	Red	Red	Red	Red	Red	Red	Red
Leadership Foundation for Higher Education			Dark Blue			Dark Blue	
	Red	Red	Red	Red	Red	Red	Red
QAA				Dark Blue			
	Red	Red	Red	Red	Red	Red	Red
RIN				Dark Blue			
	Red	Red	Red	Red	Red	Red	Red
	As Res. Libraries Network	Red	Red	Red	Red	Red	Red

*(Red = funding period, dark blue = review year, light blue = annual review)*

Our own conclusions concur with those of the audit report. HEFCE operates a robust and proportionate framework of governance and control. However, it can do more to embed an integrated cross-Council approach to related body oversight and interaction.

Up until recently neither the CEG nor the Board have been given a clear 'line of sight' as to the overall performance of the related body community and the Council's likely future strategy. As a result there has been limited strategic consideration given to such issues as:

- Related body consolidation.
- The consideration of the application of insights from the evaluation of one body to that of others in support of effective governance.
- Assessing progress in the completion of recommendations made from third party reviews.
- Opportunities for a co-ordinated and systematic consideration of shared services.
- The overarching value for money being achieved from the related body community and the basis for their continuation.

Consequently we recommend relevant steps be taken to address these issues.

### ***Recommendation 11***

HEFCE should strengthen the means by which its relationship managers interact and exchange information concerning their oversight of related bodies. This should be overseen by a senior manager accountable for the periodic briefing of the CEG and the Board.

### **11.3. VFM of related bodies**

We have encountered an increasing pre-occupation amongst consultees to the review as to the VFM being obtained from related bodies, fuelled, we have no doubt, by wider concerns regarding future public funding. There is the perception amongst some that whilst HEFCE has been a supporter of the ongoing creation of such bodies it is less willing to take the action necessary to withdraw support from those whose continuation is no longer merited. This is not actually borne out by the facts.

HEFCE has indeed withdrawn support from related bodies and jointly funded programmes in the period under review. The most notable example is that of HERO Ltd in the course of 2008-09. However, this is little known (not least as a result of HERO's own low profile in the sector).

Government (as reflected in the Secretary of State's letter<sup>51</sup> of 6 May 2009 to the Chair of HEFCE) is also interested in the running of related bodies and the VFM they

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<sup>51</sup> <http://www.hefce.ac.uk/news/hefce/2009/efficiency/letter.htm>

provide. Paragraph 9 of that letter states: *“I would like you to look critically at the funding you provide for bodies that do not directly deliver teaching and research.”*

HEFCE has clearly responded to this requirement, has deliberated it at Board level and is actively engaged with all of its related bodies, requiring them to consider their future strategic direction in light of the new funding paradigm.

We have some brief observations regarding three of the related bodies:

- JISC, owing to the scale and extent of its budget and programmes, may offer potential for realising gains in efficiency and effectiveness in particular in programme management and procurement.
- The Higher Education Academy was last independently evaluated in 2007 and has since embarked upon an ongoing programme of organisational development and improvement, taking into account the findings and recommendations of that evaluation. The Academy reported its overall progress in late 2009. Given the HE Framework directs HEFCE to work with the Academy to strengthen its profile in enhancing the quality of student learning experience this would appear a particularly timely opportunity to consider the Academy’s future strategic direction and resourcing.
- FDF<sup>52</sup> was last fully evaluated in 2006 (albeit there was a governance review in 2009). We have been told that it is forecast that it will have delivered on its core objective of 100,000 Foundation Degrees by 2010-11 (one year in advance of the original plan) and that it is also running under budget. This therefore appears to be a particularly opportune point at which to reflect on the question of its future strategic direction and funding.

#### **11.4. Conclusion**

HEFCE should take the opportunity to develop a more internally co-ordinated approach to its work with and support for related bodies which address the issues considered above.

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<sup>52</sup> FDF was established in 2003 as a national body to support the development and validation of high quality Foundation Degrees.

## **12. Promotion of good practice within higher education institutions**

This encompasses HEFCE's promotion of cost savings through shared services and good practice in procurement, as well as broader initiatives designed to support leadership governance and management in higher education.

### **12.1. Key funds**

#### **12.1.1. Strategic Development Fund**

HEFCE initiated the Strategic Development Fund (SDF) in response to a White Paper 'The future of higher education', with the aim of supporting change in HEIs and other HE partners. An initial review in June 2006 examined 46 of the 96 projects which had been funded to this point and concluded that *"it appears to work well and to be appropriate and proportionate for its task"* and that *"The SDF is characterised by a partnership development of proposals between HEIs and (often) HEFCE regional teams... they [HEIs] give strong support to the approach of the fund, which enables them to think about the strategic direction of their own institutions in the context of national priorities."*

The report stated that it would not be possible to comment explicitly on the additionality of the SDF for another four to five years.

#### **12.1.2. Leadership, Governance and Management Fund**

A 2007 review of the effectiveness of HEFCE's LGM Fund determined that *"The premise of HEFCE's investment and general approach to the scheme administration are well founded and represent an effective policy intervention."* In response to a number of applications to the LGM Fund being rejected in 2006 and 2007 HEFCE commissioned an analysis to identify any patterns and identify any learning points to improve the success rate. The report made a number of recommendations to improve the success rate of applicants, including the enhancement of guidance to potential applicants to ensure their understanding of the purpose of the fund.

#### **12.1.3. Third stream funding**

A 2009 review of third stream funding activities concluded that: *"Between approximately £2.9 billion and £4.2 billion out of £10.3 billion generated through knowledge exchange engagements between 2001 and 2007 can be attributed to HEFCE third stream funding, either directly or indirectly. However, this almost certainly underestimates the true impact as many of the outputs cannot be monetised."*



## **12.2. Supporting good practice**

### **12.2.1. Shared services**

At its commencement, the focus of shared services was upon the transactions of corporate services (HR, Finance etc). Future shared service efficiencies will be delivered through enhanced activity in existing shared services in the sector, and through new activity resulting from pilot projects as a result of feasibility studies.

HEFCE has since funded circa 35 feasibility studies examining the potential for a wide variety of different shared service scenarios across HE. Of these, somewhat less than 50% have the potential to be taken forward and the Council is now establishing a more direct oversight and governance structure for pursuing these in detail.

### **12.2.2. Human resource management**

One major area of investment overseen by HEFCE in the period covered by the review (and before) was that in the R&DS initiative which formed part of a wider strategic initiative to improve HRM in English HE involving an investment of some £330 million.

A case study setting out the background and achievements of the policy is at Appendix J. A summative review completed in 2009 concluded that:

*“R&DS has proven to be, on the whole, a well configured strategic intervention in a sector that by and large welcomed both its premise and execution. Institutions were for the most part able to make effective use of the investment it offered and the framework for its use was generally well aligned with the inevitably diverse needs of what is by definition a heterogeneous sector.”*

**Oakleigh Consulting Ltd (2009)**

### **12.2.3. Estates management**

HEFCE’s focus and approach to estates management has shifted substantially in the past five years.

*“In the past HEFCE has run a significant estates operation with as many as five qualified professionals involved in advising institutions, supporting institutional teams, developing good practice, informing risk assessment and assessing capital projects. Over the past few years our approach has changed with assurance from the Capital Investment Framework significantly reducing the amount of work involved in assessing projects. We also rely to a significant extent on sector bodies and others for good practice development often funded through the LGM Fund.”<sup>53</sup>*

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<sup>53</sup> Paper to CEG concerning HEFCE’s Estates Strategy 27 January 2009.

HEFCE now has a small Estates Policy team that is focussed on a range of initiatives including:

- Consultation on a carbon reduction target and strategy for HE in England. This will lead to guidance being published for HEIs on producing carbon management strategies and plans in early 2010.
- An evaluation of the Revolving Green Fund.
- Preparation for a sustainable development stream of the LGM Fund.
- Monitoring of multiple LGM funded projects and of actions included in the 2008 update to the strategic statement and action plan on sustainable development in HE.

In the next phase HEFCE's strategic focus on estates in the sector will likely encompass six key themes:

- Collaboration for advantage and influence.
- People capacity.
- Efficient use of space.
- Rethinking business models.
- Carbon reduction.
- Condition and investment levels.

The HE estates community has in the past been used to an engaged and hands-on approach from the Council and in part may have expectations of a similar form and level of interaction in the future. Although HEFCE will be developing a national framework strategy for estates, the fundamental basis of its engagement with HEIs has changed and the Council will need to manage sector expectations in this regard.

### **12.3. Conclusion**

HEFCE's work in support of the promotion of good practice has manifested itself in a range of generally complementary catalytic initiatives with a strong emphasis in the past five years upon leadership, governance, procurement, estates and human resource management and more recently upon sustainable development, carbon and shared services.

These are generally seen as being valuable contributions to sector-wide performance improvement and continue to garner the support of both sector and government consultees to this review.

## **13. Facing the future; the Higher Education Framework and other challenges**

*“The review is to consider HEFCE’s capacity to implement the vision set out in the government’s 10-15 year framework for the development of higher education.”*

### **13.1. Introduction**

This final section of our report briefly considers some of the likely implications arising from the main known developments in HE policy that will impact upon HEFCE in the next three to four years.

The developments we comment upon encompass:

- The HE Framework published by the government on 3 November 2009.
- The HE funding and student finance review announced on 9 November 2009.

### **13.2. ‘Higher Ambitions’ – The Higher Education Framework**

*“The economic focus of the Framework will be of particular benefit to the key growth sectors we identified in the New Industry, New Jobs strategy paper. We are also working with HEFCE to look at how we can develop the funding model to help the sector further increase its economic contribution. That may mean making a larger proportion of funding contestable. But that raises important and complex questions, and our thinking on it is still developing.”*

***David Lammy, speech to UUK’s Annual Conference 9 September 2009***

The framework sets out a vision for the future of higher education and the role of universities in “more challenging and competitive times”. We have reviewed the framework and discussed its implications with HEFCE officers. The Council has itself already commenced a detailed analysis of the likely impact of the framework upon its operations and future business plans.

#### **13.2.1. Discussion of impact**

A preliminary impact assessment is detailed in Appendix K. ‘Higher Ambitions’, if fully realised, will have for the most part a moderate impact on the work of the Council with some specific exceptions where the effect could be significant:

- The skills agenda with a focus on collaboration with Sector Skills Councils (SSCs) and the UK Commission for Employment and Skills (UKCES) will require HEFCE to invest both in its capacity in policy and in its prioritisation of relationship management with these organisations.
- The priority to be accorded to the development of a robust information management strategy for the sector, particularly focussed on supporting informed student choice, is already the subject of early work by the Council (it has let a contract for research study to look at information needs in 2010).

Whilst this remains a research project, the impact is low but the consequent programme to realise the implementation of a new framework for information management could be a major tranche of work.

- Changes to the present funding model(s) will require work across existing teams in terms of their design, sector consultation, refinement and, not least, their operation. Contestable funding requires systems of control and administration not necessary for formulaic systems. The precise implications for the Council could be significant depending upon the number and nature of such schemes.
- Enhanced or otherwise targeted funding for support for a growth in HE in FE provision may prove offer a particularly well directed route to investment.
- The role of HEFCE in supporting institutional mergers could be significant and not just in its own resources but in the sector's perception of HEFCE's involvement in 'planning'.

Given this assessment (and once the Council has taken the opportunity to consider the detailed implications of its latest grant letter from the First Minister – issued on 22 December 2009), HEFCE will need to review the skills and capabilities it will require to respond to the priorities it has been set by government and we make a recommendation to this effect.

#### **Recommendation 12**

HEFCE should review the skills/capabilities required to deliver future policy priorities (including but not limited to the HE Framework).

### **13.3. Independent review of HE funding and student finance**

The government announced the review of student finance on 9 November 2009, to be headed by Lord Browne of Madingley. It will:

*“... analyse the challenges and opportunities facing higher education and their implications for student financing and support. It will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers. Its primary task is to make recommendations to government on the future of fees policy and financial support for full- and part-time undergraduate and postgraduate students.”*

We note that the review is to take into account:

- The goal of widening participation.
- Affordability.
- The desirability of simplification of the system of support.

The latter point will be particularly relevant to HEFCE's future development as the impact of the review of fees on the Council as an organisation could be material. Any significant increase in fees above the present cap will alter the respective ratios of existing funding streams. 'Public' funding in the traditional manner may become

much less important to some HEIs and this in turn may impact upon HEFCE's role as principal funder.

The fees review is already stimulating debate within HEIs as to how the 'voice' (by which is meant views, needs and wants) of the student as 'consumer' will be encompassed by a model that on a national basis has hitherto been limited to the expression of feedback via the National Student Survey.

*"HEFCE is focussed on providers (the HEIs). It may not therefore be sufficiently creative in terms of student/employer constituencies."*

**Senior civil servant**

Also of note is that there will likely be implications for the present quality system if a greater proportion of HE funding were to go to institutions through student fees and the student support mechanism. If 'quality' were to be increasingly 'regulated' by the market (i.e. student demand) what does this mean for standards?

Our concluding observation would be that HEFCE should seek the opportunity afforded by the review to contribute its knowledge and insights into the implications of the administrative arrangements that may be attendant on the specific options being considered by the review.

### **Recommendation 13**

In its support to the HE funding and student finance review HEFCE should contribute its knowledge and experience in assessing the policy and administrative implications of the key options under review.

### **13.4. Conclusion**

Multiple policy priorities will impact on a number of different aspects of the Council's operations, in particular its work with UKCES and SSCs. Greater contestability in funding will require attendant systems of monitoring and control. HEFCE will need to review the skills and capabilities it will require to deliver government priorities in this context. The Council should also seek the opportunity afforded by the fees review to contribute its knowledge and insights into the administrative and policy implications of the different options under consideration.

## Appendix A. Terms of reference

### **Requirement**

The requirement for this review follows from a Key Performance Target (KPT) in HEFCE's 2006-11 Strategic plan.<sup>54</sup>

Its purpose is to examine the effectiveness of HEFCE's delivery over the past five years in four core functions, and to assess the overall performance and efficiency of HEFCE using existing evaluative evidence sources and benchmarking against other similar funding organisations.

HEFCE's four core functions comprise:

1. Policy development and advice to government and others, in areas such as learning and teaching; widening participation and fair access; research; employer engagement and skills; increasing the impact of the HE knowledge base on the economy and society; and sustaining a high quality HE sector.
2. Administration of funding and implementation of public policy initiatives (policy implementation includes design of methodologies, capacity to manage initiatives originating in government or elsewhere).
3. Regulation of the HE sector and accountability for public funding. This includes HEFCE's systems of assessing, monitoring and managing the risk of institutions, both individually and across the sector, and also encompasses HEFCE's related bodies.
4. Promotion of good practice within higher education institutions. This includes HEFCE's promotion of cost savings through shared services and good practice in procurement, as well as broader initiatives designed to support leadership, governance and management in higher education.

The review's terms of reference explicitly exclude considering whether these are the right functions or whether HEFCE as an organisation continues to be required.

It does address the capabilities and resourcing of HEFCE, including future requirements, its effectiveness in partnership working and its capacity to realise the government's latest framework for the development of higher education.

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<sup>54</sup> There has been a long-standing commitment that HEFCE would review its performance in 2009, and this was expressed in a KPT in HEFCE's 2006-11 Strategic plan. Since then the scope of the review evolved to take account of the development of the HE Framework by the Department for Business, Innovation and Skills, and the updated KPT is: *"To review our effectiveness and efficiency in consultation with our stakeholders, including in the areas of policy development and advice to others, policy implementation, accountability for public funding and the promotion of best practice within HEIs"*.

In particular, the review considers:

- The effectiveness of HEFCE's delivery of its core functions, and views about their value.
- Perceptions of capabilities and resourcing within HEFCE, including views on how demands may change in the future.
- How effectively HEFCE works in partnership with other UK government agencies and key stakeholders.
- Whether more or less devolution of HEFCE responsibilities to related bodies is desirable.
- Evidence about the effectiveness and efficiency of HEFCE, using previous formal assessments and benchmarking against comparator organisations.
- HEFCE's capacity to implement the vision set out in the Government's 10-15 year Framework for the development of higher education.

### ***Governance and approach***

The review was been commissioned on HEFCE's behalf, by a small independent Review Group of six members, chaired by Dame Sandra Burslem. The Review Group has considered the evidence gathered and reported in this research process, and will provide an assessment of overall performance and recommendations for improvements. It has been supported by a secretariat provided by HEFCE.

The review has been accomplished by means of a combination of desk-based review of relevant documentary sources and consultation with HEFCE's key stakeholders by consultants (Oakleigh Consulting Ltd) appointed by the Review Group.

Consultative discussions with stakeholders have been extensive and those with whom the consultants have engaged are detailed in Appendix B.

Consultees to the study have encompassed HEFCE staff and Board members, HEIs, bodies representing sectoral interests (including 'mission groups' and professional associations) and non-institutional stakeholders (such as related bodies and other funding agencies).

In total over 200 individuals (including 11 VCs directly and a further 15 collectively) from some 45 English HEIs and 35 other stakeholder bodies have contributed their perspectives to the review. Circa 30 HEFCE staff were also closely engaged, with some participating through interviews and others through consultative workshops.

The range of existing documentary evidence available to the review has also been extensive, comprising over 40 significant reports and papers. The consultants have studied these documents and drawn heavily upon their findings in the course of this review. A full list of sources is at Appendix C.

The consultants reported upon their progress to the Review Group fortnightly and the Group met as the review progressed in order to direct the study, consider emerging findings and sign off the final report.

Whilst the terms of reference set a clear framework for the review to inform their thinking the consultants have also drawn explicitly upon relevant elements of the Cabinet Office 'Capability Review Programme'<sup>55</sup> and the framework this offers for "assessing the capability of departments, identify key areas for improvement and set out key actions".

**Figure 5** *Members of Review Group and consultancy team*

<b>Review Group</b>	
<b>Name</b>	<b>Role/capacity</b>
Dame Sandra Burslem	Chair of Review Group, former Vice-Chancellor Manchester Metropolitan University and Civil Service Commissioner
Professor Bob Burgess	Vice-Chancellor University of Leicester and member of Review Group
Ed Smith	Deputy Chair of HEFCE's Board, Chair of LGM Strategic Advisory Committee and member of Review Group
Professor Tim Wilson	Vice-Chancellor University of Hertfordshire, HEFCE Board member and member of Review Group
Olivia Grant	Chair of Council, University of Newcastle and member of Review Group
Mark Addison	Civil Service Commissioner and member of Review Group
<b>Consultancy team</b>	
Andy Shenstone	Director and lead consultant
Mike Allen	Chairman
Pat Coulter	Director

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<sup>55</sup> See <http://www.civilservice.gov.uk/cross-government/capability/introduction.aspx>



## Appendix B. Consultees

The following people were interviewed by Oakleigh in the course of the review to date or have otherwise participated through their membership of fora and groups that were in communication with the consultants.

**Figure 6** Consultees to the review – HEFCE staff

Name	Role/capacity
<b>Chief Executive's Group</b>	
Sir Alan Langlands	Chief Executive
Steve Egan	Deputy Chief Executive and Director of Finance and Corporate Resources
David Sweeney	Director of Research, Innovation and Skills
John Selby	Director of Education and Participation
<b>Assurance</b>	
Paul Greaves	Head of Assurance
Ian Parry	Head of Institutional Risk
Richard Blackwell	Assurance Review
<b>Research</b>	
Paul Hubbard	Head of Research Policy
Graeme Rosenberg	Project Manager
Suzanne Wilson	Senior HE Policy Adviser
<b>Business and Community Engagement</b>	
Adrian Day	Senior HE Policy Adviser
<b>Finance</b>	
Ian Lewis	Head of Finance
<b>Governance</b>	
Ian Gross	Acting Head of Governance
Laurie Haynes	Assurance Adviser
<b>Organisational Development</b>	
Lucy Pow	Head of Organisational Development
Sarah De Vere	HR Manager – Employee Relations

Name	Role/capacity
<b>Analytical Services Group</b>	
Mario Ferelli	Head of Analytical Services Group and Funding
Jenni Barrett	Senior Analyst
Mark Gittoes	Head of Quantitative Analysis for Policy
Richard Puttock	Head of Data and Management Information
Vasanthi Waller	Senior Analyst
Marie-Helene Nienaltowski	Analyst
<b>Corporate Communications</b>	
Helen Albon	Communications Planning Manager
Cliff Hancock	International Manager
<b>Planning</b>	
Tom Sastry	Head of Planning
<b>Strategic Response Team</b>	
Davina Madden	Senior HE Policy Adviser
<b>Learning and Teaching Group</b>	
Heather Fry	Head of Learning and Teaching
Chris Taylor	Senior HE Policy Adviser
Alan Palmer	HE Policy Adviser
Liz Franco	HE Policy Adviser
<b>Leadership, Governance and Management</b>	
Alison Johns	Head of Leadership, Governance and Management
Andrew Smith	Head of Estates and Sustainable Development
Amy Norton	Senior HE Policy Adviser
<b>Widening Participation</b>	
Sarah Howls	Head of Widening Participation
Clair Murphy	Senior HE Policy Adviser
Jean Arnold	Senior HE Policy Adviser
Alex Lewis	HE Policy Adviser

Name	Role/capacity
<b>Employer Engagement</b>	
Paul Hazell	HE Policy Adviser
<b>Midlands and South Institutional Team</b>	
Ed Hughes	Regional Consultant
<b>North Institutional Team</b>	
Lis Edwards	Senior HE Policy Adviser
<b>London and East of England Regional Team</b>	
Derek Hicks	Regional Consultant
<b>ITS</b>	
Gillian Foxton	Acting Head of ITS

**Figure 7** Consultees to review – HEFCE’s Board and past members

Tim Melville-Ross	Chair of HEFCE Board
David Young	Former Chair of Board
Sir Howard Newby	Vice-Chancellor Liverpool University and former Chief Executive HEFCE
Ed Smith	Deputy Chair of Board and Chair of LGM Strategic Advisory Committee
Rob Douglas	Board member and Chair of Audit Committee
Dianne Willcocks	Board member and Vice-Chancellor York St John’s University

**Figure 8** Consultees to review – mission groups

Organisation	Name	Role/capacity
1994 Group	Paul Wellings	Vice-Chancellor University of Lancaster (Chair)
	Shirley Pearce	Vice-Chancellor Loughborough University
	Bob Burgess	Vice-Chancellor University of Leicester
	Michael Farthing	Vice-Chancellor University of Sussex
	Geoffrey Crossick	Vice-Chancellor Goldsmiths
	Christopher Snowden	Vice-Chancellor University of Surrey
	Paul Marshall	Executive Director, 1994 Group

Organisation	Name	Role/capacity
	Alistair Jarvis	Director of Communications, 1994 Group
Million Plus	Les Ebdon	Vice-Chancellor University of Bedfordshire
	John Coyne	Vice-Chancellor University of Derby
Russell Group	Helen Thorne	Head of Research Policy and Operations
	Alex Thompson	Acting Head of Policy for Innovation
University Alliance	Libby Aston	Executive Director

**Figure 9** Consultees to review – Non-HEIs

Organisation	Name	Role/capacity
Association of Heads of University Administration	Alison Wild	Pro-Vice-Chancellor (PVC) Administration at Liverpool John Moore's University
Association of University Administrators (National Forum)	Alison Robinson	Association of University Administrators
	Allan Bolton	General Manager, Leeds University Business School
	Tony Schorah	Registrar, University College Falmouth
	Giles Brown	School of Geographical Sciences, University of Bristol
	Susan Rhodes	Careers Adviser, University of Essex
	Malcolm Brown	Loughborough University/Conference of University Business Officers
	Christine Child	Head of Student Services Centre, London School of Economics and Political Science
	Sarah Dixon	University Southampton
	Christopher Hallas	Academic Registrar, University College London
	Bob Thackwray	LFHE
Matthew Andrews	Academic Registrar, Oxford Brookes University	

	Alison Mitchell	University of Strathclyde
	Maureen Skinner	Registrar, Thames Valley University
	Chris Lambert	JUK
	Jill Holliday	Manager Medical Research Council Centre for Transplantation, King's College London
	Michele Wheeler	Deputy Academic Registrar, University of the West of England (UWE)
	Tessa Harrison	Academic Registrar, UWE
	Andrew West	Director of Student Services, University of Sheffield
	Kate Dodd	Academic Registrar, York/Association of Managers of Student Services in Higher Education
	Julie Clark	Academic Registrar, Royal Veterinary College
	Bruce Nelson	Academic Registrar and Deputy Secretary, Edinburgh
	Janet Graham	Supporting Professionalism in Admissions
	Philip Cowling	Director of Estates and Facilities, Birkbeck University
Academic Registrars Council	Simeon Underwood	Chair of Academic Registrars Council and Registrar at the London School of Economics
Barclays Commercial Bank	Vernon West	Head of Public Sector
	Christopher Hearn	Head of Education
British Universities Finance Directors Group	Rosie Drinkwater	Finance Director, University of Warwick
	Margaret Laithwaite	Deputy Finance Director, University of Manchester
	Rob Williams	Deputy Finance Director, University of Oxford
	Bob Rabone	Director of Finance, University of Sheffield
	Malcolm Ace	Director of Finance, University of Southampton
	Andrew Murphy	Director of Finance, Imperial College
Charity Commission	Neal Green	Senior Policy Advisor

CUC	Sir Andrew Burns KCMG	Chair of CUC and Chairman of Council, Royal Holloway, University of London
Confederation of British Industry	Richard Wainer	Head of Skills
Department of Health	Nic Greenfield	Director of Workforce
Department for Business Innovation and Skills	Andrew Battarbee	Deputy Director, HE Shape and Structure
	Mike Hipkins	Director, Financial Support for Learners, BIS
	Stephen Marston	Director-General, Universities and Skills Group
	Martin Williams	Director of Higher Education, Strategy and Implementation
Department for Employment and Learning, Northern Ireland	Fergus Devitt	Director, Higher Education Division
	Billy Lyttle	Head of Higher Education Finance Branch
Equality Challenge Unit	Sue Cavanagh	Acting Chief Executive
Equality and Human Rights Commission	Anne Madden	Head of Education, Skills and employability Policy
Guild HE	Alice Hynes	Executive Secretary
Higher Education Academy	Paul Ramsden	Chief Executive
	Sean Mackney	Deputy Chief Executive
Higher Education Funding Council for Wales	Phil Gummett	Chief Executive
Higher Education Policy Institute	Bahram Bekhradnia	Director
Higher Education Statistics Agency	Alison Alden	Chief Executive
	Andy Youell	Director of Quality and Development
	Jane Wild	Director of Operations
	Jonathan Waller	Director of Information and Analysis
Housing and Communities Agency (HCA)	Amanda Lane	Head of Education
	Trudy Birtwell	Deputy Chief Executive HCA Academy
Joint Information Systems Council	Malcolm Read	Executive Secretary
Leadership Foundation for Higher Education	Ewart Wooldridge	Chief Executive
Learning and Skills Council	Rob Wye	Director of Strategy and Implementation, Young People's Learning Agency

Lloyds TSB Bank	Richard Watt	Director and Head of Education, Community and Government
	Keith Norman	Relationship Director Public and Community Sector
Monitor	Williams Moyes	Executive Chairman
National Audit Office	Angela Hands	Director Value for Money (Children, Education and Innovation)
Office For Fair Access	Sir Martin Harris	Director of Fair Access
Quality Assurance Agency for HE	Peter Williams	Chief Executive (to 30/09/09)
	Anthony McClaran	Chief Executive
	Stephen Jackson	Director of Reviews
	Jayne Mitchell	Director of Development and Enhancement
	Bill Harvey	Director of QAA Scotland
	Martin Johnson	Head of Corporate Affairs
	Douglas Blackstock	Director of Administration
Research Councils UK	Stephen Hill	Head of Strategy Unit
Scottish Funding Council	Mark Batho	Chief Executive
	Martin Fairbairn	Senior Director of Finance and Corporate Resources
Training and Development Agency for Schools	Jeremy Coninx	Funding and Market Management Director
	Tom Glover	Funding Operations
	Habte Hagos	Director of Finance
Universities and Colleges Admissions Service	Virginia Isaacs	Acting Chief Executive
Universities and Colleges Employers Association (UCEA)	Jocelyn Prudence	Chief Executive
UKCES	Chris Humphries	Chief Executive
UUK	Greg Wade	Policy Officer

**Figure 10 Consultees to review – HEIs**

<b>Institution</b>	<b>Name</b>	<b>Role/capacity</b>
Buckinghamshire New University	Ruth Farwell	Vice-Chancellor
	Derek Godfrey	Deputy Vice-Chancellor
	Trevor Nicholls	Pro-Vice-Chancellor (Campus and Facilities)
	John Cooper	Director of Finance
	Steve Dewhurst	Director of Business Planning
	Susan Jones	Director of Enterprise
	Ian Hunter	Director of Estates
Canterbury Christ Church University	Andrew Ironside	Strategic Director (Resources)
	Sue Piotrowski	Pro-Vice-Chancellor (Academic)
	Jan Druker	Senior Pro-Vice-Chancellor
Durham University	Steve Chadwick	Head of Planning
Hull College	Jim Whittingham	VP for Higher Education
	Julia Billaney	Higher Education Manager
	Cathy Rose	Planning and Funding
Leeds Metropolitan University	Steve Denton	Registrar and Secretary
	Ninian Watt	Chair of the Board of Governors
Newcastle College	Lakh Dhami	Group Director Curriculum, Newcastle College Group
	John Rowe	Director of Higher Education
	Ann Baxter	Higher Education Curriculum
	Andrew McKirgan	Management Information Systems
Teesside University	Cliff Allan	Deputy Vice-Chancellor
	Alan Oliver	Executive Director (Finance and Planning)
	Stephen Pearson	Deputy University Secretary
University of Birmingham	Gill Ball	Director of Finance
	Paul Marshall	Planning
	David Eastwood	Vice-Chancellor
	Lee Sanders	Registrar and Secretary
	Judith Petts	Pro-Vice-Chancellor, Research and Knowledge Transfer
	Nigel Weatherill	Head of College, Engineering and Physical Sciences



<b>Institution</b>	<b>Name</b>	<b>Role/capacity</b>
	Mike Gunn	Head of School of Physics
University of Cambridge	Jonathan Nicholls	Registrary
University of Essex	Wayne Campbell	Academic Registrar
University of Exeter	Jeremy Lindley	Director of Finance and Corporate Services
	Sean Fielding	Director of Research and Knowledge Transfer
	Liz Dunne	Education Enhancement
	Emma Stephenson	Outreach Manager
University of Hertfordshire	Philip Waters	Secretary and Registrar
	Sue Grant	Academic Registrar
	Terry Neville	Finance Director
University of Hull	Derek Newham	Strategic Development Director
	Peter Lutzeier	Pro-Vice-Chancellor (Learning and Teaching)
	Frances Owen	Registrar and Secretary
	Rachel Wiggans	Finance Director
	Rory Howie	Human Resources Director
	Professor Barry Winn	Pro-Vice-Chancellor (Research and Enterprise)
University of Leicester	Dave Hall	Registrar
	David Wynford-Thomas	Head, College of Medicine and Biological Sciences
	Paul Goffin	Director of Estates
	Richard Taylor	Director of Marketing and Communications
	Christine Fyfe	PVC Students
	James Hunt	Director of Finance
	Mark Thompson	PVC Resources
	Bob Burgess	Vice-Chancellor
	Elizabeth Murphy	Head, College of Social Science
	Martin Barstow	Head, College of Science and Engineering
	Sarah Hainsworth	Graduate Dean
	Kevin Lee	Acting PVC Research and Enterprise
University of Newcastle	John Hogan	Registrar
	Richard Dale	Executive Director of Finance

<b>Institution</b>	<b>Name</b>	<b>Role/capacity</b>
	Juliet Simpson	Head of Internal Audit
	Ella Ritchie	Pro-Vice-Chancellor (Teaching and Learning)
	Veryan Johnston	Executive Director of Human Resources
	Tony Stevenson	Pro-Vice-Chancellor (Planning and Resources)
	Clare Rogers	Director of Estate Support Service
	Douglas Robertson	Director of Business Development and Regional Affairs
	Steve Frater	Director of Planning
University of Surrey	Harri ap-Rees	Director of Strategic Planning
University of Sussex	Louise Nadal	Head of Planning
University of Warwick	Ken Sloan	Deputy Registrar
	Nicola Owen	Academic Registrar
	Yvonne Salter-Wright	Head of Governance
	Giles Carden	Director of Management Information and Planning
	Mark Bobe	Head of Business Engagement
University of Winchester	Joy Carter	Vice-Chancellor

## Appendix C. Source documents

Ref	Title	Author	Date
1	EFQM Levels of Excellence. Recognised for Excellence. HEFCE – Submission Document	HEFCE	2008
2	Survey of HEFCE's non-HEI stakeholders and HEFCE staff	Ipsos MORI	2009
3	Survey of HEI stakeholders	Ipsos MORI	2007
4	UK e-University	House of Commons Education and skills committee	Feb 2005
5	Summative evaluation of the Teaching Quality Enhancement Fund	Higher Education Consultancy Group and CHEMS Consulting	Nov 2005
6	Review of the 2005 HEFCE Strategy for e-Learning	Glenaffric Ltd	Oct 2008
7	Review of the 2008 National Student Survey process	Alan Brickwood and Associates	Dec 2008
8	2005-2010 CETL programme formative evaluation	Centre for Study in Education and Training/Institution of Educational Technology	Sep 2008
9	Interim evaluation of the Higher Education Academy	Oakleigh Consulting Ltd	Jan 2008
10	Widening participation: a review	HEFCE	2006
11	NAO report on HE retention 'Staying the course'	NAO	2007
12	Interim evaluation of Lifelong Learning Networks	CHERI	2008
13	NAO report on Widening Participation in HE	NAO	2008
14	Evaluation of Disability Equality Partnership	Oakleigh Consulting Ltd	2008
15	Aimhigher summer schools Analysis of provision and participation 2004 to 2008	HEFCE	2009
16	Evaluation of the impact of Aimhigher and widening participation outreach programmes on learner attainment and progression: interim report	NFER	2009
17	Review of HEFCE funding for research libraries	Sir Ivor Crewe	Mar 2008

18	RAE 2008 Accountability Review	PA Consulting	May 2009
19	Science Research Investment Fund: a review of Round 2 and wider benefits	Technopolis	May 2009
20	Evaluation of the New Technology Institutes initiative	Universitas	Mar 2006
21	Strategically Important and Vulnerable Subjects: an interim evaluation of HEFCE's programme of support	Evidence	Jul 2008
22	Strategically important and vulnerable subjects: Final report of the 2008 advisory group	HEFCE	Oct 2008
23	Sector impact assessment, Evaluating the implementation of the new approach to Sector Impact Assessment and assessing the quality of its outputs	PricewaterhouseCoopers	Jun 2009
24	Evaluation of the impact of public policy and investments in human resource management in higher education since 2001	Oakleigh Consulting Ltd	Jun 2009
25	Impact of changes to HEFCE capital funding arrangements between 2004-06 and 2006-08	PA Consulting	Feb 2006
26	Evaluation of Project Capital Round 3, 2004-2006	David Mason Consultancy	Nov 2008
27	Lessons learned from the London Metropolitan University Case	KPMG LLP	Jun 2009
28	Final report of the Chair of the Higher Education Regulation Review Group	HERRG	Jul 2008
29	Positive accountability	PA Consulting	Jan 2009
30	Interim Evaluation of the Leadership Foundation for Higher Education	Oakleigh Consulting Ltd	Jun 2006
31	Students and Universities;	Universities, Science and Skills Committee (11th Report)	Jul 2009
32	Independent Evaluation of HERO	Oakleigh Consulting Ltd	Jun 2008

33	Evaluation of the HEFCE staff recruitment incentive scheme 'golden hellos'; David Mason Consultancy; February 2006	David Mason Consultancy	Feb 2006
34	Initial evaluation of the Strategic Development Fund; SQW; July 2007	SQW	Jul 2007
35	Innovation across central government (including Case 5 – HEFCE's Higher Education Innovation Fund); National Audit Office, March 2009	NAO	Mar 2009
36	Analysis of institutional plans for round 3 of the Higher Education Innovation Fund	SQW	Jan 2008
37	Evaluation of the effectiveness and role of HEFCE/OSI third stream funding; PACEC and the Centre for Business Research, University of Cambridge; April 2009	PACEC and the Centre for Business Research, University of Cambridge	Apr 2009
38	Evaluation of HEFCE's investment in good management practice development in the HE sector	Oakleigh Consulting Ltd	Apr 2007
39	Analysis of unsuccessful applications to the Leadership, Governance and Management Fund	Nicola Dowds	Jul 2008
40	Report from HEFCE on VFM savings delivered in 2008-09	HEFCE	2009
42	Staff attitude survey 2008	HEFCE	Sep 2008
43	Staff attitude survey 2009	HEFCE	Oct 2009

## **Appendix D. Common abbreviations**

CEG	Chief Executive's Group
CETLs	Centres for Excellence in Teaching and Learning
CSR	Comprehensive Spending Review
CUC	Committee of University Chairs
BIS	Department for Business, Innovation and Skills
DEL	Department for Employment and Learning (Northern Ireland)
ECIF	Economic Challenge Investment Fund
EFQM	European Foundation for Quality Management
ELQs	Equivalent and Lower Qualifications
FTE	Full Time Equivalent
HEFCE	Higher Education Funding Council for England
HEFCW	Higher Education Funding Council for Wales
HE	Higher Education
HEI	Higher education institution
HRM	Human resource management
LGM	Leadership, Governance and Management Fund
LFHE	Leadership Foundation for Higher Education
LSC	Learning and Skills Council
REF	Research Excellence Framework
SFC	Scottish Funding Council
SIVS	Strategically Important and Vulnerable Subjects
TDA	Training and Development Agency for Schools
UKCES	UK Commission for Employment and Skills
VC	Vice-Chancellor

## Appendix E. Picturing HEFCE's role

HEFCE operates in a complex environment and in seeking to represent its role and how it operates beyond simply listing its activities and responsibilities we have created an outcome relationship map of the English HE sector. The outcomes (desired and achieved real world changes) are described in the ellipses and the relationships (usually taken to be causal) are identified by the arrows. The complexity of the picture reflects the richness of the environment in which HEFCE operates and we have drawn upon this analysis in shaping our lines of enquiry and in our analysis of HEFCE's performance.

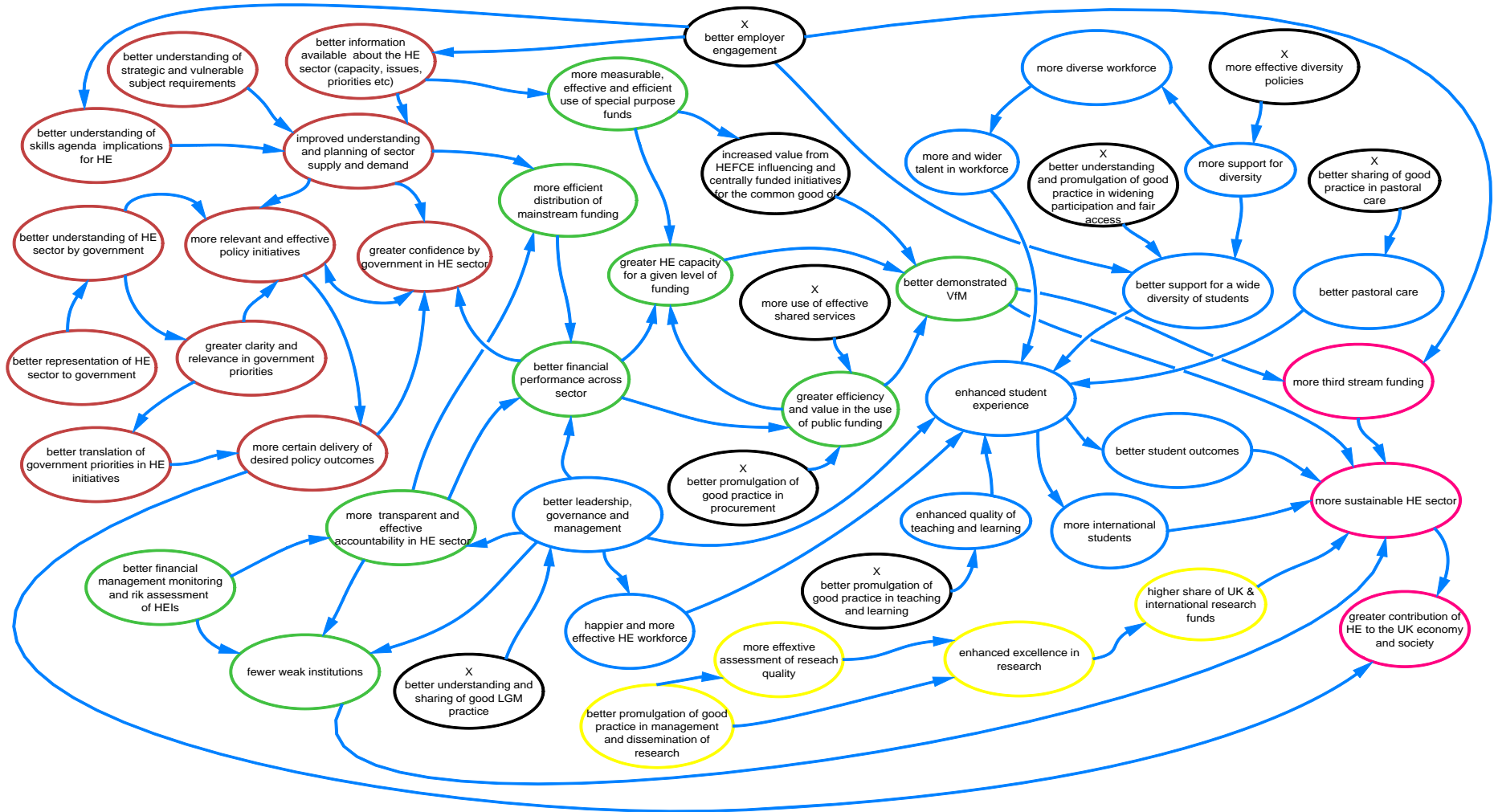
The success of the sector depends on maintaining effective interrelationships between the institutions, HEFCE and government. There are no simple levers to achieve a particular policy intention. Key points in interpretation of the map are:

- The big-picture end outcomes – the contribution the sector makes to the UK economy and an enhanced student experience leading to better student outcomes.
- The 'red group' of outcomes at the top left refers to HEFCE's role as an intermediary and buffer between the HEIs and government, interpreting ministerial intention to the sector and explaining the sector's position to government. Also included is HEFCE's focus on policy – influencing government in order to ensure that initiatives make sense and are achievable in the real world as well as suggesting and developing interventions where these are required.
- The 'green group' (centre left) relates to the pressure to maintain and enhance the sector's outcomes and reputation through monitoring and influencing the effective management of performance, risk and money. This is closely related to the task of providing an efficient and effective distribution of public funds to HEIs and a key outcome is the delivery of demonstrable value for money.
- The 'black group' is about the role of identifying and supporting good practice through a combination of influence and funding (sometimes directly and sometimes through other sector bodies). These support key common-good objectives such as improved governance, management and leadership; teaching and learning; and equality and diversity. The 'blue group' of outcomes is an important subset of these relating to 'people' – both staff and students – and leading to key outcomes of an enhanced student experience and improved student outcomes.
- The 'yellow group' across the bottom of the diagram summarises the roles related to research assessment leading to enhanced excellence in research and the implications that has for research funding.

- The 'big picture' outcomes of a sustainable and internationally competitive HE sector making a greater contribution to the UK economy and society are shown in red at the right.



**Figure 11 Outcome Relationship Map**



## Appendix F. The Board

**Figure 12** Board membership at commencement of review

Chair, Tim Melville-Ross, CBE (Chair to 31/12/11)	
Chief Executive, Sir Alan Langlands (from 01/04/09)	
Alastair Balls, CB	Chairman, Centre for Life
Rob Douglas, CBE	Business Advisor, Douglas Associates Ltd.
Professor Malcolm Grant CBE	President and Provost, University College London
Dame Patricia Hodgson	Principal, Newnham College, Cambridge
Sir Paul Judge	Businessman
René Olivieri	Former Chief Executive, Blackwell Publishing
Ed Smith	Deputy Chair, HEFCE Board; Senior partner PricewaterhouseCoopers (retired)
Professor Paul Wellings	Vice-Chancellor, University of Lancaster
John Widdowson	Principal, New College, Durham
Professor Dianne Willcocks CBE	Vice-Chancellor, York St John University
Professor Tim Wilson	Vice-Chancellor, University of Hertfordshire

The new Board members announced on 10 November 2009 are:

- Professor Madeleine Atkins, Vice-Chancellor of Coventry University.
- Professor Ruth Farwell, Vice-Chancellor of Buckinghamshire New University.
- Professor Shirley Pearce, CBE, Vice-Chancellor of Loughborough University.
- Anil Ruia, OBE, Director of Wrengate Limited.

In addition to its members, the Board has an assessor and four observers:

- Assessor – Stephen Marston (Director-General, Higher Education Directorate, Department for Business, Innovation and Skills).
- Observers - Mark Batho (Chief Executive, Scottish Funding Council), Catherine Bell (Department for Employment and Learning, Northern Ireland), Philip Gummett, (Chief Executive, Higher Education Funding Council for Wales) and Geoff Russell (Acting Chief Executive, Learning and Skills Council).

## **Appendix G. Staffing**

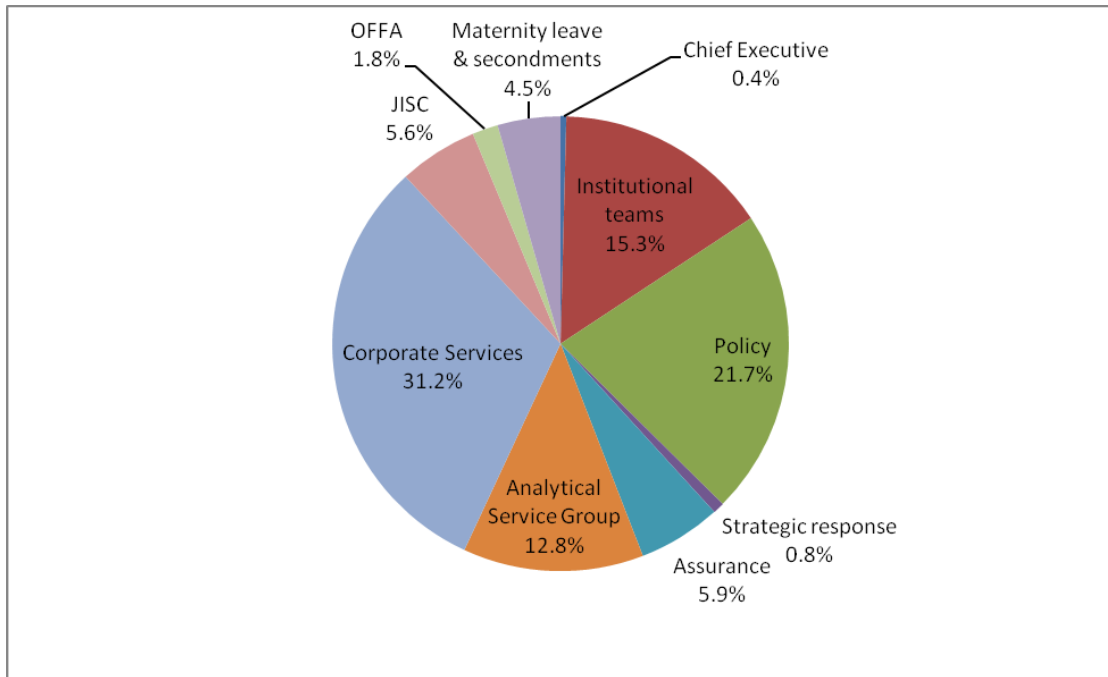
### ***Structure***

The present three-directorate structure (which came into effect during 2008) comprises:

- Finance and corporate resources, encompassing:
  - The institutional team for the Midlands and South England.
  - Assurance and institutional risk.
  - Analytical services.
  - Leadership, governance and management policy.
  - Finance.
  - Governance.
  - Corporate Communications.
  - Organisational development (encompassing planning and HR).
- Education and participation, encompassing:
  - The institutional team for the North of England.
  - Learning and teaching policy.
  - Widening participation policy.
- Research, innovation and skills, encompassing:
  - The institutional team for London and East of England.
  - Research policy.
  - Business and community policy.
  - Skills policy.

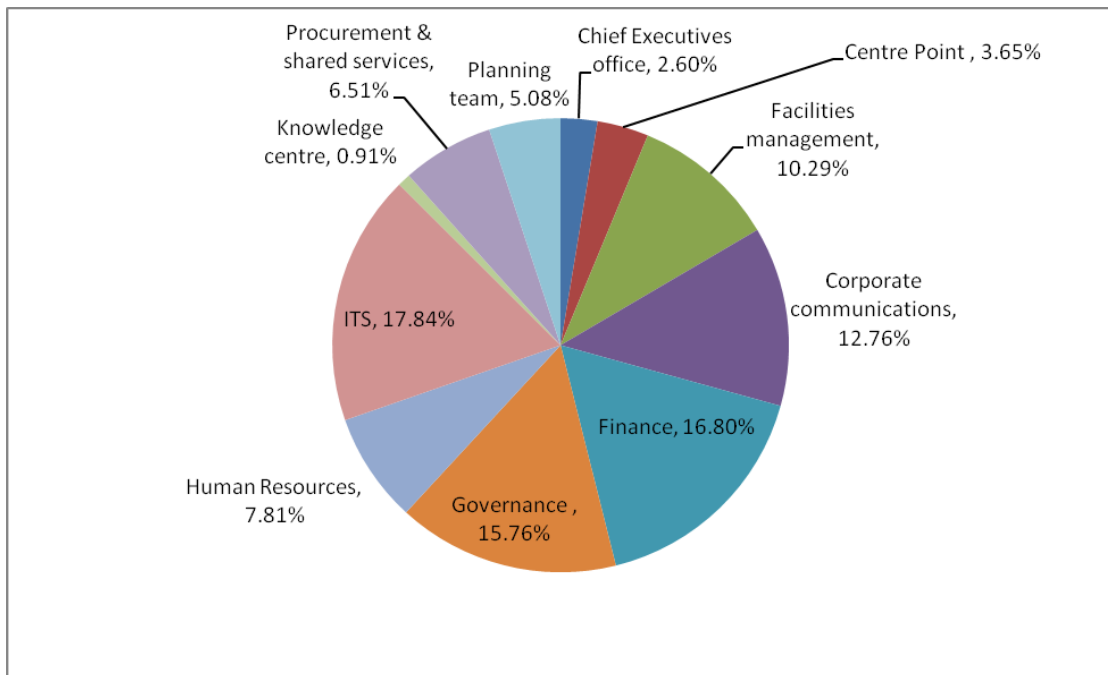
The distribution of staff across the major functional areas is summarised in the figure overleaf.

**Figure 13 Percentage HEFCE staff by functional area**



On initial examination, the proportion of staff in 'Corporate Services' (31.2%) appears high and so we have looked more closely at the activities these staff perform.

**Figure 14 Percentage HEFCE Corporate Services staff by functional area**



This breakdown indicates that the major tranches are in Corporate Communications, Finance, Governance and ITS. We have been told that of the circa 76 staff in the corporate services category circa 29 (37%) are involved in primarily externally facing

activities. We have therefore explored the detailed functions and activities of each of these teams with the Council and note the main findings below.

### ***IT Services***

HEFCE's IT Services team has 13.7 FTE staff and supports both external and internal customers. The majority of the infrastructure underpins services to both sets; for example, external facing systems such as the extranet and RAE/REF run on the same network as the internal desktop systems. Overall roughly 5.7 FTE supports programme work and 8 FTE supports internal customers.

### ***Finance***

The Finance team acts as an umbrella for a number of activities. The Deputy Chief Executive's role is counted here, as is the Head of Finance. Both posts have externally facing components. Of the total FTE of 12.9, at least 5 FTE could be said to have external facing roles.

The core Finance team has about 6 FTEs: this covers accounting; grant and running costs payments; payroll; budgeting and financial management information and reporting. It is increasingly involved with management information for decision making and with activity costing.

Two staff are involved with the management of capital programmes; specifically the Research Capital Investment Fund and the Teaching Capital Investment Fund, along with developing the Capital Investment Framework assessment process and being part of the team managing the Strategic Development Fund.

A further two staff provide the support for the Financial Sustainability Steering Group and the TRAC Development Group. These are sector-led bodies through which HEFCE is developing the increased use of activity based costing to inform decision making in the HE sector. The remaining resource is Executive Assistant support to the Deputy Chief Executive.

### ***Governance***

Governance is a team of four functions: internal audit, charity regulation, Knowledge Centre and secretariat. Of the combined FTE of 12.1 staff at least 7 FTE are engaged in external facing activity. All the functions help HEFCE meet certain statutory and other government-imposed obligations e.g. Freedom of Information Act, Public Records Act, Further and Higher Education Act 1992, Charities Act 2006, Public Interest Disclosure Act, Financial Memorandum, and the Security Policy Framework.

The Head of Governance provides ad hoc support to other functions, including directly for the Chief Executive, as has arisen in the London Metropolitan University case in recent times. He also chairs the Business Continuity Steering Group and the Security and Information Assurance Group, both on behalf of the Deputy Chief Executive. Internal audit helps to ensure the other functions work efficiently and effectively, and comprises just 1.4 FTE staff as most internal audit work is outsourced to two large accountancy firms.

In 2010 HEFCE will become a principal regulator on behalf of the Charity Commission in respect of the exempt charitable status of HEIs. This function is about how the Council engages with HEIs from the perspective of their charitable status and is carried out by an Assurance Consultant.

The Knowledge Centre team is largely located within the Governance function. There are 6.5 FTE. More than half its work is external facing, for the public at large as for the HE sector. Responding to Freedom of Information Act requests requires the work of at least 1 FTE. The Data Protection (DP) work extends beyond responding to requests to supporting external facing activity e.g. in ensuring that the National Student Survey meets HEFCE's DP requirements. Staff also work on records management and the information security obligations placed on all public bodies. Some of the information assurance work of this team will begin to have a direct impact on the HE sector in the near future as the Council will need to seek assurances from HEFCE's 'delivery partners' about how they manage information. Two FTE staff HEFCE's public-facing help desk, responding to general and detailed queries from any source. The head of the team is also responsible for handling whistle-blowing cases.

The secretariat function of 2.2 FTEs directly supports and services the HEFCE Board, Audit Committee, Chief Executive's Group and Institutional Risk Review Group. This last group has an explicit external facing function. It also provides general governance support for the Council's Strategic Advisory Committees. Much of the work is directly supportive of the external facing functions and is critical to the Council's reputation with the HE sector and government.

### ***Corporate Communications***

Corporate Communications has 10.8 staff (FTEs). Ninety per cent of work is externally related with respect to promoting or supporting external communications and relationships (this includes direct contact with stakeholders).

Key functions are managing HEFCE's relations with the press and media (1.5 FTE); production of publications (in print or electronically) (2 FTE); in-house design of publications and corporate material (2 FTE); managing the external web-site (1 FTE); international relations management (1 FTE); management of corporate events and stakeholder relations management including responding to requests (1 FTE); communications strategic planning and implementation (1 FTE); team administration and keeping staff informed of news and parliamentary business (1 FTE).

### ***Facilities Management***

This team of 7.4 FTE provides a wide range of services to HEFCE: reception of visitors and operation of the switchboard; reprographics, mail services; property asset management; buildings maintenance, space planning; environmental impact; responsibility for security and health and safety; and room bookings.

## **Procurement**

Procurement and Shared Services of 4.4 FTE has two main functions: the provision of an internal procurement and contract management service to the Council, and the development of shared services in the sector. The Procurement and Contract Management team provides procurement advice and support across all areas of non-pay expenditure and will manage Council wide contracts. The Shared Services team has a sector focus and not only has responsibility for shared services but also sector procurement policy development and sector efficiencies. At least 2 FTE staff are engaged in sector facing work.

### **2008 staff survey**

The 2008 survey found that HEFCE:

- Engaged its Board on the key issues concerning the strategic management of its people.
- Was clear about the organisational culture and leadership and management styles it wishes to secure and embed.
- Had given attention to and deliberated upon an optimal organisation structure.
- Had a structured and coherent approach to evaluating the effectiveness of its approach including the use of regular staff surveys through which trend analyses and external benchmarking are conducted.
- Had established clear and stretching objectives addressing the diversity of its workforce.

Quantitative evidence from 2008 indicated that for 'people satisfaction' (derived from both the staff and HEI stakeholder surveys):

- HEFCE was generally performing beyond the benchmark indicators of high performing peers (in 10 of the 12 question areas compared, for example, 88% of respondents agreed, or tended to agree, that people are treated with respect across HEFCE (benchmark 78%) and, taking everything into account, 80% are satisfied with HEFCE as an organisation to work for (benchmark 76%).
- HEIs generally considered the quality of HEFCE staff to be good and improving (80% in 2008 compared with 67% in 2003) and "strong majorities agree that HEFCE staff are accessible and that they have frequent enough contact with them".
- HEFCE's staff turnover (12% for 2008) was within median levels and its sickness rates (4.7%) were well below the public sector average.

The 2008 staff survey also revealed:

- Overall staff satisfaction is consistently higher than HEFCE's benchmark against high performing UK companies.

- Staff satisfaction with communication is consistently higher than HEFCE's benchmark used in this area.
- Staff satisfaction relating to opportunities for personal development exceeds HEFCE's benchmark in this area.
- HEFCE's staff turnover is consistently below the Chartered Institute of Personnel and Development (CIPD) labour survey benchmark.
- HEFCE's staff sickness absence is consistently below their benchmark taken from the South West CIPD survey.
- HEFCE's investment in training per employee exceeds their benchmark taken from the Personnel Today Benchmark.

Collectively we judge these to be indicative of a high performing organisation and third party derived evidence and analysis would appear to corroborate this:

- In 2008 HEFCE became 'Recognised for Excellence' by the EFQM and was awarded five stars – the highest level available under the award.
- HEFCE has retained its 'Investors in People' status for over 10 years.
- The Council won the London Excellence Award for 'People Involvement and Development' in 2007.

### **2009 staff survey**

The 2009 survey clearly shows continuing improvement across many of the key indicators. Results continue to exceed or meet the benchmark data from high performing companies in 16 of the 19 questions compared. HEFCE is now one percentage point away from meeting the other three benchmarks. The results for five questions now exceed the benchmark by more than 10 percentage points.

The Council also presented evidence that indicated it had undertaken a range of improvement activities in order to address those areas requiring improvement from the 2008 survey. We therefore examined the results of the 2009 staff survey as they relate to those from 2008 in order to understand what impact was achieved. This revealed that:

- Overall satisfaction in three teams was identified as relatively low in the 2008 survey – below the benchmark and 10% or more below the Council average: Finance (70%), LGM (60%), JISC (50%). However, overall satisfaction in each of these teams has improved dramatically in the 2009 survey: Finance (88%), LGM (90%), JISC (82%).
- Overall satisfaction with pay (42% compared to benchmark of 54%) gave cause for concern in the 2008 results. However, this has now increased to exceed the Council's external benchmark (59% overall satisfaction compared to an external benchmark of 54%).
- Confidence that 'the Chief Executive's Group will act on the results of this survey' (61% compared to benchmark of 70%) had increased to 67%.



As in 2008, the 2009 staff survey indicated areas where improvement will be required and a plan for so doing is in development.

Consequently we conclude that the staff surveys both tell a generally positive story and that based on past track record it would be reasonable to expect the Council to put in place putting robust measures to address those areas where improvement is required.

### ***Pay bands and remuneration***

There are 13 different pay bands in the Council linked to a wider Civil Service benchmarking system.

After each pay award HEFCE evaluates staff salaries against internal and external benchmarks. The internal evaluation concentrates on employee salaries and where they sit compared to their position at the end of the last pay award. The external evaluation is secured through comparisons with the government and private sectors as well as selected roles in HE. The most recent was completed in 2007 and the next such analysis will be completed in early 2010. The results of the 2007 survey were that HEFCE average salaries were some 3.3% behind the all-sector median market rate.

HEFCE also evaluates the effectiveness of the pay award against its internal objectives and over time. As previously noted HEFCE's annual staff survey asks employees two specific questions with regard to the pay and non-pay benefits and these show that employee satisfaction with pay has increased from 21% in 2001 to 55% in 2007 and 75% in 2009.

In determining pay (which most recently has tended to be for a period of two years), HEFCE seeks to apply the same principles to all pay bands. One consequence of this is that it restricts the ability to do particular things for one pay band and not others. As a result, if a material differential arises between the pay available for one band and other sectors from which staff may be recruited HEFCE may find itself being unable to offer sufficiently competitive terms of employment.

## **Appendix H. The commercial banks**

### ***Form of relationship***

A number of commercial banks provide services to the HE sector in England of which the two principal institutions (in terms of market share) are Lloyds TSB and Barclays.

HEFCE has adopted a semi-structured relationship with both institutions with a regular cycle of engagement focussed upon matters of mutual interest including:

- Relevant features of the Council's accountability relationship with institutions in particular the rules around borrowing consents and the indicators used. Of note is that (in discussion with the banks) revised rules on borrowing are being developed and are likely to be implemented in August 2010.<sup>56</sup>
- The wider context for public funding and outlook for HE.
- The banks' respective market positions and commercial terms available to the sector.

Very occasionally there may also be discussions regarding specific HEIs.

The banking sector representatives consulted for this study were generally positive about their engagement with HEFCE and the regulatory regime that it operates.

### ***Regulation and bank lending***

The banking sector considers HEFCE's comparatively broad range of responsibilities to be important to the effectiveness of its regulatory and assurance function. This is because the banks perceive that the responsibilities enable HEFCE to engage and influence the HE sector in subtle and indirect ways unavailable to simpler, less sophisticated and more narrowly focussed regulatory bodies typically found in other sectors.

Of particular note is the critical importance the banking community places upon the integrity of the regulatory and assurance framework that HEFCE administers. The

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<sup>56</sup> The present Financial Memorandum between HEFCE and HEIs sets the level beyond which commercial borrowing by HEIs must be referred to HEFCE. This is presently expressed as follows (see Annex F 'Consent for Financial Commitments' in the Model Financial Memorandum [http://www.hefce.ac.uk/pubs/hefce/2008/08\\_19/](http://www.hefce.ac.uk/pubs/hefce/2008/08_19/)):

*"An institution must get written consent from us before it agrees to any new financial commitments as follows:*

- *Long term commitments – where the annualised servicing cost (ASC) of its total financial commitments would increase to above 4% of total income.*
- *Short term financial commitments – where negative net cash exceeds 5% of total income for more than 35 consecutive days."*

operation of this framework, together with other important factors such as the sector's asset base, resilient business models, (relatively) stable and forecastable income streams and generally low 'gearing' means that HEIs are usually assessed as being among the least risky of any potential lender with which the banks may engage.

*"The Regulatory Framework is central to our view of the risk of lending to a university. We carry out a risk assessment for each institution which covers financial and non-financial features but underpinning that is the overall Regulation which has helped to ensure a zero-default history. If that Framework were taken away or (perceived to be) seriously weakened the issue would be, would banks lend and if so on what terms?"*

*In reality you could not look at such a change in isolation as there would need to be a fundamental change in management, governance, culture and operations to reflect this new environment, as well as, presumably, in the funding of the sector and individual universities. To put it frankly we would all be operating in completely new territory."*

#### **A commercial bank**

As a result the HE sector benefits from lending terms unavailable to the commercial sector as regards interest, security and repayment period.

*"The HE sector benefits in a number of ways compared to a general corporate client of a similar size. Firstly we take a more relaxed approach to security and project risk, where we are much more light touch. So this reduces significantly the level of professional fees they might pay on a project.*

*In addition we are much more willing to provide very long term loans compared to a typical five year deal in the corporate world. As a result it is difficult to make comparisons on the long term debt but if we compare similar structures then the margin advantage would be in the range of 100-200bps (100ths of a per cent i.e. 100bps=1%). This also leads into cheaper arrangement and non-utilisation fees."*

#### **A commercial bank**

The facilities generally available to HEIs in England are particularly important to supporting the growth and development of a heterogeneous sector including those institutions with otherwise limited assets. The importance of the regulatory and assurance framework operated by HEFCE is such that were that confidence in it to be substantially undermined this would be deemed to be an 'event of default' requiring the terms in the banks' HE loan-books to be substantially renegotiated.

*"Generally speaking, in an unregulated sector banks are likely to adopt a more 'corporate' style model/terms/pricing. Some universities might find it difficult to borrow at all or only limited amounts given their history, financial strength etc. For those that can justify the borrowing it is likely to be shorter term lending (as for most corporates) so more challenging to finance capital projects unless the university adopts a balance sheet (rather than project finance) approach to its funding. This might lead to the greater use of the*

*capital markets (Bonds and Private Placements) but I suspect it would continue to be restricted to those universities considered to be exceptionally strong.*

*In those circumstances the pricing could on the one hand increase significantly to reflect the change in risk and on the other be offset by the current lower cost of shorter term borrowing. So we would be likely to see some greater differentiation in the pricing to reflect the diversity of the sector and of the risk – something that has generated very mixed views in the current regulated sector. In fact I would suggest we might see some ‘polarisation’ with some universities continuing to be considered relatively low risk while others would find it difficult to borrow or see the margins increase significantly. For the latter I would not be surprised to see the pricing doubling or more.”*

**A commercial bank**

The key message is that maintaining the banks’ confidence in the regulatory regime operated by HEFCE is very important.

## **Appendix I. Non-HEI stakeholders**

This appendix outlines the perspectives and relationships with HEFCE of a range of non-HEI stakeholders.

### ***National funding councils: Scotland, Wales and Northern Ireland***

The Scottish Funding Council (SFC), Higher Education Funding Council for Wales (HEFCW) and the Department of Employment and Learning in Northern Ireland (DEL NI) consider their relationship with HEFCE to be highly effective and productive. All three agencies perceive HEFCE as a high performing organisation and consider the Council's approach to stakeholder relationship management to be proportionate and well executed.

The SFC historically had to take many policies developed in England and attune them for implementation in Scotland. Since devolution this is increasingly less the case. The interdependencies of the two sectors remain high and consequently key policy developments in England are watched carefully – especially (though not exclusively) the debate on fees.

HEFCW judges that it gets good value out of the relationship and that HEFCE generally takes care to ensure that the Welsh context is adequately addressed in any of the national initiatives for which it has the lead (e.g. REF). Engagement at HEFCW Board meetings is also good and effective. Senior HEFCE staff are perceived as understanding and being sensitive to the Welsh policy context.

DEL NI covers both policy and funding and since devolution has increasingly had less reliance on HEFCE, in particular for policy development, as it has developed its own capabilities. Northern Ireland is now in the process of developing its own HE strategy (which is being led by Sir Graeme Davies, HEFCE's first Chief Executive and currently Vice-Chancellor of the University of London). This will likely accelerate the process of HE policy being formulated from Northern Ireland. This will require HEFCE to maintain (as it does with Wales and Scotland) a close watch on parallel policy developments in so far as they are congruent or divergent from those within England.

DEL NI will continue to draw upon HEFCE for various services under the terms of its Service Level Agreement including:

- Advice and input on the detailed formulation of the grant letters to the two NI HEIs.
- Conducting the 'single conversation' with the two NI HEIs (DEL NI sees continued value in this being done by HEFCE as it reinforces the independence of the process).
- Evaluation of capital funding bids from the two NI HEIs. Of note is that the regulatory environment in NI is not that of England.

### **Research Councils UK**

The community of research councils interacts with HEFCE in three main areas of policy:

- In respect of research: clearly the Research Councils are major stakeholders to the development of the RAE and its successor, the REF.
- In respect of certain funding streams, in particular, though not exclusively, the HEIF.
- In connection with public and community engagement.

Overall this network of relationships appears to be well founded with a high mutual regard. HEFCE is particularly seen to have made significant and generally effective efforts to consult on the development of the REF, where it has behaved (and this is seen positively) more as a leader of debate and deliberation than simply as the administrator of the process.

This is seen as a particular example of HEFCE demonstrably adding value in a matter of important public policy through synthesising the perspectives and needs of all stakeholders in arriving at a set of propositions for sector consultation.

### **Governing bodies**

Overall the CUC considers (with some important caveats noted below) that HEFCE discharges its core functions effectively and is well resourced to be able to continue to do so. In this respect the CUC particularly highlighted the following aspects of HEFCE's role:

- The development and maintenance of a fair, transparent and broadly stable funding regime for teaching and research that nevertheless allows for changes over time.
- Adequate prior consultation on proposed changes to its funding policies and methods and transitional mitigation of the impact of significant changes that allows institutions time to adjust to adverse change.
- The ability to provide confident and impartial advice to government on a wide range of policy issues based on a reasonably extensive understanding of higher education.

The CUC cited HEFCE's work on consulting over the future development of the REF as being of particular note.

Where the CUC does have concerns it is with regard to the pace at which certain changes are implemented that do not originate from within HEFCE itself (two recent examples cited by the CUC are ELQs and the 'entrant cap').

Whilst the CUC recognises that HEFCE may not in such circumstances be able to affect the decision or delay its implementation, it does believe that HEFCE needs to be *"more agile and responsive in providing definitive advice and guidance to the sector on the implementation of such decisions – the recent numbers cap being a*

*case in point, where guidance lagged the initial policy announcement at a critical time and is still unclear in some respects”.*

The CUC considers that it enjoys a generally good relationship with HEFCE characterised by dialogue and mutual respect. Contact is maintained through regular liaison meetings and the Embedding Good Governance Steering Group. There have been a number of valuable joint initiatives and the CUC has been the conduit through which some HEFCE governance funding has been channelled with a view to promoting effective governance.

Individual chairs value the way in which HEFCE accounts to individual stakeholders through its Annual Meeting. In addition, a University Chair sits in membership of HEFCE’s LGM Strategic Advisory Committee.

However the CUC considers it surprising, *“given the accountability and assurance responsibilities placed upon governing bodies by HEFCE and their ultimate responsibility for the conduct of institutions, that not a single University Chair sits on the HEFCE Board”.*

The CUC also notes that *“As we move into a time of greater fiscal stringency, with the possibility that more institutions will find themselves in financial difficulties as they try to reconcile the demands of government and funding bodies with the reality of their own finances and aspirations, we believe that it would be in the interest of the sector as a whole for HEFCE to reflect on the way in which it can better interact with governing bodies and the right balance to be struck between support and criticism.”*

The CUC considers that HEFCE discharges its core functions efficiently – particularly by comparison with analogous arrangements in the further education sector.

The existing structural arrangement whereby HEFCE provides an expert ‘buffer’ between government and individual institutions is an important and valuable characteristic of the current arrangements. The CUC strongly advocates that these arrangements remain in place leaving government, after consultation, to determine overall policy and funding for the sector and HEFCE to offer initial advice and deal subsequently with implementation and institutions to deliver the outputs.

As far as the CUC is concerned, it has found that its role in the sector has evolved considerably in recent years as it has sought to respond to the pressing challenge from all the funding councils and government to help raise the quality of university governance across the country. It considers that its efforts to improve the understanding by governing bodies of their key role in each institution and of the responsibilities they carry for the effective running and future direction of their institution would only have been possible with the support and encouragement of HEFCE, with which it has developed close working links.

### ***Confederation of British Industry***

The Confederation of British Industry (CBI) has a developing relationship with HEFCE and views it as being soundly based. Its recent policy publication ‘Stronger Together’ marked a major step for the CBI in engaging in the debate on the future role of HE. The CBI is not directly interested in the role of HEFCE *per se* but it does have an interest in those policies it deems key, especially in graduate employability,

STEM and skills. It is very likely that a continuing and increasingly regular dialogue will be merited in future.

***Trades Unions***

The sector's trades unions do not regularly engage with HEFCE as the latter does not have a direct role in respect of employer/employee relations (these are led by UCEA). HEFCE does take a strategic interest in the development of the HE workforce and is preparing a framework document to be published in early 2010 for the sector that directly addresses this subject. On this, the unions have told us they would welcome a continued and regular engagement as consultees and key stakeholders.



## **Appendix J. Policy case studies**

The purpose of the following five case studies is to illustrate HEFCE's work in its role as a broker between government and the sector and in particular as regards the development and implementation of a specific policy intervention.

They have been prepared by HEFCE officials in response to a request from the review team and consequently are written in the voice of HEFCE.

Each case study encompasses:

- An explanation as to the genesis of the policy and why it was considered necessary.
- An outline of the underlying principals of the policy and the consultative process and/or attendant governance arrangements (e.g. sector representative steering group etc) that were put in place to effect its design and execution.
- Lessons learnt from the development of policy and examples of changes/refinements/enhancements.

The impact of the policy or emergent impact where there is evidence that may be duly cited – both in quantitative and qualitative terms where possible.

The case studies cover:

- Strategically Important and Vulnerable Subjects (SIVS).
- The Higher Education Innovation Fund (HEIF).
- Economic Challenge Investment Fund (ECIF).
- The Research Excellence Framework (REF).

In addition, we have drawn upon a recent impact study to illustrate HEFCE's work in promotion of good practice in the area of HRM.

## **Case study 1: Strategically Important and Vulnerable Subjects**

*Drawing on external expertise, analysis and evidence, the SIVS policy area typifies HEFCE's approach towards policy development and implementation.*

*From time to time HEFCE has invested in particular subjects in support of the national interest. The Chinese Studies initiative of 2000 is a good example of this. But an explicit policy framework to guide our approach towards subjects derives from an intervention in 2004 by the then Secretary of State for Education and Skills, Charles Clarke. HEFCE was asked to advise on "whether there are any higher education subjects or courses that are of national strategic importance, where intervention might be appropriate to enable them to be available... and the types of intervention which it believes could be considered". A letter included a list of subjects the government considered to be strategically important.*

*The background and timing of the request were sensitive: variable fees had recently been introduced and, with it, a concern that a marketised HE system might not deliver the national interest in terms of students opting for STEM subjects.*

*In response to this we convened a Board-level advisory Group led by Professor Sir Gareth Roberts with external representation from Vice-Chancellors and other stakeholders. The group was tasked with developing a policy framework to guide our approach to strategically important subjects. An internal project team – comprising directors, data analysts, and other colleagues across HEFCE – supported the advisory group.*

*Over the course of a year, policy was developed through critical challenge and discussion of evidence; leadership from Chief Executive and Directors; and advice and guidance from the external group (importantly, HEFCE members of advisory groups are invited for their expertise and the national interest rather than as representatives of any particular interest).*

*The advisory group's report, published in June 2005, set out the principles that have since guided HEFCE's approach towards subjects. It concluded that the English HE system's success is founded on the ability of autonomous institutions to respond to changing circumstances. The report recommended that "HEFCE should guard against an overly interventionist role" and focus on "subjects which are both strategically important and vulnerable". Interventions should be based on good evidence and support a market-led solution. The report identified five 'disciplines' that should be considered to be both strategically important and vulnerable: STEM; 'area studies' and related minority languages; modern foreign languages; land-based studies; and quantitative social science.*

*Since 2005, policy has continued to develop through work with external advisory groups, drawing on research and evaluation: a review of land-based studies chaired by Professor Maggie Gill is an example of this. An interim evaluation of HEFCE's investment in SIVS also informed policy development. We learnt that our investments were likely to deliver sound outcomes; that demand-raising activity was a factor in an upturn in interest for STEM subjects; and that HEFCE block grant,*

*combined with other income streams, had enabled universities and colleges to invest in SIVS.*

*Within HEFCE, an important part of the role of the project manager is to ensure SIVS policy articulates with and is integrated within developments across HEFCE: for example, the implementation of the ELQ funding changes. Stakeholder engagement is also extremely important. We work closely with others such as the UK Commission for Employment and Skills and the CBI's Inter-Company Academic Relations Group.*

*We continue to rely on evidence when considering whether or not a subject is vulnerable. Interested parties will make their views known, but we must take a holistic view about provision across England and within regions. A discipline that can no longer be considered vulnerable will see a managed withdrawal of additional support – as has been the case with land-based studies.*

*The SIVS advisory group has now reconvened with an extended remit to consider graduate supply and demand. This is a demanding agenda as interpretation of the evidence is a far from straightforward task. In terms of resource, HEFCE is currently able to provide 1.3 FTE dedicated to SIVS, with additional resource provided by others (such as analysts) balancing their workload and responsibilities accordingly.*

*The SIVS group's membership was expanded to include high level representation from business and government to help deliver a full range of views. A further review of the list of vulnerable subjects is planned for 2011, taking into account a range of factors that may impact on SIVS such as the independent review of tuition fees.*

## Case study 2: Higher Education Innovation Fund

*We began to develop a policy toward improving the connection between HE and the economy and society in the late 1990s. This reflected worldwide interest in the potential of knowledge-based economies and societies, particularly in the context of increasing globalisation and the trend toward high value added industry, services etc (reflected in the UK in government policies such as the 1993 White Paper 'Realising our Potential'.<sup>57</sup>) Our policy reflected the fact that there were a range of ways in which HEIs connected with businesses, public services and wider communities, outside mainstream teaching and research, but these were all small-scale and piecemeal. So we believed there was:*

- Latent demand – the economy and society could use more HE knowledge and expertise, if it could explore this potential through connecting better; and*
- Latent supply – HE could offer more to the economy and society if it changed its culture to embrace these connections as part of its mainstream; and if it could support present piecemeal efforts with improved capacity.*

*We developed the policy initially through:*

- Commissioning expert studies: a report on the state of the emerging third stream from the Policy Research in Engineering, Science and Technology team at Manchester University (commissioned by HEFCE and published in 1998<sup>58</sup>), a report for the Department for Trade and Industry (DTI) by Tartan Technology and the results of an evaluation of Continuing Vocational Education.<sup>59</sup>*
- Working closely with HE through our strategic committees, then a dedicated steering group; and through consultations at the outset (and as part of successive rounds of funding).*
- Working closely with relevant government departments. We anticipated that we needed to create a policy for long term culture change in HE (or we would be back in the piecemeal territory), and hence we needed long term support from government to move forward. We engaged with the then DTI and the then Department for Education and Skills (DfES), to reflect that we wanted to support all types of contribution from research and teaching and all HEIs, and to link with industrial and skills policies.*

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<sup>57</sup> 'Realising our potential. A strategy for Science, Engineering and Technology' (Cm2250, May 1999).

<sup>58</sup> HEFCE 98/70 Industry-Academic Links in the UK. Howells et al (1998)  
[http://www.hefce.ac.uk/pubs/hefce/1998/98\\_70.htm](http://www.hefce.ac.uk/pubs/hefce/1998/98_70.htm)

<sup>59</sup> HEFCE 1998/98 Report on the evaluation of funding for the development of continuing vocational education. University of Birmingham Education Dept.  
[http://www.hefce.ac.uk/pubs/hefce/1998/98\\_44.pdf](http://www.hefce.ac.uk/pubs/hefce/1998/98_44.pdf)

*Our then Chief Executive took considerable personal interest in the policy development and undertook the relationship-building at a high level with the two Departments. We also engaged with HM Treasury in the early stages, and this range of interested government departments was reflected in the Lambert Review<sup>60</sup> in 2003 and the Science and Innovation Investment Framework<sup>61</sup> in 2004. These links with government policies enabled us to develop our supply side policies in the context of other departments'/agencies' demand side policies (e.g. innovation, enterprise and skills).*

*We consulted on our proposed policy in 1999,<sup>62</sup> which was then called the HE Reach-out to Business and the Community (HEROBC) programme. Our proposal was to support all HEIs, research and teaching, disciplines and aspects of the economy and society. This was an ambitious approach, but reflected the unique contribution that a funder like HEFCE could bring to a policy space that was occupied by many project funders. It also reflected that HEFCE was, and is, an institutional funder, and our aim was to work with our HEIs and support their strategies and develop their relationships with their partners. So we set out from the outset to move to a formula funding approach, so that we could achieve a similar status for this third stream as for research and teaching, and so that we could ultimately transfer strategic ownership of the agenda to HEIs themselves. (And we believe that a significant achievement of the policy has been that we have supported all HEIs and they have developed their own diverse approaches, responding to real and diverse needs of the economy and society). However, we began the policy with project funding rounds (HEROBC rounds one and two and HEIF rounds one and two), so that we could identify the state of development in HE, the diversity across the sector, and the opportunities to identify and share good practice, innovative approaches and lessons learnt. And we recruited an initial programme manager from an HEI with industry links experience to build on understanding of the topic from the ground.*

*To achieve the shift to formula funding, but also recognising that the policy was innovative and we would need strong arguments for long term funding, we established a workstream to develop and compile relevant metrics at the outset. This started as the HE-Business Interaction Survey, which became the HE-Business and Community Interaction Survey. An early focus on measurement meant that the policy was initiated with a strong focus on impacts (and this was picked out as leading-edge practice when HEIF was commended by the National Audit Office last year as one of 11 examples of innovation in public services). So the establishment of metrics of performance at the outset has enabled us to track progress and describe achievement over time, and now to measure additionality. Initially we commissioned*

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<sup>60</sup> Lambert Review of Business-University Collaboration. December 2003. HM Treasury. [http://www.hm-treasury.gov.uk/d/lambert\\_review\\_final\\_450.pdf](http://www.hm-treasury.gov.uk/d/lambert_review_final_450.pdf)

<sup>61</sup> Science and Innovation Investment Framework 2004-2014. HM Treasury. [http://www.hm-treasury.gov.uk/spending\\_sr04\\_science.htm](http://www.hm-treasury.gov.uk/spending_sr04_science.htm)

<sup>62</sup> HEFCE 99/16 Consultation. Higher Education Reach-out to Business and the Community Fund. Funding proposals. [http://www.hefce.ac.uk/pubs/hefce/1999/99\\_16.htm](http://www.hefce.ac.uk/pubs/hefce/1999/99_16.htm)

*external experts to develop the survey, but this was then brought in-house and has now been mainstreamed in the Higher Education Statistics Agency.*

*This was an experimental area of policy development, for HE and HEFCE, and so we knew it would take time to come to fruition. A role for a buffer body like HEFCE is to mediate the longer lead times for HE culture change with the short lead times for government policy development. This policy area has inevitably been subject to more challenge in terms of alignment with government policy than most because the government is inevitably very interested and involved in the demand-side issues. And as part of government's development of policy in this area, sponsorship of HEROBC/HEIF has shifted around Whitehall – starting with HEFCE/DfES/DTI, then the Office of Science and Technology (OST) alone, then OST/DfES, then DIUS and now BIS. HEIF is supported from the HE and Science Budgets, with attendant challenges in aligning policy objectives and programme management arrangements. While this has required HEFCE as the programme manager to be very flexible, it has strengthened the policy through the infusion of different ideas, approaches and connections across government. It has been most important then for HEFCE to be a good partner to its sponsor Departments, while at the same time ensuring that the HE sector is given consistent and coherent messages to maintain confidence in the long term trajectory.*

*Working with HEIs, as well as with government and users, has continued as the heart of HEIF success. A wide-ranging stakeholder group oversees the HEBCI survey (UUK, government, CBI etc), and we have continued to work closely with government departments, HE sector bodies such as the Association for University Research and Industry Links and University Companies Association, and user bodies such as CBI.*

*In HEIF round three (2006-08), we introduced formula funding and in HEIF round four moved entirely to formula. HEIF round four largely meets the aspirations for this policy area that we set out in the initial HEROBC consultation in 1999. We have focussed recently on review and evaluation, assessing the success of the policy, feeding back to HEIs to develop their approaches and informing wider government policy development. We published a HEIF 4 overview in October 2008<sup>63</sup> which examined the state of knowledge exchange in the HE sector. A major finding was that 79 per cent of HEIs had now integrated the third stream fully in their missions. We published a major evaluation of nearly ten years of policy development in April 2009,<sup>64</sup> which concluded that we had made considerable progress toward our initial goals and, in particular, HEIF has proved its additionality – with between £4.90-£7.10 generated by HE in value from services to the economy and society for every £1 of HEIF funding invested.*

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<sup>63</sup> HEFCE 2008/35 HEIF round four institutional strategies. Overview and commentary. Public and corporate economic consultants. (PACEC).  
[http://www.hefce.ac.uk/pubs/hefce/2008/08\\_35/](http://www.hefce.ac.uk/pubs/hefce/2008/08_35/)

<sup>64</sup> Evaluation of the effectiveness and role of HEFCE/OSI third stream funding  
Report to HEFCE by PACEC and the Centre for Business Research, University of Cambridge  
[http://www.hefce.ac.uk/pubs/hefce/2009/09\\_15/](http://www.hefce.ac.uk/pubs/hefce/2009/09_15/)

<b>Funding programme</b>	<b>Funding awarded (£M)</b>	<b>Year</b>
<i>HEIF 4 (including Centres for Knowledge Exchange)</i>	404	2008-11
<i>HEIF 3</i>	238	2006-08
<i>HEIF 2</i>	187	2004-06
<i>HEIF 1</i>	78	2001-04
<i>HEROBC 2<sup>nd</sup> phase</i>	22	2000-04
<i>HEROBC 1<sup>st</sup> phase</i>	62	2000-03

### **Case study 3: Economic Challenge Investment Fund**

*The example of ECIF demonstrates HEFCE responding rapidly to the changing environment. The ECIF was established to help universities and colleges develop and offer a range of support at short notice to individuals and businesses that had become vulnerable during the recession. Our ownership and control of the initiative within the broader government policy framework facilitated its rapid implementation.*

*As the economic situation worsened over the second half of 2008, it became clear that the higher education sector could play a role in helping particular groups:*

- *Experienced professionals that were under the threat of redundancy.*
- *New graduates seeking to enter the labour market.*
- *Small and medium sized enterprises that began to focus on business survival rather than innovation and growth.*
- *Large businesses looking to reduce the scale of operations, yet not necessarily wanting to lose skilled staff.*

*Problems in the economy were followed by government action to help to ease the instability and impacts of recession. As the year drew to a close, political interest in how higher education was responding to the economic situation increased. We agreed to collect information on how HE in each region was responding to recession via the 'Higher Education Regional Associations Barometer'.*

*While the sector has considerable resources, there is not necessarily significant capacity to respond at short notice, and existing infrastructure is not focussed towards helping the unemployed. We identified a need to provide targeted funding to facilitate a rapid response, and reprioritised existing resources in our Strategic Development Fund in order to establish the ECIF.*

*ECIF was established as a £25 million fund available for HEIs and FECs to bid into on a matched-funding basis to support activities directed towards businesses and individuals vulnerable during the recession. Any funding had to be used during the period April 2009 to September 2010. We did not wish to prescribe the type of activities that could be funded, but provided guidance to prospective bidding institutions about example activities we envisaged might be demanded by individuals and businesses.*

*In view of the urgency, we implemented ECIF rapidly: there was no consultation with the sector. From initial brainstorming just before Christmas 2008, proposals were discussed and agreed by our Board in January, and we were able to invite HEIs and FECs to submit proposals on 26 January 2009. Institutions were given only four weeks to develop their proposals and secure matched-funding. The deadline for submissions was end of February. The assessment process was conducted throughout March, and funding awards were approved by our Chief Executive on 7 April, and published 9 April.*



*After we had completed assessment of bids, we were asked by government for details of bids that contained internship activities (but were not currently able to be supported) and asked to cost the support of internship activities in these bids. Following our response, the government provided additional funding of £2.5 million for this purpose. Following the announcement of funding awards, we were contacted by several businesses, other organisations and individuals seeking support from the higher education sector. In response, we quickly developed a document containing summaries of the activities in each institution, and contact details.*

*We established monitoring arrangements that would be relatively low burden – collecting the minimum level of information needed to satisfy our requirements in terms of accountability and progress of activities against original plans of institutions. There are two interim monitoring points at end of September 2009 and March 2010, with a final report due December 2010.*

## **Case study 4: The Research Excellence Framework**

### **Genesis and aims of the policy**

*Since 1992 HEFCE acting for the UK higher education funding bodies has conducted periodic exercises to assess the quality of research in HE institutions. We designed these exercises to produce robust and comprehensible measures of research excellence, at the level of all research in one discipline in one HEI, that were the outcome of a transparent process acceptable to the HE sector and could be used:*

- *By the funding bodies as the basis for allocating research grant selectively with reference to quality: this has been a key shared policy of government and funding bodies throughout.*
- *By HEIs and others to benchmark the quality of research in HE against national and international standards.*
- *By anyone seeking information about the quality of research in HEIs and in disciplines.*
- *As an assurance tool, demonstrating what public investment in HE research was buying.*

*From 2006, a process that started with a government policy announcement (that the 2008 RAE would be the last in its present form and should be replaced by something more streamlined) quickly developed through a joint exercise between government and the funding bodies to flesh out that decision into a development process led by HEFCE working closely with a range of stakeholders. Along the way, some elements in the initial proposal were replaced by others to achieve similar outcomes; and the specification of desired national policy outcomes broadened to include a much greater emphasis on assessing the impact as well as the intrinsic quality of academic research.*

*In 2009, the purpose of the REF remains as set out above but with two crucial additions:*

- *To review from the ground up how the assessments are carried out in order to ensure that the administrative burden they create for us and for HEIs is minimised.*
- *To make explicit provision for assessing the broad impact, as well as the intrinsic quality, of research done in HE.*

### **Principles, consultation and governance**

*The fundamental principle of the RAE exercises and now of REF has been that they meet the differing needs of, and produce results that are acceptable to, several constituencies: government (including devolved administrations); the funding bodies; senior and research managers within HE; researchers; users and commissioners of research; and the general public. We have achieved this by deploying specific skills*

- *In project management.*

- *In collecting, using and presenting structured information in both prose and statistical form.*
- *In developing and operating the IT systems required to enable online submission by HEIs.*

*We have also deployed some important soft skills:*

- *Building and working from a strong relationship of mutual trust and understanding with government. It is important that they understand and endorse our assessment process.*
- *Understanding the needs and aims of HEIs and of active researchers working in these. We cannot operate the REF without the willing co-operation of institutional managers and researchers.*
- *Understanding and responding to the needs and aims of a wide range of public and private organisations (research users). Their co-operation and endorsement are essential in meeting our aim to assess research impact.*

*Crucial to all of these has been our stakeholders' perception that we understand them and share their aims to some extent – which in practice may mean finding different common ground with each; and that we will operate a complex process to the very highest standards.*

*In developing REF we have:*

- *Worked closely with the government to ensure that REF will fully reflect and contribute to implementing government policy for higher education.*
- *Consulted formally at key points. A public consultation in 2008 led to our decision not to proceed with a twin track approach using different assessment techniques for two discrete subject groups. We are currently consulting again on the detail of a nearly complete scheme.*
- *Taken advice from a project steering group (of the four funding bodies); from expert advisory groups (primarily researchers) and a data management advisory group (institutional managers); and from workshop events to discuss the use of citation data, the assessment of user-valued research, and (planned) the implications of our approach for equal opportunities.*
- *Piloted two key elements in our approach (using citation data in assessment and assessing research impact, still in progress) each under the guidance of a steering group including external expert and professional advisers.*
- *Taken expert external advice on using citation data and other matters.*
- *Learnt from the experience of the few other countries to have considered anything similar (primarily Australia and Sweden).*
- *Consulted informally extensively and at every stage with all of the stakeholder mentioned above.*

*This approach has enabled us to proceed by examining exhaustively options for different elements in the assessment process before committing ourselves to a particular approach. It has also enabled us to respond effectively, and without loss of momentum, to developments in government policy (notably the much greater emphasis upon assessing research impact since early 2009). An essential element in the successful development of the framework thus far has been our ability to pull together knowledge and experience from a range of stakeholders in consensus-building mode.*

### **Lessons learnt within HEFCE**

*Learning from this experience has included:*

- *The importance of thoroughly testing proposed changes to the funding and assessment regimes especially if these are radical. It is possible to establish clearly our commitment to a national policy aim (in this case, overhauling the assessment process to make it sharper and more responsive to policy aims including rewarding impact) without feeling that we must say immediately exactly how this is to be achieved. In particular, new technical approaches must be exposed to critical debate and may require to be piloted. Our approach now represents a much better route to implementing the policy than we could have devised in 2006.*
- *Carrying the HE sector with us can be essential to achieving our aims (in particular, we cannot conduct assessment based on expert review without them) but requires very extensive spadework to build the necessary sense of shared ownership and shared purpose.*
- *An effective consultation process may require extensive effort to explain what is proposed. If the people we are consulting do not understand our proposals, we risk getting an unduly negative response to something they might well have accepted with more explanation. Our current consultation started informally some months ago, with a series of more or less informal meetings with key stakeholders, and even so there has been some negative public comment based on misunderstanding.*
- *The process has enhanced our knowledge of the international quality assessment scene; it has also greatly enhanced our understanding of some tools and processes that we have not adopted for present purpose but may need to do in the future (we have enhanced both our own knowledge, and the national expert knowledge base, in citation analysis in particular).*

## **Case study 5: Human resource management in higher education**

*One major area of investment overseen by HEFCE in the period covered by the review (and before) was that in the R&DS initiative.*

*The Dearing Report (1997) and, following on from this, the Bett Review of pay and conditions (1999)<sup>65</sup> both raised awareness, across institutions, funding agencies and other sector stakeholders, of the need to prioritise improvements in HRM and to modernise the personnel function within institutions.*

*In response to this review, the Secretary of State for Education confirmed in HEFCE's grant letter of November 2000 an additional £330 million to be made available over three years to improve the management of HR within HE in England. This was intended to assist recruitment and retention of staff and to modernise management processes for human resources in institutions, as well as seeking improvements in the equality of opportunities for HE staff and ensuring compliance with significant changes to employment legislation.*

*Following consultation with the sector, HEFCE announced its plans for releasing funding to English HE institutions through the R&DS, on a 'something for something basis'.*

*An independent summative evaluation of R&DS<sup>66</sup> judged that HRM practice across the English HE sector has been transformed since 2001 and that this was due in part to the concerted and co-ordinated strategy pursued by HEFCE, UCEA and the sector at large.*

*The review identified a range of major developments since 2001 including:*

- Increasingly effective approaches to performance management for individuals, teams and organisations.*
- The recognition of the criticality of effective HRM, resulting in it now being a key component of institutional planning.*
- Significantly enhanced institutional HR strategies that are now much more closely aligned with and integral to the overall institutional strategy.*
- Sustained investment in the development of leaders and leadership teams.*
- The establishment of more transparent pay and reward mechanisms.*

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<sup>65</sup> National Committee of Inquiry into Higher Education chaired by Sir Ron Dearing in 1997 and Independent Review of Higher Education Pay and Conditions chaired by Sir Michael Bett in 1999.

<sup>66</sup> Oakleigh Consulting Ltd, 2009.

- *An increase in the capacity and capability of HR professionals within institutions to effectively support and contribute to the performance and development of their organisation.*
- *An underpinning increase in the capacity and resilience of the sector to manage HR strategically and operationally. Given the ongoing widespread economic turbulence touching all parts of the economy and society this is a particularly significant policy outcome.*

*The overarching strategy developed by HEFCE in the period (in close partnership with the sector and key bodies such as UCEA) was judged to be timely and generally well received by the sector. Together, the key components of R&DS and National Framework Agreement represented the major investment of sector modernisation in this period.*

*R&DS enabled the sector to invest in and build up its capacity to effectively develop modern HRM practice at a pace that for many institutions would not otherwise have been sustainable. This is the particular additionality of R&DS most commonly cited by the sector: its direct value as an investment in capacity coupled with the catalytic effect of the framework HEFCE mandated for its implementation.*

*Consequently it was concluded that:*

*“R&DS has proven to be, on the whole, a well configured strategic intervention in a sector that by and large welcomed both its premise and execution. Institutions were for the most part able to make effective use of the investment it offered and the framework for its use was generally well aligned with the inevitably diverse needs of what is by definition a heterogeneous sector.”*

## Appendix K. Higher Ambitions; possible impact on HEFCE operations

Figure 15 'Higher Ambitions', possible impact on HEFCE operations

Learning and teaching	Initial impact assessment
Expanding the system for supporting SIVS and making it more proactive.	Low impact – as will mostly involve building on existing work.
Making the concept of HE in FE universal (through innovative partnerships).	
Working with the Higher Education Academy to strengthen its profile in enhancing the quality of student learning experience.	
Widening participation/Business and community	
Examining how existing HEI partnership links with secondary schools can be used to reach local primary schools (as a means of widening access).	Moderate impact – includes an extension of work on flexibility and vocationally based courses.
Expansion of new types of higher education programmes that widen opportunities for flexible study for young people and adults and expanding the number of adults at university.	
Devising funding incentives to develop programmes that deliver higher skills needed in key sectors and markets where demand-led pressures from employers and students do not stimulate the provision in a timely and appropriate way.	
Supporting flexible study options by building on responsive (tailored/bespoke) HE developed through current employer co-funding pilots.	
Developing a range of measures to evaluate the whole range of knowledge exchange activities.	
Skills	
Incentivising collaboration between HEIs and the SSCs and closer work between HEFCE, SSCs and UKCES on short and long term skills needs and analysis of strategic priorities.	This is new work and potentially significant in scale and scope. There are likely resourcing implications for its delivery (including the development of new funding models).
The Council contributing more strongly in addressing skills gaps, which will likely require closer working with agencies in the FE and skills sector.	
Key change: We will ask HEFCE to devise new funding incentives to develop higher education programmes that deliver the higher level skills needed.	

<b>Sector wide information management strategy</b>	
All universities are to publish a standard set of information setting out what students can expect in terms of the nature and quality of their programme, to include a review of Teaching Quality Information (TQI).	This is in part new work and is potentially significant and will involve close working with the QAA and UKCES as well as a review of UNISTATS and TQI.
<b>Leadership, governance and management</b>	
Providing opportunities for universities to lead in the implementation of sustainable solutions.	Low impact as builds on existing work.
<b>Funding</b>	
<p>Providing seed-corn funding on a competitive basis for university-private sector partnerships to strengthen market position in online learning.</p> <p>To allow funds to be diverted to courses that meet strategic skills needs they will be diverted away from institutions whose courses fail to meet high standards of quality or outcome.</p>	Moderate – it both implies greater contestability with consequent implications for funding and support for change such the Strategic Development Fund and also new work on identifying and diverting funds from failure to meet high standards.
Focus resources on where they can have the greatest return in excellence and social and economic benefit – likely research concentration where institutions are strongest.	Implications for the final configuration of the Research Excellence Framework and research concentration.
“It is more likely that the number of universities will decrease than increase... there may be a case for public investment to support mergers. It will be for HEFCE to decide whether special funding to facilitate any merger proposal represents good value for the taxpayer... it is more likely that there will be public value in such funding to support merger between high performing universities, than in rescuing a weaker university.” <sup>67</sup>	Could be significant as it may require establishment of special funding for specific merger proposals. HEFCE may require additional expertise to supplement that already available from its Assurance service.

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<sup>67</sup> Higher Ambitions