House of Commons
Committee of Public Accounts

Regulating financial sustainability in higher education

Thirty-sixth Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

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The Committee of Public Accounts

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

The regulated higher education sector in England comprises 129 Higher Education Institutions (institutions), which are autonomous, not-for-profit bodies that received nearly half of their £22 billion income in the 2009/10 academic year from public sources. The Higher Education Funding Council for England (the Funding Council) provides a third of the sector's income and oversees the financial sustainability of institutions. It is accountable to the Department for Business, Innovation and Skills (the Department).

Over the last five years student numbers and income have grown annually by 2 per cent and 6 per cent respectively. In the context of this benign environment, the Funding Council's 'light touch' approach to financial regulation has been cost-efficient. No institution has suffered a disorderly failure since the Funding Council was formed in 1993.

The sector has begun the transition to a new system of funding in which Funding Council grants to institutions will be replaced by higher tuition fees, paid by students through access to publicly-provided loans. As it stands, the Funding Council's influence over institutions will weaken significantly once its funding role diminishes. The Department will need to provide new powers for the Funding Council to regulate these institutions.

The Department and the Funding Council need to decide how effective regulation will be maintained in a more challenging financial environment. To ensure the transition to a market-based system is smooth, the Funding Council must monitor risks as they emerge and respond quickly. Uncertainty exists over how student demand for places will be affected by the higher fees. The Funding Council is not expecting any disorderly failures to occur, but a market-based system will increase risks to institutions and there is no guarantee that institutions in difficulty will necessarily be supported. The Department and the Funding Council need to develop contingency plans in the event of an institution failing.

The Funding Council also has a responsibility for promoting value for money, although it does not assess the value for money of institutions. In future, prospective students will need better information to make an informed choice about where they will study, including comparable information on the financial health of, and value for money provided by, individual institutions. The Funding Council does not normally publish the names of institutions it judges to be at financial risk, so as to protect them while they are in recovery. Now that students are required to make a substantial financial investment in their degree, the Funding Council needs to strike a suitable balance between the interests of institutions and those of prospective students. We welcome the review process subsequently announced by the Quality Assurance Agency.

Institutions are in the process of declaring their fees for new students in 2012-13, and initial declarations have been higher than the Department had anticipated, with the majority proposing to charge the maximum fee of £9,000 a year. Nevertheless, any proposal to charge fees of more than £6,000 a year is subject to the approval of the Office for Fair Access. Having to provide student loans to meet this level of fee could create a funding gap of several hundred million pounds for the taxpayer.

On the basis of a report from the Comptroller and Auditor General[1] we took evidence from the Department, the Funding Council and representatives from three institutions on financial regulation and the introduction of new funding arrangements for higher education.

1 C&AG's Report, *Regulating financial sustainability in higher education*, Session 2010-12, HC 816

Conclusions and recommendations

1. **From 2012-13 onwards, the change in higher education funding arrangements will require a new system of regulation and accountability.** The Funding Council has operated a cost-efficient regulatory framework during a period of growth in the sector. It is unclear however whether this 'light touch' approach will be fit for a more uncertain financial environment for institutions. In the new environment, funding for teaching in higher education institutions will follow the student, with an increasing proportion of cost borne by students and the student loan system. At present the Funding Council's influence on the sector comes from its funding role. In the future all institutions will receive less money from HEFCE and some will receive none at all. The Department will need to design and implement a new system of regulation. It will also need to provide new powers to regulate institutions that receive little or no direct public funding but whose students have access to publicly-provided loans.

2. **The transition to new funding arrangements will create new risks to the financial health of institutions.** At present, the main risks are whether higher fees will reduce student demand for undergraduate and postgraduate degrees; whether the demand from overseas students can be maintained; and whether institutions will be able to scale down their costs quickly enough if their income falls. If the Funding Council is to ensure there is a smooth transition to the new funding environment, it will need to closely monitor risks as they emerge. It must also strengthen its monitoring arrangements so that it has early warning of any institutions that are struggling to manage these or other risks to their financial health. The Department should write to the Committee by March 2012 to set out how well institutions are coping with the transition and what it is doing to manage the risks.

3. **The Funding Council's capacity to respond to difficulties at institutions will be stretched in the new environment.** Like other public bodies, the Funding Council is under pressure to reduce its administrative costs. However, as the financial risks to institutions increase, there may be greater need for the Funding Council's involvement. The Department should assure itself that the Funding Council is able to fulfil its regulatory functions in the new environment.

4. **A market-based environment is designed to provide opportunities for existing institutions to expand and for new providers to enter the market. At the same time, some institutions may shrink and possibly close or even fail.** The Funding Council is not expecting any disorderly failures amongst Higher Education Institutions this year. The Department and the Funding Council assured the Committee that well-managed institutions will have ample warning of problems. Nevertheless, the Department and the Funding Council must, by the start of the 2011-12 academic year, develop contingency plans for protecting students, and the taxpayer, should an unexpected failure occur.

5. **Students will need information to assess and compare the value of studying at different institutions, and to make an informed choice.** The Funding Council's activities to promote value for money in the sector do not include assessing the value

for money of institutions. In promoting value for money, the Funding Council has seen its role as obtaining assurances from institutions that money has been used for the intended purposes, and encouraging benchmarking and collaboration between institutions. The Department must ensure that students are provided with relevant and reliable information which is accessible and easy to use and which will allow them to make informed judgements in time for applications for the 2012/13 academic year.

6. **We do not accept the Funding Council's practice of not disclosing which institutions are at higher risk for a three year period.** The Funding Council needs to strike a different and better balance between the interests of institutions and those of prospective students. The review should consider the introduction of a more graduated scale that distinguishes institutions facing insolvency from those that face higher risks for other reasons, and ensures earlier public disclosure where students' investment and education is at risk.

7. **The Department faces a potentially funding gap of several hundred million pounds if the fees set by institutions significantly exceed its expectations.** So far, evidence from those institutions which have declared their fees for the 2012-13 academic year suggests that its forecasts were too low, increasing the cost to the taxpayer of providing student loans. The Department needs to develop a financial model which will allow it to test the impact of the decisions being made across the sector, and to assess the options available, which might range from finding more money through to reducing university places.

1 Regulating financial sustainability

1. In recent years, the higher education sector has achieved strong growth in its income and increasing robustness in its financial sustainability. The main sources of growth have been the introduction of tuition fees for full-time undergraduates and increasing fee income from students from outside the European Union. Since the Funding Council was established in 1993, there have been no cases of an institution failing in a disorderly manner, for example leaving creditors unpaid or students unable to complete their course.[2]

2. The Funding Council has contained the cost of its activities in relation to regulating financial stability, to around £2 million a year. Representatives of institutions described the system of regulation as being two-tier, with the Funding Council providing high level oversight while governing bodies provide the governance for individual institutions. They told us the system works well, being risk-based, relatively light touch and efficient. The Comptroller and Auditor General reported that the Funding Council's financial regulation was cost-efficient and had delivered value for money within the context in which it had operated.[3]

3. The sector is facing unprecedented change in moving to a more market-based system in which the funding for undergraduate teaching will primarily follow the student via higher tuition fees. Most students will finance their fees, as they do now, through publicly provided loans, contingent on their future income. As tuition fee income goes up, so the Government is reducing the Funding Council's direct public funding of institutions. The remaining funding from the Funding Council will be targeted towards subjects that are relatively expensive to teach or towards specific policy priorities such as widening participation. The new funding system will be phased in from the 2012/13 academic year, with new students paying higher fees from August 2012.[4]

4. The Department and the Funding Council expect the current regulatory arrangements, with its powers, roles and responsibilities, to provide a satisfactory framework until 2012-13. After that there is a need for a new regulatory framework, the details of which the Government is expected to announce in the forthcoming White Paper on Higher Education.[5]

5. The Funding Council has limited statutory powers. Most of its regulatory powers derive from its statutory power to attach conditions to its grant funding. These conditions are contained in a Financial Memorandum with institutions. The Funding Council only regulates those higher education providers which it funds. There are already around 84 higher education providers not directly funded, and hence not regulated, by the Funding Council. Between them, these providers have 4,300 students who receive tuition fee grants and loans of around £30 million a year from the taxpayer. Under the new funding arrangements the number of institutions receiving little or no grant funding will grow. The

2 Q3; C&AG's Report paras 6, 7, 1.6 and 1.9

3 Qq 1-4; C&AG's Report paras 7 and 15

4 Q 1; C&AG's Report para 4

5 Qq 77-78, 95

Funding Council, however, expects those institutions accessing public funds, including student finance, would still have to be regulated to ensure widening access to higher education, quality of provision and adequate information for prospective students.[6] Changes in regulatory powers will be needed to facilitate this necessary regulation.

6. The Department has asked the Funding Council to ensure stability and a smooth transition to the new funding environment. The Funding Council is working with the Student Loans Company, Quality Assurance Agency and Office for Fair Access to help achieve a smooth change. Overall, the Funding Council reported that the transition was going quite well, with institutions having had a year to prepare for the change.[7]

7. The Funding Council has identified four main risks facing the sector after 2012, three of which relate to institutions' income. The risks are:

- that the demand for higher education from domestic students will fall as a result of increased fees;
- that, over time, graduates' accumulated debt will reduce their willingness to take a postgraduate degree or engage in post-doctoral research;
- that international demand for higher education in England will not be maintained; and
- that institutions may be faced with rising costs, especially pension costs.[8]

8. The Funding Council's assessment of risk is crucial to its effectiveness as a regulator. In monitoring short-term risk, the Funding Council is partly reliant on institutions to report material adverse changes in their financial position. A small minority of institutions experienced such changes in 2010, but not all of them reported them to the Funding Council, possibly owing to insufficient guidance from the Funding Council.[9]

9. A review commissioned by the Funding Council in 2010, chaired by Dame Sandra Burslem, raised concerns about the capacity of the Funding Council should an increased number of institutions get into financial difficulty. In the new funding environment, opportunities may open for some institutions but other institutions may shrink or even fail, potentially requiring Funding Council involvement. The Department told us that it is managing the tension between reduced funding and possible increased workload through a joint accountability group and by staying in close contact with the Funding Council.[10]

10. The Department expects there to be a continuing need for regulatory oversight to help institutions avoid unnecessary failure, although failure itself would not be ruled out. It expects to continue to have a body, such as the Funding Council, to carry out this role. Because most students apply and are recruited significantly in advance of their courses

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6 Qq 10-12, 117-123 ; C&AG's Report paras 1.13 and 2.5

7 Qq 15, 24, 57, 96; UCAS Data Summary (www.ucas.com/about_us/stat_services/stats_online/data_tables/datasummary)

8 Qq 98, 129

9 Q 75 ; C&AG's Report paras 8, 2.6 and 2.16

10 Qq 15, 107-110, 113 ; *Independent Review Group review of the effectiveness and efficiency of HEFCE: Final Report, Review Group Commentary*, (HEFCE, March 2010), para 32

starting, an institution is likely to have 12 months notice of an impending crisis, giving it time to mitigate the risks. Whilst both the Funding Council and the Department do not see any immediate risks of institutional failure, they accept that risks are likely to grow under the new funding regime.

2 Information requirements in a new environment

11. The Funding Council has a duty to promote value for money in relation to the £7.9 billion of funding it provides to the sector. It does this by:

i. promoting benchmarking by institutions and providing data to enable comparisons between institutions; and

ii. specific initiatives, for example on procurement and information systems.[11]

12. The Funding Council does not assess the overall value for money delivered by individual institutions, for example by considering the relationship between the level of fees charged and the amount and quality of tuition time received by students. This is because academic standards are, by law, the responsibility of the institution. The Funding Council does have a statutory responsibility to ensure that there is appropriate and effective teaching available, which it does through the work of the Quality Assurance Agency, a body funded through subscription from the sector.[12]

13. As students are required to invest more money in their own higher education, they will need better information to allow them to make an informed choice about value for money. The Funding Council is working with institutions, the Quality Assurance Agency and other stakeholders to put in place an information pack on institutions to allow prospective students to make a more informed choice. Information will cover the content of courses, the processes of assessment, the balance of teaching time and employment prospects on graduation. Since we took evidence, the Quality Assurance Agency has announced a new review process from September 2011 that will over time examine each institution and make judgements, for example, on:

i. the threshold academic standards used by the institution (the level of achievement a student has to reach to gain an academic reward);

ii. the quality of students' learning opportunities (teaching and academic support); and

iii. the quality of public information including that produced for students and applicants (from 2012-13).[13]

14. The Funding Council normally waits three years before publishing the names of institutions it judges to be at higher risk. But this practice does not take account of the interests of prospective students deciding where to study. As part of its risk assessment processes, the Funding Council assesses institutions as either At Higher Risk or Not At Higher Risk; around 95 per cent of institutions are assessed as Not At Higher Risk. Professor Wathey, Vice Chancellor of Northumbria University, suggested there was a big

11 Q 43, 45 ; C&AG's Report para 1

12 Qq 44-47, 50

13 Q10, 21, 30, 51-52 : http://www.qaa.ac.uk/reviews/institutionalreview/

difference between those institutions assessed as At Higher Risk in the risk assessment and those in financial difficulties. One of the institutions at higher risk revealed in the C&AG's report, for example, was not in financial difficulty but was receiving support for a large capital project. The Comptroller and Auditor General recommended a more graduated risk assessment system to take more account of the different reasons for being At Higher Risk and give earlier warning of possible problems. The Funding Council told us that it would reflect on whether its current risk assessment mechanism and disclosure policy were still appropriate.[14]

15. In modelling the costs of the new funding environment, the Department assumed an average fee loan of £7,500 would be taken up by 90% of students. At the time of the hearing, a majority of institutions were proposing to charge the maximum £9,000. The Department acknowledged that higher than forecast fees would lead to a pressure on the student support budget, potentially up to several hundred million pounds. It noted that the likely cost would become clearer once scholarships, bursaries and fee waivers were taken into account and the Office for Fair Access had made its judgements on institutions' arrangements to safeguard access for lower income and other under-represented groups. Depending on the result, the Department will need to consider the options available, which might range from finding more money through to reducing the places available.[15]

16. The Department's balance sheet shows the value of the student loans outstanding, with an adjustment for an expected rate of non-repayment of around 30%. The balance of loans outstanding could rise from about £24 billion currently to around £70 billion by 2015-16. Higher than forecast fees will increase the financial pressures on students. Furthermore, the Funding Council does not yet know how student demand will respond to higher fees. The Funding Council has a model which forecasts the financial position of institutions and there may be scope to develop it further, for example to assess the impact on institutions of options for responding to the increasing pressures on public finances.[16]

14 Qq 22, 34, 39, 70-74, 99

15 Qq 83, 90, 92, 93

16 Qq 83-86, 102 ; C&AG's Report, paras 2.26 – 2.27

Formal Minutes

Wednesday 11 May 2011

Rt Hon Margaret Hodge, in the Chair

Mr Stephen Barclay	Mrs Anne McGuire
Dr. Stella Creasy	Austin Mitchell
Matthew Hancock	Nick Smith
Jo Johnson	Ian Swales

Draft Report (*Regulating financial sustainability in higher education)* proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations 1 to 7 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 23 May at 3.30pm

Witnesses

Wednesday 30 March 2011 *Page*

Professor Andrew Wathey, Vice-Chancellor and Chief Executive, Northumbria University, **Jon Baldwin,** Registrar, University of Warwick, and **Professor Muriel Robinson,** Principal, Bishop Grosseteste University College and Vice-Chair, Guild HE Ev 1

Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills, and **Sir Alan Langlands,** Chief Executive and Accounting Officer, Higher Education Funding Council for England Ev 8

List of printed written evidence

1 Department for Business, Innovation and Skills Ev 21; Ev 28

2 Northumbria University Ev 21

3 Higher Education Funding Council for England Ev 24

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Mulit-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801

Twenty-third Report	The Major Projects Report 2010	HC 687
Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-sixth Report	Regulating financial sustainability in higher education	HC 914
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 30 March 2011

Members present:

Margaret Hodge (Chair)

Stephen Barclay
Stella Creasy
Matthew Hancock
Austin Mitchell
Ian Swales
James Wharton

Amyas Morse, Comptroller and Auditor General, gave evidence. **Robert Prideaux**, Director of Parliamentary Relations, NAO, **Peter Gray**, Director, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Regulating financial sustainability in higher education (HC 816)

Examination of Witnesses

Witnesses: **Professor Andrew Wathey**, Vice-Chancellor and Chief Executive, Northumbria University, **Jon Baldwin**, Registrar, University of Warwick, and **Professor Muriel Robinson**, Principal, Bishop Grosseteste University College and Vice Chair Guild HE, gave evidence.

Q1 Chair: Can I welcome our three witnesses and thank you very much for coming? It is very short notice, I think, for Jon Baldwin, so thank you very much indeed. Can I just say what this part of the session is about: what we will be looking at is the value for money of HEFCE's activities in relation to ensuring financial health of higher education, both in the current system and looking to see whether the regulatory framework is appropriate as we move into the new system of funding for the higher tuition fees. This is not an interrogation to try to catch you out in any way, this is really an attempt for you at the coalface to talk to us a little bit about where you think the regulatory regimes work well to date, where HEFCE has provided a good value for money service, where the weaknesses are and what you see as the dangers arising that ought to concern this Committee as we move into the new regime. It is a real opportunity in a short period of time—we will try to keep this period about half an hour, not much longer than that—for you to give us some leads that will help us in our thinking as we then question both HEFCE and the Department. So it is over to you and whoever would like to start.

Professor Wathey: Thank you very much Chair for that welcome, and thank you for inviting us here this afternoon. We are very pleased, I think, to be speaking to the Committee from an institutional perspective. I think perhaps, if I could start, then colleagues may want to pick up. In terms of where the system works well I would say three things. First, it is effectively a two-tier system, with HEFCE providing high level oversight of universities and then universities' governing bodies providing the governance for individual universities. In short, it is high level oversight plus the governing bodies keeping institutions out of trouble or getting them out of trouble, when they get into it.

Q2 Chair: I do not want to interrupt you too much, but I just want to say two things to you. One is our interest is ensuring value for money for the taxpayer for the public pound, and in a sense you are private institutions in receipt of taxpayer's money. Therefore our concern is to ensure that that pound is protected. It may work well for you, but it may not always be—question mark—the best way of ensuring value for money for the public purse.

Professor Wathey: Point taken. Perhaps if I could just make the other two points, the first would be that the Funding Council engages very closely with the universities through several channels, both formal and informal, to resolve issues and understand the circumstances behind them. I think that is the close communication point where, certainly from the user end, we would see that that works well. Then I think the third point would simply be that, as in all good systems of regulation, it is risk based and relatively light touch at that level, so it is efficient and, in the nature of a two tier system, the actions of governors within universities are where the detailed problems are dealt with.

Q3 Chair: Just so that we get to the nub of it, it may have worked okay in a period where HE has been expanding with loads of money coming in, many more students and a healthy environment. We are now shifting to a very different environment. Maybe one of the others want to pick it up: what does that mean for you in terms of what the regulatory basis should be? That is the first thing. The other thing I would say: it may have worked well for you; I look at it with a bit of worry that 95% were not at higher risk. If you look underneath that in the Report we have got, we have one in four that have concerns of some sort on financial benchmarks, and even if you look within the 5% who were at higher risk, one of those has been in that category for 12 years unresolved, so you begin to think "What on earth has been happening that that has not been sorted?" apart from new Vice Chancellors and new strategies every couple of years.

Professor Robinson: Perhaps if I pick up—and you will have a good perspective as well I think Jon—from Andrew. As a small institution, which you might expect to be more vulnerable in the current climate—although we are very much at the top end of the not at higher risk in terms of our indicators—I think the HEFCE system has worked very well for us. We have been through a period of quite severe change before we get to 2012 in terms of the change in the funding regime, and during that time the fact that there are regional officers in HEFCE who take responsibility for institutions means that we are asked those hard questions. I think the governing model does also, because the audit committee of any governing body will include not just qualified accountants but also external and internal auditors, who are making sure we are addressing the value for money question regularly. I would say over the past two years, when there have been some big changes, I have had regular contact from our regional officer, who arranges to ring me after important decisions, who is keeping in touch with where the institution is going and is therefore in a strong position to say, "hang on a minute, is that the best use of public funds?" I think there are some safeguards in the current system. That is not to say there will not need to be change after 2012 when we are in a very different environment.

Q4 Chair: What change? And explain to me Thames Valley.

Professor Robinson: It would be very difficult for me to speak for another institution, I really know very little about Thames Valley. All I can say is that in our case when big funding changes have happened then there has been somebody on the end of the phone saying "How are you going to manage this? How are you making sure you are accountable? If we are giving you moderation money, tell us how you are going to use that. We want to be sure that is proper." In terms of changes, Jon, do you want to come in?

Jon Baldwin: Only to say I do not think "work well" means not challenged, not scrutinised, not subject to appropriate interventions and consideration, and I would like to think—I hope—my own institution is a well managed institution, but the Funding Council plays a part in that, albeit from a distance respecting the autonomy of private institutions, which I think you infer.

Q5 Chair: Just out of interest, for your institution, what proportion of the money comes through HEFCE? What percentage of your income?

Jon Baldwin: Presently 23% comes directly from Government or Government sources.

Q6 Chair: When you move to tuition fees funding for humanities rather than HEFCE funding for humanities, what does that come to?

Jon Baldwin: We will all shift into that sort of domain post 2012. That is where your point about value is absolutely key, because all of us will have to demonstrate value to the taxpayer, yes, but to the students who will be making very clear and tough decisions about which universities are appropriate for them, to their supporters, their parents, their families. The concept of value is, I agree, a very important one. I just do not want to lose the point though that "working" for us does not mean we are not scrutinised; we are heavily scrutinised and there is an accountability burden that is a proper one, given that we are, as you say, private institutions in receipt of public funds. Warwick is quite pleased and proud that it has a diversified income base that spreads risk of sorts, but clearly in an economic downturn that creates risk in other areas.

Q7 Chair: What proportion of your income are you predicting in 2015 will be from HEFCE? Have you done analysis? What proportion comes from HEFCE?

Jon Baldwin: If you look at the overall percentage of tuition fee income in Russell Group universities, in 2008/09 it was around 21% of the overall funding base. We would expect it to continue at about that level and be a bit higher. We will lose the teaching money, of course, which is considerable, so one effectively replaces the other. But clearly this is a different way of accessing public funding.

Chair: I understand that. We have got to go to vote—what proportion comes from HEFCE?

Jon Baldwin: I have not done that calculation directly in the Warwick context.

Professor Robinson: I have for us; it will probably be very close to zero.

Q8 Chair: So you are almost a private institution?

Professor Robinson: We will be very dependent on student fees, yes, because our HEFCE grant is teaching.

Q9 Chair: Andrew, we have to go and vote, so just tell us very quickly.

Professor Wathey: Currently our HEFCE grant is about 30% of our total income, but in the new system there will of course be public money standing behind the new student loans system.

Chair: I understand, but how much from HEFCE? That affects the regulatory regime.

Professor Wathey: That is almost impossible to say at this stage.

Chair: Okay. Let's go and vote, we will come back as soon as we can.

Sitting suspended for a Division in the House.

On resuming—

Q10 Chair: Professor Robinson, let's come back to you, because you said there will be huge change, right, and I think probably that is the area that we want to try and draw out of you a little bit: what are the changes? How are they going to impact on you, and what concerns should we have? Maybe the others can come in on that.

Professor Robinson: Particularly with the value for money slant though, yes?

Chair: Yes.

Professor Robinson: Obviously there is going to be a direct accountability with students. We already try to explain to our students each year how our budget works, where the funding comes from, how we make the decisions. We of course have student governors who are involved in budget setting. But it is going to change; it will be much more sharp edge. How that is going to play is difficult to tell until we know how students understand the new system. But there does still need to be something bigger than that, because an individual student will be interested in the value for money they are getting on their programme in a particular institution. They will not necessarily understand that bigger picture of "Is there value for money across the sector?" I think there will be a different role for HEFCE, but I will see there is still a valuable role for them in helping us understand each other.

Q11 Chair: What is the different role? I am trying to pull you out of this: where are your challenges? We are trying to get it out of you.
Professor Robinson: They give us the money; it is quite a stable system.
Chair: And now they are not going to give you the money?
Professor Robinson: Yes, and individual students will decide whether to apply.

Q12 Chair: So what does that mean for regulation and accountability? I can understand what it means insofar as you have to be better at talking to your students, but what does it mean for us for following the pound?
Professor Robinson: I think it means you still need some system, because it is still public money that is being spent. The students are borrowing it from the Government; it is still public money. The latest estimate I have seen is that only 70% of that might come back, if we are lucky, and it might be as low as 30%. That is a big investment by the taxpayer. So you still need some level of accountability. But it is a different model, isn't it? If it is not HEFCE saying "We are giving you a cheque for £4 million to £5 million in our case"—a lot more for them—"now tell us what you are doing with it", there still needs to be some system for saying "You have had all this money from students; what are you doing with it?"
Chair: Not from students, from the Treasury.
Professor Robinson: Yes, I know, but via the students.
Amyas Morse: I just wanted to be sure, pardon me, because I am very interested in what you are saying. Do I take your drift to be that, even if HEFCE are not funding, you would really like to see some consideration of a role for HEFCE whether they are funding or not to provide some regulation?
Professor Robinson: I think they can get a broad picture of the sector: they can feed back things to us across the sector that no other body can, really.
Amyas Morse: Would you see them doing more or less the same job as they are doing now, or differently? How would you see it working, just out of curiosity?
Professor Robinson: It has to be different because there is a different funding relationship. I think it is quite hard to know exactly what it should look like until we see exactly what the funding is going to look like. There is a funding review coming up.
Chair: Do either of you two want to come in on that, as a registrar?
Jon Baldwin: It is rapid implementation of rapid policy making, and I do not think we know quite what dynamics are going to be released in 2012. I think Muriel is correct that we are in a quasi-market; that was one of the aims of the original policy push. A question is whether it is a real market, because of the constraints that are in it.

Q13 Chair: I have not seen a market where 80% all charge the top rate, but it does not feel like a market to me.
Jon Baldwin: I am not sure that is necessarily the fault of institutions as such. That is rapid implementation.
Chair: But it is not a market; you cannot describe it like a market.
Jon Baldwin: It is rapid implementation of rapid policy, and caps and quotas and so on will drive certain kinds of behaviours. I think Muriel is correct, though, that the NAO Report indicates that in a different world the role of the Funding Council will be different. The language and tone around the responsibilities that have been circulated concerning the role of governing bodies, the relationship with HEFCE, the protection of the student experience, which is clearly paramount, are things that need some care and some attention, but we are not at 19 April and the submission of access agreements yet. There is still a lot of information to collect, consider and disseminate. Being precise in answer to what is a perfectly legitimate question is quite tricky.
Chair: Do you want to add anything?
Professor Wathey: Just a couple of comments if I may, Chair. I think the obvious change for institutions is that whereas previously a block grant arrived and we recruited students, now we have to manage our top line income in a different way because it comes with the individual student. There will be a set of changes around that, and separately, potentially, changes around marketisation depending on what level of marketisation we have, as you rightly say. Alongside that, there is simply a different dynamic to how you check that the student is in an institution, and I suspect that many of the practical changes will follow that simple change from block grant to money that comes with the students. But I think the fundamental structure, which is that you have autonomy at the institutional level and then a higher level role for HEFCE, is good and will do in the new environment.

Q14 Austin Mitchell: It was announced as a market system, much more market orientated, and all the mad enthusiasts for markets said "Marvellous, this will bring a touch of discipline and failing institutions will fail and they will go bust, and that will give them all a kick up the backside and invigorate them." Now, do you see that as a threat, for your institution or any other institution, that institutions like yours, higher education, will go bust and could be allowed to go bust? Let's start with Bishop Grosseteste.

Professor Robinson: I do not see it as a threat, I see it as a risk.
Austin Mitchell: For you, or anybody else?
Professor Robinson: Across the sector it is a risk. I think we are probably slightly less at risk than some, but I think there is a huge risk for the public interest if it happens, thinking particularly of Lincolnshire. In Lincolnshire we have ourselves, we have the University of Lincoln. If you go to Greater Lincolnshire you also have places like the Grimsby Institute. If we are not there, there will be an awful lot of people in Lincolnshire who will find it very hard to access higher education in the new funding regime. It is going to be more expensive: people are going to want to stay nearer home. If you do not have good national coverage and provision there is a destabilisation of the system.

Q15 Austin Mitchell: Okay, that is you, but how about all the others? Do you see any institutions as likely to go bust? Various people pointed to institutions that could go bust, and they all pointed to other people than themselves. They said weaker institutions could go bust; do you see any as likely?
Professor Wathey: Shall I have a go at that one? I think it depends very much what you mean by "go bust". There may well be changes to the size and shapes of institutions, but "disorderly failure"—which is, I think, the term used in the Report—is not something that is likely to happen given the amount of notice that institutions are likely to have. Take the worse case scenario: no students turn up for 2012. Now, any institution in that position—and I don't think any will be—will have 12 months' notice because they will see the applications simply not coming through. 12 months' notice of a significant change is quite good, in many businesses, so I do not think we will see disorderly failure in the sense that creditors will remain unpaid or students will not be able to complete their courses, but you may get institutions that change their size, their nature, their educational character.
Jon Baldwin: I think it is a risk. I do not think my own university would go bust. I think there are forces now that will play in decision-making, and I think we will have students and parents asking not "Which universities", but "Will I, should I, go to university; what is the rate of return?" Because we have conducted the debate around, in a sense, the utilitarian value of a university education, there may be a decision made in families that "That is not what we will do." You see innovative models beginning to emerge. A couple of months ago we saw the Durham/KPMG arrangement where KPMG will fund a cohort of accountancy students on a particular kind of accountancy programme at Durham. That might be seen as a better bet. Therefore, if some universities get their fee structures wrong, they may need to rethink that. As Andrew says they will have notice of that, but I do think there will be discussions in families about whether university is the right thing for me, whereas in the last 10 years or so it has been assumed that many youngsters and lots of young people will go on to university because that is what you do. I think that is less clear now than it previously was.

Q16 Austin Mitchell: Okay, let me come back to Professor Wathey, because you say a year's warning. The bursar or finance director or whatever you call them these days will come to the Vice Chancellor and say "My God, no students enrolling next year, what the hell are we going to do?" Will you then say "Let's lower the requirements; let's start recruiting Mitchell grandchildren"—all of whom have consistent Cs—"instead of demanding AAA as we have been doing. Let's debase it." Is that likely?
Professor Robinson: I will tell you how we do that at the moment, because it is already what we have to deal with. We have monitoring through the year, looking at applications and you see a programme looking wobbly. I think the last thing most places would do would be to lower the requirements.
Austin Mitchell: Come on, I do not believe that.
Professor Robinson: It would be the last thing we would do.
Austin Mitchell: If you are dithering on the verge of bankruptcy, if you are going to be in a financial mess in a year's time, you are going to start lowering the requirement.
Professor Robinson: It will not help you, because you will not get good retention rates, you will not get good success rates.
Jon Baldwin: A university has nothing if it has no reputation. It only has its reputation if it maintains and upholds standards. There absolutely would not be any reduction in standards in my institutions, and I think that is true of many. It is the path to failure, because your reputation is everything as a University. If you haven't got a reputation you've nothing.

Q17 Austin Mitchell: Well, I admire this picture of you all going down with the ship, saluting higher standards as the water gurgles up to you. Professor, what's your view?
Professor Wathey: I think what my colleagues have said around maintaining quality is absolutely right, and I think every institution will strive to do that. But there are also other options.

Q18 Chair: That is not necessarily the pattern that occurred at the turn of the century, to be honest, when people were chasing numbers, advertising, "Come and study here", access. In a way it was good for access, but in a way it was a different level of standards. Do not be disingenuous.
Jon Baldwin: I am not being disingenuous.
Professor Wathey: I would not wish to be disingenuous. The point I was about to make was that there are other student markets. This is just one of the income streams that most universities have. It happens to be the biggest in almost every case, but there are other student markets, there are other ways in which higher education can be delivered to different groups of students who are differently funded, and that of course would be one of the things that I would expect the Finance Direct to come to me about.
Chair: I am conscious of time, so I am going to ask Ian and Steve, very shortish questions if you can.

Q19 Ian Swales: I will be quick. I just wanted to explore a little bit more; you spoke, Professor Robinson, about the students on your governing body and all this kind of thing, and the whole issue of transparency in this new world where students and indeed the media will start to not only know more what is happening, but may use that. As we saw with school league tables, the strong get stronger and the weak get weaker once you have full transparency. Do you see that as being an issue, either about individual courses or about whole institutions? As more and more people know the financial strength of a department or a university, that is going to influence behaviour in a way that we have not quite predicted yet.
Professor Robinson: I think it will influence behaviour, but it will be broader than that. People will be looking at a whole range of indicators. I would say that is one of the things HEFCE provides that I think will be very useful. Things like employment rates: it won't just be "How financially secure is this institution", it will be "What am I going to get from that and what can I do with it?" I would agree, it has got a little bit too instrumental in terms of remembering there is a bigger benefit for society from higher education. But that is a very real question.

Q20 Ian Swales: For example, do you see a governing body not wishing to show their student governors all the details of their finances? Is that likely to start happening?
Professor Robinson: I can imagine it could in some places. It would not with our governing body. That would not be the kind of thing we would see as a reserve business.
Jon Baldwin: The student president has been a member of the senior management group at Warwick for as long as I remember: some 30 plus years. Students are at the heart of the governance structure in the University, including on that senior group. We do have some reserve business, but that is generally about the appointment of examiners and/or the occasional staffing issue that cannot be shared. There would be no intention to exclude students from those processes.

Q21 Ian Swales: I suspect the last two sets of questions are probably not about your three organisations. That is maybe the problem: there will be other organisations where I suspect they will hit this wave first, of marketisation and greater difficulty. Let's see.
Jon Baldwin: The Minister has spoken of liberating the data, and in a marketplace you need informed choice, so whether the information that we are being exhorted to disclose is the right information, who knows, but the data will be there.

Q22 Ian Swales: That does raise one other issue, if I can just follow on, because that is important. Marketisation is great if you are buying chocolate, because if you do not like the chocolate bar today you buy a different one tomorrow. But you are making a once in a lifetime decision about higher education. How do you see the issue of a department or a course becoming unviable while people are in the middle of it? How are your organisations going to handle that?
Professor Robinson: We already do have processes for that. I can think of examples where we have looked at recruitment figures and said next year it is not going to be viable for us to run, for example, maths. There was a year when we said we will not have a first year for maths. But the second and third year students still need a decent experience, so you manage that through, and you work at your recruitment, and then, in our case, we were able to get out there, use the capacity to get out into local schools and persuade young people that maths was a good thing to do and to bring it back on. I think we are used to doing it in the small scale. The difference is going to be that might well be much bigger scale: we will need to see if those same methods translate.

Q23 Stephen Barclay: Just a very straightforward point: if demand shrinks, is it not self-evident that those institutions at the margin of viability will go?
Professor Robinson: I am not sure it is going to be that straightforward as to how demand is going to shrink. It depends so much on your portfolio.

Q24 Stephen Barclay: Mr Baldwin was talking earlier about people looking at the cost ratio of whether it is worth going into higher education. I would have thought it is fairly logical, without a massive expansion in the number of higher education facilities, universities, colleges, and that is to reflect the massive increase in demand, I think it is fivefold increase over the last 25 years. If there has been a fivefold increase in demand over the last 25 years and a number of institutions have therefore expanded and opened to meet that fivefold demand, if demand were to decrease by fivefold, surely that would impact on the number of institutions?
Professor Wathey: I think you are right; if you were to decrease to a fifth of what it currently is then that would have a serious impact. But I think the extent of demand and the extent of entry to university are two very different things. Almost 700,000 people apply to enter university through UCAS, the collective clearing system, but only 485,000 get places. So there is an excess of demand over supply at present.
Stephen Barclay: Part of that is probably Mr Mitchell's point about some of them not being of the requisite quality.
Professor Wathey: It may be, because there has never been a time when all of the demand has been absorbed. But I think the other point is about other markets: the demand for UK higher education internationally is very high. There has been a doubling of the number of international students over the last 10 years, and that is in a very competitive global environment and a testament to the reputation of UK higher education.

Q25 Chair: That brings me neatly to three more quick questions. One is: are you concerned about the proposed changes in student visa regulations therefore constraining your ability to raise that?
Professor Wathey: I think two things to say there. Yes of course it is concerning, and our observers and our

partners overseas find it very strange that a key and successful part of the industry should be under threat in this way. I think the other thing to say, though, is that not all delivery to the international student market is within the UK. Quite a substantial part of—and I can let you have the figures after the meeting—Northumbria University's delivery is actually in countries overseas: Hong Kong and Malaysia, for example.
Jon Baldwin: There was a headline in the Hindustan Times last week, even after the changes had been announced, that said "UK cuts visas, Indians hit", and that was then followed by a narrative around the inability to work post study. So we welcome very much the changes that have been made as the consultation has run, but I do not think we are out of the woods yet; I think there are still major risks. On your point, if I can: I think there are many steps between a fall in demand and closing an institution. There are all sorts of opportunities to reshape, to reconsider. I think you will find institutions offering different kinds of programmes in different ways, and ultimately your logic is probably right; there may well be closures, but not immediately, I wouldn't have thought.

Q26 Stephen Barclay: Can I just clarify something relating to the Chair's earlier question? You all gave different percentages, and we have just been talking about perhaps making up the gap in funding from overseas students. In terms of the Higher Education Funding Council, how much money, in cash terms, did each of you get this year?
Jon Baldwin: £80 million.
Professor Robinson: About £4 million.
Professor Wathey: And £58 million.

Q27 Stephen Barclay: So from a budget of £7.8 billion in grants, pretty modest sums.
Jon Baldwin: Warwick's turnover last year was £405 million. £80 million of that came directly from the Funding Council .
Stephen Barclay: What, sorry?
Jon Baldwin: Our turnover last year was £405 million.
Stephen Barclay: So the £80 million was as part of a turnover of £405 million.
Jon Baldwin: Correct.

Q28 Chair: That is a percentage. Will you become a private institution if you get no money?
Jon Baldwin: It's an interesting question; I guess yes.
Professor Robinson: We are already private institutions.

Q29 Chair: Because that would take you out—well, it is interesting. Buckingham is the only one really, isn't it, which is private at the moment?
Professor Robinson: There are quite a few private institutions as well as Buckingham. Buckingham is the only one with a University Charter, but as Vice Chair of Guild HE I am well aware that there are many private providers in higher education because they are members of Guild HE: there is Holborn, there is Aldwych, there is a whole range.

Q30 Chair: BPP and people like that. So they do not get regulated?
Professor Robinson: I think that is one of the issues about the new system, that if all of the private providers—including ourselves, but if you think about the distinction as not for profit and profit making—have access to the loans book then there needs to be some common system for making sure there is value for money in how that is used, whatever the status of the institution.

Q31 Chair: My understanding of the current statutory framework is if you get no money from HEFCE you get no regulation from HEFCE.
Professor Robinson: I think that is right.

Q32 Chair: So you might still get public money through another route, from the students, but you will not necessarily get the regulation. Two very final questions: one, are you worried about competition from Europe: European HE institutions offering degrees in English?
Jon Baldwin: A point to make about the European institutions is they very much envy the autonomy that the British universities have, and you see considerable activity in a number of European states as to how they might move to emulate what they see as the—
Chair: Cheaper.
Jon Baldwin: —success story of the UK, so we have to be very careful we do not prejudice that autonomy. I do not see it as a bad thing at all: competition is good for us and will make us better.
Professor Robinson: There is also a sense in which there will be traffic the other way, because for European students, although it may be cheaper to study at home, there is not the loans package. For some of them it may be more affordable to come here to access the loans and pay back than to study at home.

Q33 Austin Mitchell: But Maastricht University have been offering cheaper degrees. I do not want to say anything good about Maastricht in any way, but they have been offering cheaper degrees.
Professor Robinson: But not in every discipline.
Professor Wathey: And I believe with upfront payment. Perhaps if I can just come back to the Chair's earlier question about going private, if that is the right phrase, it does very much depend on what a private institution is. Government backing for the loan scheme is still public money. There is still the research grant from the Funding Council, and that would be another consideration: would one want to lose that?

Q34 Chair: My very final question: one of the things that comes out in the report is that where there is an institution in financial difficulties, nobody knows; HEFCE tells nobody for three years. Is that acceptable if you are a student paying £9,000 fees?
Professor Wathey: I think there is a big difference between being at higher risk in the risk assessment and being in financial difficulties.
Chair: What does that mean? I have no idea what that means.

Professor Wathey: There is an example in the Report—Ravensbourne College I think—which was at higher risk because it was receiving support as it undertook an estates project. It was not in financial difficulties—at least I do not read that from the Report—so there is a difference in those two categories. I think the other thing, perhaps, to say here is that—that point has eluded me, I am sorry.

Q35 Stephen Barclay: Just whilst you are catching your thoughts on that, could I just quickly ask you to describe to me the benefits you get from the Higher Education Academy and from the JNT Association? How do they help your institutions?
Professor Robinson: The Higher Education Academy offers support on a national framework, so that we can improve the standards of learning and teaching in higher education.

Q36 Stephen Barclay: My question was not what it does; my question is how you benefit, please.
Professor Robinson: We benefit in that we get a national benchmark on the programmes we run for training our staff, and we benefit in terms of access to research groups and special interest groups who are developing practice.

Q37 Stephen Barclay: And the JNT Association, trading as JANET(UK)?
Professor Robinson: We get really fast internet connections, which means that we can do all the things we need to do.

Q38 Stephen Barclay: It is just we spend over £24 million, so six times more than Professor Robinson, your institution gets, on the former, and we spend £47.5 million on the latter that delivers fast internet. I was just wondering whether, as institutions, you feel you would rather have some of that money direct or whether £47.5 million on fast internet is giving you the best value?
Professor Robinson: I would say JANET is very good value. It makes a huge difference to the way that we operate and it makes the system not just faster but very secure.
Chair: It is between universities as well, isn't it?
Jon Baldwin: I agree with that, and it is not just about fast internet, it is giving us some international profile as well. Certainly in Australia there is great work going on through a number of institutions and JANET to take across the benefits of what is essentially a shared service that is efficient in that respect. Higher Education Academy; interesting question.

Q39 Chair: I am going to draw us into the next session. Is there anything you would like to add? I do not think you have answered the question on the three years quite, but you basically like to have three years of secrecy, do you?
Professor Wathey: Can I come back with the point I lost, which was simply to say that if there is a material occurrence it should really be in the statement of internal control in the annual accounts, so it ought to be published by the institution.
Professor Robinson: I come back on the three year point, I would say that the difficulty with going public too soon is that people can misunderstand, and the Ravensbourne College example is a very good one. It is a member of Guild HE, I know it well. It has gone for a major development, moving into a campus next to the O2 stadium, and it has transformed what they are able to offer to the next generation of students. It was an entirely appropriate risk: you would not have wanted that institution to be destabilised while it went through that process.

Q40 Chair: I accept that, and I think that is an issue of definition of what is higher risk, but I think if you are in a TVU, shouldn't you know, as a student? Why not let you know?
Professor Wathey: You should be able to read it in the institution's accounts, and read what the mitigation strategy is.
Professor Robinson: And they are published annual.ly
Chair: If you are a student?
Professor Robinson: Anybody can access those, it is public information.

Q41 Stephen Barclay: If you can read it in the accounts, why not disclose it?
Professor Robinson: I think it is about disclosure having a danger if it is not handled properly. We have been through a destabilising around our reputation because of an inaccurate disclosure just the week before last, when we were in the press as apparently having a 13% to 14% reduction in our HEFCE funding, the biggest in the country. It is not that at all, it is 4%. But as a result I have spent a lot of time over the last 10 days reassuring people that no, we are not going bust.
Jon Baldwin: Maybe it is language; in the past, in the system we have, "at risk" has got particular connotations, etcetera. In the new system there are new dynamics, there are new demands, there is new information needed, and I think it is finely balanced and worthy of the debate you are clearly stimulating.
Chair: Anybody else? Thank you so much, and I am sorry we were interrupted. It always makes it a little bit more difficult when we have an evidence session, but thank you very much indeed. Thank you.

Q42 Austin Mitchell: Is the Sky Centre anything to do with Murdoch?
Professor Robinson: Sadly not; we do not get a penny from him. It is our business development centre. There is a complicated reason why it is called the Sky Centre I will not bore you with now, but it involved having chaplaincy in there as well at one point.

Examination of Witnesses

Witnesses: **Martin Donnelly**, Permanent Secretary and Accounting Officer, Department for Business, Innovation and Skills, and **Sir Alan Langlands**, Chief Executive and Accounting Officer, Higher Education Funding Council for England, gave evidence.

Q43 Chair: Can I welcome you both, Sir Alan and Martin Donnelly. I think it is the second time you have appeared before this Committee, so welcome again. I think we are going spend the first period just talking about the current system and then clearly we have got to look at the appropriateness of current regime in the new circumstances we find ourselves in. Most of the questions will be at that, and we will try to keep it as tight as we can. I just want to start on a very general question. It is really question to you, Sir Alan; HEFCE have a duty to promote value for money. How do you determine whether institutions are providing value for money for the level of public money they receive?
Sir Alan Langlands: We have an annual assurance review and an annual assurance process, and one of the things that the university auditors have to do is provide advice on whether or not universities have used that money for the purposes intended. That is the first step. I think the second step was mentioned in the earlier session, and that is that we promote a process of benchmarking around the sector, and we provide every year, in our annual assurance letter, benchmark data of how that institution is doing against its peer group, and we use that, I think as Muriel Robinson was suggesting, through our regional teams to probe areas where we think there might be difficulties or where a university might not be performing to the benchmark standards. That, I think, is part of the process. I think we often fund and support on the basis of achieving some sort of return. Specific initiatives, for example, on procurement: we have initiatives at the moment on information systems, where we are trying to encourage universities and groups of universities down the track of shared services where we think that can add value. Indeed, in some academic areas where we feel that very good but very small departments might struggle in terms of their wider international—usually—competitiveness, we tend to try and cluster support and use through incentive funding, but ultimately a process that is sustained by the universities themselves, through collaboration. So we have in the West Midlands, for example, four universities working on Physics.

Q44 Chair: As I read all the stuff it is all about financial health, I can understand that, which I take it is a little bit “Is the university going to go bust or not”, or “Is it in financial difficulties on one of the criteria set?” But if I can just give you an example of what I have had in mind. In my office I have two people, one of whom is a graduate from LSE, the other one is a graduate from Cambridge. The one who went to Cambridge for her whatever it was, £1,000 or £3,000—in the future possibly £9,000—got small classes of probably never more than 10, and individual one-to-one tuition with a senior academic once a week. The one who went to LSE was taught by postgraduates and never had a one-to-one. That is a sort of value for money. So if I am spending my £9,000—these are two Russell Group universities, but just looking at a value for money perspective—I get a very different value for money experience. Where do you assess that?
Sir Alan Langlands: I do not asses it.
Chair: I went to LSE.
Sir Alan Langlands: I do not assess it. The question of academic standards is a question for the university. That is part of their responsibility.

Q45 Chair: But you have a duty—let me get it absolutely right—to promote value for money.
Sir Alan Langlands: We have a duty to promote value for money in relation to the money we allocate, ensuring that it is used for the right purposes, that it is spent well, that it is handled in an efficient and economic way. The question of academic standards is a question for—

Q46 Chair: But that is how the money is handled, isn’t it? The money is handled in one institution, or must go towards one quality of education, and in another institution it goes in another way, although I do not know the proportion in the one institution that comes from public purse. It is a complete value for money issue, and somehow, as we travel into the new world, that sort of information becomes ever more important for student choice.
Sir Alan Langlands: That would be important in the relationship between the student and the university, not in the relationship between HEFCE and the university.

Q47 Ian Swales: Are you saying then that you do not regard value for money as to do with the experience of the student? I have another example of someone who is studying politics at Newcastle at the moment in classes of 200, where they only have tutorials in groups of 20 with postgraduates. It seems like a very poor experience to me. To me, if you are talking value for money, how do you measure the value? Surely the student experience has to be a key part of that value. Are you just saying you just ensure it is accounted for properly? Do you see that as the limit of your responsibility?
Sir Alan Langlands: It is a very difficult conversation this, isn’t it? I could come up with a whole range of anecdotes that tell you how well people are taught. The question is, is there consistency across the sector? Obviously there is not consistency because each university is responsible for its own standards. The level of achievement that a student has to reach in an individual institution is a matter for the university. Our statutory responsibility is simply to make sure that in terms of, if you like, the learning experience, ensuring that appropriate and effective teaching is available, which is judged in our case through the Quality Assurance Agency, and that is where the line is drawn. HEFCE does not interfere in the direct relationship

between the student and its institution, and indeed you could argue that that point will be accentuated in the new world, where there is less public funding and more “private funding”—funding that ultimately the student as a graduate will pay for—but that relationship becomes the key relationship.

Q48 Ian Swales: You yourself talked about the teaching experience and so on in your response just now, so things like student/staff ratios: you must take those into account, don’t you?
Sir Alan Langlands: We look at student/staff ratios as part of the benchmark, and of course the subject mix in different universities can affect student/staff ratios, so it is difficult to make broad comparisons.

Q49 Ian Swales: So you only do it at quite high level, then? You do not look at departments and courses at that level?
Sir Alan Langlands: The process of ensuring quality provision: we subcontract through the Quality Assurance Agency, which is an animal of HEFCE, and indeed the other UK funding bodies, and of the sector, because it operates at the boundary between Government funding currently and the university’s responsibility for standards.

Q50 Ian Swales: But don’t you feel that you are speaking for that agency as well, then, in terms of this? Sorry, if I can just finish this point, I think the reason that we are probing this is because, in terms of value for money, which is the duty of this Committee, we are just trying to relate the money spent to standards, and we were, in the previous session, talking about how we assure standards if HEFCE, for example, are not even involved in an institution. This is one thing we are exploring, but now we seem to be hearing that HEFCE probably are not as much into standards as we thought they were. I do not know if that is right.
Sir Alan Langlands: Standards, by law, are the responsibility of the institution. HEFCE does take a view on this: it does look, for example, at QAA reports when it is considering the overall wellbeing of a university. It does look at the National Student Survey, which sometimes uncovers trends or difficulties within institutions. So in terms of general intelligence about that institution and its academic as well as its financial progress, sure, we take an interest and we ask the right questions, but the responsibility is squarely with the institution on standards.
Ian Swales: I accept that.

Q51 Stella Creasy: I guess it is the other way round, isn’t it? If we are going to be lending the amounts of money that we are going to be lending to students to be able to purchase places on these courses then there is a public interest case in ensuring that the course that they are purchasing is of a suitable standard. That is an issue. That is the other way round of looking at it: what assessment have we made that it is worth the amount that they are going to be charged in order to accommodate paying for that up front in order for them to be able to do it?

Austin Mitchell: Because they will not know until they have purchased it and got it and they are stuck with it.
Sir Alan Langlands: What we are doing, based on current Government policy, which is to put student choice at the centre of these changes, is trying to provide in the future—working on it now with others—prospective students with a great deal more information than the currently have: information about courses, information about the processes of assessment on these courses, the content, the balance of teaching time in the courses, their employment prospects, perhaps, on graduation.

Q52 Stella Creasy: So you are making assessments about whether or not the course is a good value course.
Sir Alan Langlands: We are beginning to produce information that will allow the student to make that assessment. We consulted prospective students in producing that information pack. It is not our sole responsibility: we have been doing it in conjunction with Universities UK, which is the ‘trade body’ for higher education, and we have been doing it in conjunction with the Quality Assurance Agency and indeed the National Union of Students, so the partnership of national agencies is currently working, on ministerial advice and encouragement, to produce much more information to go into public view about every course and every university to support and aid the process of student choice.

Q53 Stella Creasy: I appreciate that, and that is obviously on an individual student’s perspective. What assessment are you making about numbers in terms of that ability to deliver? Presumably there is a number of students that each course would need, for example, to be financially viable, so that you need to have an assessment about whether or not said benefits could be delivered dependent on the number of students applying for it, presumably.
Sir Alan Langlands: You heard from Muriel Robinson that in her university, as in every university, the judgment about what courses to provide and the viability of these course in terms of student numbers and staffing ratios and laboratory time and everything else is made by the institution. It is not made by HEFCE. We do not micromanage student numbers at that level.

Q54 Stella Creasy: But the information that you are collating will obviously be dependent on the university’s ability to deliver what it is saying, which is dependent on the number of students who apply at that rate, isn’t it?
Sir Alan Langlands: What I was going to say is that what we do is oversee student numbers at an institutional level. But of course, given that part of the new world is to ensure that students can have greater choice and that numbers can move between institutions, it is probably only for the next two or three years that we will see the stability that is achieved through student number controls at an institutional level.

Q55 Stella Creasy: When you say stability, what are you talking about? You are saying the next two or three years, so you are expecting in the next two or three years perhaps for there to be excess places or not enough places? In the modelling that you are doing.
Sir Alan Langlands: We do not know. All we can do is have the experience of the introduction of fees in 2006. When variable fees were first introduced in 2006, in year one of the process there was a dip in numbers, and since then growth has been almost inexorable.

Q56 Stella Creasy: There was also the teaching grant at the same time. This is a double change, it is not just in terms of the fees going up for the students, it is removing the teaching grant that would perhaps cushion universities in providing courses at this point in time; now they will not get the money to provide unless they have the student numbers to back it up will they?
Sir Alan Langlands: I absolutely agree with that, and if you ask me what one of the biggest risks over the next two or three years might be, it would be a fall off on student numbers.

Q57 Stella Creasy: So in theory you could be monitoring universities producing places that are not taken up, or not producing enough places to meet demand? There could be those problems in terms of that model you are talking about. In terms of the value for money for us as taxpayers that could be a problem in the next couple of years.
Sir Alan Langlands: There could ultimately be these problems, but I think during the transition phase, which I regard as the year 2011–2012; for the academic year that we are about to go into, the year 2012–2013, which is the first year of the new arrangements, I think current Government policy is to try to ensure—in fact, it is firmly stated in our grant letter that we do ensure—smooth transition and stability through this period in order to settle the new system down.

Q58 Stella Creasy: I have a student in Walthamstow who has a deferred place: she does not know what she is going to be charged to go to university. The universities will not produce their fees until July; she is being asked by UCAS to make a decision by May. Given all those difficulties about planning, do you think that is fair?
Sir Alan Langlands: I think it is a consequence of the speed at which government policy has been made. It is not for me to say whether it's fair or not.
Chair: We are in some danger of drifting to the future; let us try to focus if we can, Stephen, on the current, and then move to the future, Stella, is that alright? We will come back to this.

Q59 Stephen Barclay: If I can return to the Report, Sir Alan, and take you to page 33, figure 14, which sets out that your running costs are £19 million; your organisation gives out in grant £7.9 billion. In your annual accounts, £6.5 million appears as "other administration". Could you just quickly break that down for us?
Sir Alan Langlands: I am not sure that I could, to be perfectly honest. I can give you a note on that, but it is not a figure I am familiar with. The £7.9 billion of course is much reduced now, given the expenditure reductions we have just done.
Stephen Barclay: It is a third of your running costs; we are a value for money Committee, we are looking at your accounts.
Sir Alan Langlands: I am not sure that the administration costs, as you have defined them, are part of our running costs. I think they will be separately identified.

Q60 Stephen Barclay: I have the accounts in front of me: it has £6.5 million and the description is "other administration".
Sir Alan Langlands: I do not know the answer.
Chair: What would be really helpful if within a week you can give us a breakdown, within a week.
Sir Alan Langlands: Yes, I am very happy to do that.

Q61 Stephen Barclay: They are your numbers, and you are paid £230,000 a year, so I do not think it is unreasonable to ask what is in your accounts. If I can say, within that, one of the things that stuck me was £1.7 million is spent on staff and general expenditure, so perhaps within the note you could add that in. Perhaps Mr Donnelly could help.
Sir Alan Langlands: Perhaps, if I may, we see that in the context of the overall judgment of the NAO, that HEFCE is an organisation that provides a very good value for money, and that has running costs of 0.2% of the funds that it allocates, so whilst I think your points are absolutely valid and I will reply in detail, I think it has to be seen in the context of what is, according to this Report, a very efficient, able organisation that is doing its job well.

Q62 Stephen Barclay: Sure, but concerning that ratio—and I accept the NAO's paragraph there, I do not necessarily agree with it—you must also accept it is low because the figure you are giving away is very high. So the bigger the grant the more that shifts that ratio, which does not necessarily mean you are acting efficiently.
Sir Alan Langlands: Look at the comparatives with the devolved countries, where they are allocating much smaller sums away, sure; we are not proportionally that much higher. Compare it with any other public funding body and I think we are the most efficient there is.

Q63 Stephen Barclay: Sure, but again, you are missing my point. My point is not whether other organisations are even more efficient, my point is to try and understand how efficient your organisation is on its own merits.
Sir Alan Langlands: I think the NAO report clearly states it is highly efficient.

Q64 Stephen Barclay: Sure, but I have accept their point, I am entitled as a member of the Committee to ask you on your own numbers. We are, as I say, a value for money Committee. You have £53 million

sat in the bank. I was just wondering why you have £53 million sat in the bank.
Sir Alan Langlands: It is a relatively small sum compared to the £7 billion plus, and it is money that will be used and invested in higher education at the right time. Some of our funding flows depend on receiving information from universities, so for example, in our most recent allocation round we delayed some of our widening participation funding and some of our funding for retention of students until the summer, until we see further information and data from universities that would allow us to apply that money effectively. We are trying our best to smooth this out, and it is not unusual to be carrying relatively small sums across—

Q65 Stephen Barclay: Okay, I will take one more to Mr Donnelly. At our last hearing we had an exchange, as I am sure you recall, regarding Mr Maud's aspiration for a tight-loose approach on arms'-length body spending, and you gave a commitment to the Committee that you would be gathering monthly data from arms'-length bodies such as this one on issues such as consultant's costs. Are you doing that, and if so where is it being published?
Martin Donnelly: This information is being fed in to the centre on a regular basis, pulling together HEFCE and other organisations. There are now agreed procedures to cover issues such as marketing and other forms of consultancy spend, and we collect this information and I believe that it is then collated by the centre. I am not sure about the precise arrangements for publication, and I can check on that.

Q66 Stephen Barclay: Can you just clarify what is being fed in, so that if I submit a parliamentary question I can put it in the correct form? Can you just clarify what data you are submitting to the Cabinet Office now on arms'-length bodies' costs?
Martin Donnelly: I will have to give you a note on that to set it out precisely.
Chair: All our notes have to be in within a week, or you are required to attend the Committee again.

Q67 Austin Mitchell: I see from page 28 figure 10 the number of institutions at higher risk has been increasing. Why is that?
Sir Alan Langlands: Has been decreasing? Because I think they are in better shape.

Q68 Austin Mitchell: The numbers have been increasing, and the amount of time they have been at risk has also increased.
Sir Alan Langlands: I think the amount of time is a significant issue. I think the number has drifted between four and 10 over the years. These are very small numbers on this graph here: it is the difference between four and six.

Q69 Austin Mitchell: Why not publish the names? I see the National Audit Office has published the name of Thames Valley University, which seems to have been at risk for a long time.
Sir Alan Langlands: That has been at risk for a long time, and there are a whole—
Austin Mitchell: So why don't you publish it?
Sir Alan Langlands: Our view, and a view that we have taken in agreement with the Information Commissioner, is that we do not publish the names of universities at higher risk for a three year period beyond the point at which they are place at higher risk, unless there is a real threat on the question of going concern. We recently did publish a huge amount of information in the case of London Metropolitan University, put the whole picture in public view, because we had such deeply held concerns about that University. But generally our approach is to help these universities through a time of difficulty.

Q70 Austin Mitchell: I understand that, but in the new system, which is much more market orientated, I am going to come with my little pot of gold, £9,000, as a supplicant to the University of *Snubble*[1.11.12], and I need to know whether the University of Snubble—let's not say Grimsby—is going to survive for the three years. Don't you need to publish it to inform the students that are going with their pot of money that they are going to have to pay back?
Sir Alan Langlands: I think by accepting this report we have said that we would reflect on that point. I do not think it is a straight open and shut case, if I may say so, because we have to think about harm to the existing students—you heard about that from our previous witnesses.

Q71 Austin Mitchell: But you are now accountable to the students, this is a market operation.
Sir Alan Langlands: These institutions at high risk are not institutions that are at imminent risk of financial failure, that is simply not the case.

Q72 Austin Mitchell: So you guarantee it for three years?
Sir Alan Langlands: No, I do not guarantee anything. The university itself in publishing its accounts and having a fully audited going concern judgment by its auditors guarantees it for the year ahead and beyond. At the moment, there are new financial reporting regulations that elaborate on that going concern idea, and we are looking to encourage universities to adopt that going into the future.
Austin Mitchell: But we know how skilful auditors can be in fiddling the accounts.

Q73 Chair: Can I just ask a question: the *Sunday Times* published the list in May 2010; did that damage any of the institutions?
Sir Alan Langlands: I think it made it very difficult for some of the institutions.
Chair: Did it damage them?
Sir Alan Langlands: I do not think it has helped them in terms of student recruitment, in terms of the motivation of their staff.

Q74 Chair: I looked at the recruitment figures: in fact, Thames Valley's recruitment suddenly whipped up. They must have done some initiative. Dare I get them for you, but Thames Valley literally I think had

a 40% increase in applications, although the *Sunday Times* had published this list of higher risk.
Sir Alan Langlands: I think by accepting the Report we have said that we would think about that issue. I am really making the point that it is not straightforward and that the judgment we made in 2006 was very carefully worked on with the Information Commissioner and he took the view, interestingly enough, that having a three year period, which roughly equates to an average time that a student is at university, was the best way of protecting existing students. What the NAO's Report has now done is open up the question about providing as much information as possible to prospective students, and I have explained earlier how we have been planning to do that. But I think there are dangers in rushing to judgment on that issue.

Q75 Austin Mitchell: Moving towards the future, I see paragraph 13, this is the summary on page 6, says that "9% of institutions"—this is up to now—"have had a deficit in at least two of the last three years." You are warning too, as we are, "that while some institutions will benefit financially from the funding reforms, some will, by 2014–2015, receive less public income and tuition fees income supportable by student loans." In other words they are going to be more at risk: those students with a risk now are going to be more at risk because the funding is going to be cut. Doesn't that mean that you are going to have a much more vigorous and effective framework for assessing their success or failure and how far they are at risk? You are going to have to be much more interactive with them and do much more and have them more accountable.
Sir Alan Langlands: If you take the very specific paragraph that you refer to in terms of the current system—I will come to the new system in a second—having a deficit in two successive years does not necessarily mean imminent financial failure.

Q76 Austin Mitchell: No, but if things are going to get worse?
Sir Alan Langlands: They may get worse, they may get better. Who knows how successful some of these institutions will be. You have to look at them on a case by case basis. What we do is look over a six year period. We look two years back and four years forward with these institutions. We are constantly trying to refocus our microscope and get a real understanding of what is going on in each institution to make the judgment about risk. This is not achieved by adopting one benchmark or one number and saying "There must be problems here"; it is simply not like that. In terms of the future, I think the risks are higher. Certainly in the change process they are higher because we cannot predict with accuracy what is going to happen to student demand; they are higher because I think the UK has suffered has suffered a bit of a reputational risk in the international field and that may have an effect on international recruitment.

Q77 Austin Mitchell: So you need to be more effective in holding them to account?
Chair: You need to change.
Sir Alan Langlands: Let me come to that question squarely: our position is that we cannot dictate that future. This is a matter of Government policy. Our current instructions from Government are that we will continue to operate in our existing way, with our existing powers, rules and responsibilities, until 31 July 2013. The working assumption is that the Government's White Paper on Higher Education will describe a new regulatory framework for higher education that might set out a new role for HEFCE, a different role, or it might create a new body. That is not yet known. But we are working with Government to ensure that, as the White Paper is prepared, the lessons from the past are rolled over and heard when thinking about future policy.

Q78 Chair: Mr Donnelly, are you happy with the existing regulatory framework for the new environment? Yes or no.
Martin Donnelly: Until, Chair, we have Ministerial agreement on the White Paper setting out the policy—
Chair: You are the Accounting Officer: you will account to us. Are you happy that the current regulatory framework is sufficient for the new environment?
Martin Donnelly: I was trying just to separate two points to answer your question properly. Perhaps I was not entirely clear. I am satisfied that the current arrangements, as set out in the letter from our Ministers, the grant letter to HEFCE, provide us with a satisfactory value for money framework for this year and for 2012–2013 as well. Between now and then there will be a White Paper which will set out—
Chair: You have not answered my question.
Martin Donnelly: I have, I think, answered your question for the year we are in and the year—
Chair: I said for the new environment.
Martin Donnelly: The difficulty I have is it is not clear what the new environment will be until we have set out the policy choices that Ministers have to make for how they intend to manage the new system going forward beyond 2012–2013.

Q79 Chair: Sorry, we know what the new environment will be: we know that money will go via student; we all know it for heaven's sake, there has been legislation through Parliament. Are you happy—you do not have to tell us how this morning—with the current framework of regulation and accountability for a new environment where most teaching will come through individual student choice and student fees?
Martin Donnelly: I would expect that the White Paper, later this year, will clarify the new regulatory framework—

Q80 Chair: Will it change?
Martin Donnelly: It will depend upon the decisions that Ministers make.

Q81 Chair: Are you happy as the accounting officer?
Martin Donnelly: I am happy that, at present, the funding that has been provided is—

Q82 Chair: You have got to answer my question. I am really sorry, I am not asking about the current

framework, I am saying we are moving to a new world, we have heard that the system has worked pretty well, pretty good value for money to date. We are going into a completely different environment: do we need a new regulatory framework? As Accounting Officer.
Martin Donnelly: I hesitate because I am trying to find a helpful way to answer that question that is also clear. There are decisions that Ministers will have to make about how they wish to manage the funding constraints that we have through the new system, and I would expect those decisions to be set out in the White Paper. I would look, as Accounting Officer, at what those choices made by Ministers are about new entrants, about possible constraints on fees, and I would expect those policy changes to be consistent with value for money, as I am required to do.
Chair: I do not understand it.

Q83 Stella Creasy: Can we just unpick that a little bit more, because obviously you talk about one of the constraints being the level of fee that is charged. Obviously in the new regime there was a calculation made that the average fee would be about £7,500. What we are seeing now is that is unlikely to be the case, that most institutions are looking at charging the full £9,000. How does that change the constraints that Ministers will be under and that you will then have to judge from a value for money perspective?
Martin Donnelly: Let me reply to that point, but first say that we do not yet know, and we will not know until the Office of Fair Access has made its judgments in July, what those figures will be; obviously there have been figures in the media. You are right to say that our modelling assumed an average fee loan of around £7,500 and a 90% take up by eligible students. If those figures are higher then there will be additional non-cash pressures on the student support budget; Ministers will have to make decisions about how they wish to handle these , and to state the obvious there are a range of options then from finding more money through various ways of rationing places and so on.

Q84 Stella Creasy: I am being a bit slow; what is a non-cash pressure?
Martin Donnelly: Because these are loans, they are on our balance sheet. But they are contingent liabilities that we build up. They will be repaid, there are assets, but there is probably a 30% estimated net cost. If you like, the money goes out, it appears on our balance sheet. We have to manage that process.
Chair: I just want to ask the Comptroller and Auditor General, who is nattering: it is cash. This is not money that goes in the new system.
Amyas Morse: That is exactly what we are talking about. We are not talking about something else.

Q85 Stella Creasy: What I do not understand: it is a non-cash pressure, that sounds distinctly like a cash pressure itself on the budget. You have a gap, haven't you, that you are going to have to plug.
Martin Donnelly: Yes.

Q86 Stella Creasy: So the idea is, what are the constraints and what is the implication for the value for money that we will have to judge for the various options? Because presumably the options then are finding more money, having fewer students or allowing a higher fee, aren't they?
Martin Donnelly: These are issues that Ministers are going to have to make trade offs on, and you are right: there are various ways in which you could do that, if you find yourself in that situation, and I repeat, we are not yet certain we will be in that situation.

Q87 Stella Creasy: Could you just tell me, have you done an analysis of what the fee would have to be to be able to match the current funding? What is the break-even fee it would have to be for funding on the like for like and the new model on the numbers we are talking about?
Martin Donnelly: We did our estimates on a basis of £7,500 as an assumption to work through the figures.

Q88 Stella Creasy: So that is the same number of students?
Martin Donnelly: Broadly the same number of students.

Q89 Stella Creasy: Broadly? What does broadly mean? 10,000 more, 10,000 less? 5,000?
Martin Donnelly: In this year and in next year there was an assumption, and I will check this, if I may, with Alan, that there would be 10,000 more places available, that those would not be continued, otherwise it was on the basis of a broad assumption of the same number of students. There are obviously issues about how many students take up loans which affect the figures, so there is not an automatic connection, and there are assumptions there that we are looking at, we will look at again as we get new information.

Q90 Stella Creasy: So if you continue having this gap then that will create an extreme pressure for fewer places, won't it?
Martin Donnelly: There will have to be some—
Stella Creasy: If you have done your modelling on £7,500 and it is likely to be a higher average level—it is not just Cambridge and the LSE, it is also Liverpool John Moores, Reading and Leeds, I think, who are also looking at round about £9,000 as well. That is quite a lot of universities creating that additional pressure on you, isn't it?
Martin Donnelly: There could well be an additional pressure on the student support budget, and it could be several hundred million pounds, we do not yet know. That would still be a relatively small percentage of the total business department funding of the HE sector, which is about £10 billion.

Q91 Stella Creasy: So you think you could plug that gap if Ministers were minded to?
Martin Donnelly: As of now, and perhaps this comes back to your question, Chair, there are a range of options that I am satisfied we have time to take, which could fill that gap should it emerge in that way.

Q92 Chair: I just want to get some clarity, because my understanding from the 23 or so institutions that have declared fees—you have about three quarters to 80% who have said they are going on the £9,000—if you take those 23 going forward you are likely to be over a billion short, which is a lot of money. Do you have plans either to cut student numbers or to fund that from elsewhere within your Department?

Martin Donnelly: Chair, first of all, I think it is very unlikely that the figure could be £9,000 from a Government point of view once you take scholarships, bursaries, fee waivers into account. We will only know about that when we have the results of OFFA's, decisions in early July. However, assuming that it is—

Q93 Stella Creasy: Sorry, can you explain that one to me, because that sounds like you are saying that that then creates an incentive to take more students who will not be paying fees, yes, or is it the other way round? You have to explain that one to me.

Martin Donnelly: What the Government has said, as you know, is that for institutions that want to charge over £6,000, they have to reach an agreement on access. That can include issues like how many bursaries they offer, fee waivers and so on, and there is also a Government scholarship scheme. All of those will have an impact on how many people take up—

Stella Creasy: On how big this gap is.

Martin Donnelly: Yes, how much student loan is given to different students. But that will be part of the agreement between the university and—

Q94 Stella Creasy: So that will create an incentive to offer more places, but it may then mean that the students who would not be entitled to a bursary will find it harder to get a place because you have this gap that you have to fill, and the way that you fill that is to have more students on bursaries. Is that fair? Or is it the other way round?

Martin Donnelly: No, because they can only reach an agreement with the director of fair access if they say what they are going to do and there is an agreement of what they are going do to deliver bursaries, fee waivers or whatever for students who are less well off. It is on that basis that they are allowed to charge over £6,000.

Q95 Chair: Can you just give a yes or no on my regulation issue: would you expect, in a year's time, for us to be considering a new system of regulation and accountability? Just tell me yes or no.

Martin Donnelly: I would expect some changes to come out of the White Paper, yes.

Chair: Thank you.

Q96 James Wharton: Sir Alan, the Government I believe has asked HEFCE to focus on supporting a smooth transition for all institutions to the new arrangements. How is that going?

Sir Alan Langlands: It is going quite well, thank you. The crucial point for us is not only to deal with some of the risks that we have been talking about earlier, but to ensure the orderly run down of HEFCE funding and the run up of funding that will in future be channelled to the Student Loans Company, so synchronising that change from day one, 1 August 2012, is where all our attention is at the moment in terms of achieving a smooth change. Remember that in 2012–2013 only first year students will be affected by these changes, so two thirds of the money will be continuing to flow through HEFCE in the normal way. But this coming year, 2011–2012, is a key preparatory year: we are working at HEFCE with the Student Loans Company on that. We are working with OFFA on our policies in relation to widening participation as they develop their access agreements. We are working with the QAA on new quality assurance arrangements. The national agencies—because a lot of these issues are at the boundaries between different agencies—are working together to achieve the smooth transition. I think also in the way that we allocated our funding for 2011–2012 we are trying to achieve some quite significant reductions for 2011–2012, but we have allocated our money in a way that protects participation levels, that protects the work that universities are doing with retention, that protects the best of our research activity, the world leading research, the internationally excellent research in the UK, and we should not forget in this discussion, which is largely about teaching, that HEFCE is still the biggest research funder in the country, and as the Report suggests we are hugely successful as a country in that field, so part of the transition is to ensure that that runs smoothly. We are also allocating money to support knowledge exchange: the interactions between universities, businesses and communities. That money has been sustained at its current level. Our priorities, from a very strong starting point, where universities have a very good year in preparing for this change, have been to focus on these things, and that is part of what you would describe as a smooth transition.

Q97 Chair: Do you expect any institutions to fail with the cuts they are going to have to face this year?

Sir Alan Langlands: I do not expect any universities to fail this year.

Q98 James Wharton: Concisely if you could, Sir Alan, what do you see as the main risks to the financial stability of institutions in this transition period?

Sir Alan Langlands: The main risks post 2012 relate to the points I made earlier about demand: will demand and therefore participation levels be sustained in the new world of higher fees? They are also about international recruitment and international funding. I think beyond that, longer term, there are risks, for example, to the very important and vibrant postgraduate economy in the UK, in England in my case. Will the effect of accumulated graduate debt have a bearing, medium and longer term, on the recruitment of postgraduate students, and therefore ultimately on the vibrancy of our postgraduate and postdoctoral community to support research activity? I would cite these as three of the biggest risks. I think there are risks on the costs side that we are watching, the most significant of which will be pensions.

Q99 James Wharton: Given that, and the role that HEFCE plays in monitoring and assisting with the financial health of institutions, one of the things that struck me in the Report—and we have heard some quite complimentary things about HEFCE in the evidence we took before you arrived, and certainly I am aware of some quite complimentary things—was that the message was it is light touch regulation and it works very well. Of course, that is exactly what we were saying about the banks until it did not work. There is the danger that everyone likes light touch regulation when it is going well, when there is plenty of money around. As an example, what struck me, Professor Wathey, who has stayed with us and sat behind you, and I think you have made the comment as well, was to draw the distinction between an institution that you say is at high risk and one that is actually in financial difficulty. Do you think there is a need to have a more nuanced grading system so that we can better assess the risk that institutions may face, particularly as we go into a period of transition like we are?

Sir Alan Langlands: I think if we had not been moving to a completely new system—in other words, if we had been in a stable policy environment—we would have been looking at a graduated systems of risk that was clearer, and we were working on that and we decided that there is no value in going down that route for 2011–2012 if we are going to have a White Paper that inevitably, as you have been suggesting, will change the regulatory system. Every year I write to the chair of university councils and to Vice Chancellors a risk letter, and even those that are not at high risk draw on a vast array of information, and we provide comments; we run up little flags and say "You had better have an eye on this over the next two or three years." Coming back to your point about light touch, the way I describe it is not light touch: I think our approach is better regulation; it is regulation that looks at institutional sustainabilities, value for money, propriety, regularity, governance, risk and control. It does so using a vast array of information, and it is an approach that is managed by a group of very able, experienced people, who combine university, private sector, public sector experience and make judgments. This is not some tick box, light touch approach: this is a very sophisticated, and, at times, at its best, when there are problems, a very highly focused, rapier like approach.

Q100 James Wharton: Can I ask one final question of Mr Donnelly? If there are significant numbers of insolvencies in institutions in the coming years as we enter this new funding regime, what would you expect HEFCE to be doing about it? What do you see their role as being, specifically where institutions are facing insolvency?

Martin Donnelly: First of all, I would underline what Alan has said, that we do not see any risk of immediate collapse, and it is important—

James Wharton: I am accepting that, but just in case that happens.

Martin Donnelly: —to reassure externally. The issue then would be I think we would look to HEFCE, ideally, to work with the institutions as they have done in various cases over the last 16 years to prevent that process happening, working with the assets that every institution has, its property, its cash in hand and so on, so there is time to respond. If that does not work then we would look to HEFCE to facilitate an orderly wind down, consistent with the obligations of the governing bodies of HEIs, who have obligations to manage the institution and have obligations to the students. We would be concerned to do what we could within the parameters of that independence to support the transfer, or whatever, of students, because from our perspective it is the students who are the key people in this process.

Q101 Ian Swales: A quick one from me. Mr Donnelly, you spoke about the new funding and the balance sheet and so on. What is the working assumption now? Under the new system, of the money that is allocated to higher education institutions backed by student loans, what is the working assumption of the proportion that you think will be paid back from the first year's allocation?

Martin Donnelly: We are working on the assumption of a roughly 30% non-repayment for a range of reasons. That is something we keep under review as new information comes in.

Q102 Ian Swales: So my question—and I have asked this before in other fora and not necessarily had an answer I understand—is how is that being accounted for? If I was a private sector organisation and I lent £10 million out with the expectation I would only get £7 million back, then I am quite sure my auditors would want me to do something in my accounts each year about it, and I just wonder how the Government is accounting for this expectation that it will not get all that money back?

Martin Donnelly: Not being an accountant, I will aim to answer your question, and if I get seriously off piste—

Ian Swales: I am sure Mr Morse will help us out.

Martin Donnelly: Essentially, we aim to take on our balance sheet what we have got outstanding, which could rise from about £24 billion for student loans already in the current year to about something around £70 billion by 2015–2016. We need to ensure that we are taking account of what we are likely not to get back, following standard accounting rules. We have most recently worked with Deloitte, I believe, to make ensure that the assumptions we are making on those are right. If the risks appear to be increasing as we get evidence going forward then we would have to make an adjustment on our balance sheet accordingly.

Q103 Ian Swales: So are you saying that you will make what an accountant would call a bad debt provision each year, which will appear in public spending, for the amount of money you are not going to get back? Is that the case?

Martin Donnelly: We have to ensure that we are giving a true and fair view of what is going on; on the precise mechanics of how we do that I would have to get back to you.

Ian Swales: That is why I wanted to go first.

Chair: We have a vote. If I ask everybody to be really quick, to rush in and out and back again.

Sitting suspended for a Division in the House.

On resuming—

Q104 Chair: I just wanted to get clarity again if I can from you, Martin. As I understand your regime for failure, you will be having a system which will allow failure? Again, that is just a yes or no.
Martin Donnelly: That is the legal position, yes.

Q105 Chair: Well, is it the policy intent as well? In dealing with the situations that James Wharton was alluding to, is it the policy intent that it would allow failure, from how you described it—as a failure regime—given the risks that Sir Alan has said?
Martin Donnelly: Well, Chair, as a matter of fact, it follows from the fact that these are independent legal entities in the private sector.

Q106 Chair: No, until now, the policy intent, if you look at the Thames Valleys of this world, has been to intervene to support institutions to continue. In the new world, with increased risk—we ask this in the NHS, we ask it in other bits of Government—is the system for dealing with failure to allow institutions to go into liquidation?
Martin Donnelly: I cannot give you a policy answer to that until we have set out the White Paper, but I could say pretty confidently that we are not in the business of wanting institutions to fail.
Chair: Of course nobody is, but that is not the point.
Martin Donnelly: But it is an option that currently does exist and, subject to what the White Paper says, I would expect it to continue to exist, yes.

Q107 Austin Mitchell: That is an unsatisfactory answer; we are in an unsatisfactory situation. Everybody goes on about markets, this is now a market situation in the universities. In markets people fail, the rigour of the market is maintained by failure. If you are going to have a market system you have to be prepared to allow failure. Can the state afford, and should it allow, a university to fail, with all the redundancy payments to staff, the disappointment to students, sale of the buildings: could we conceive of failure being allowed?
Martin Donnelly: I understand the point; stop me if you think I am not answering the question. I think it comes down to an issue of adjustment. The Government wants to see successful institutions.
Austin Mitchell: We all want to see successful institutions, but we do not want to see failure.
Martin Donnelly: It also wants to see new institutions enter the market. There has, therefore, to be the possibility of less successful institutions shrinking, and one possibility, at the extreme end of that, if all else fails, as it were, to keep them as going concerns, is that they would fail.

Q108 Chair: This is a change of direction. I just want to get clarity, because it is very difficult if we are not clear. The policy intent from the actions HEFCE has taken to date on institutions like London Met or like TVU has been to ensure that the institution does not fail. That is why it is on your at risk. The policy intent in the new marketplace, if institutions do not succeed for whatever reason, would be to not have the intervention to stop them from failing. It is a quick yes or no, it really is.
Martin Donnelly: Then until 2013, the answer, if you are asking about change—
Chair: No, I am asking in the new world.
Martin Donnelly: —is no, because we have said that we expect that Council to continue to continue to perform its current role on a specific, statutory basis.

Q109 Chair: In the new world; in the new world.
Martin Donnelly: In the new world: Ministers will need to set out precisely how they want to approach that in the White Paper.

Q110 Chair: To take Austin's point, if it is a market, the market assumes successes and failures.
Martin Donnelly: I can only repeat the point that I made a few moments ago; these institutions are already in the private sector, and they will continue to be in the private sector. From that perspective there is no change. We would also—I am confident—want HEFCE or some successor body to continue to assist the management of the process to avoid unnecessary failure, but that does not mean that failure would be ruled out. But that is subject to what Ministers wish to say in the White Paper.
Amyas Morse: You have touched on it there Martin, thank you very much. This is slightly different; I just wanted ask for my own understanding. Given that the new grant regime is effectively substantial amounts of Government sourced money, a bit through different channels, but still coming from Government, would we be entitled to say such flows of money normally require some sort of a regulatory oversight, so we would be right in expecting some form of regulatory arrangement? Sir Alan carefully made the point it might not be his, it might be anybody's that you decide on, but we could reasonably confidently expect you think it right to have some form of regulatory oversight; would we be right on that?
Martin Donnelly: I cannot give you a fully clear answer to that without getting into policy areas, which I cannot, but if I may give a personal view, I would make two points. First of all, I believe as accounting officer we are very fortunate to have HEFCE performing the role it has performed over the last 18 years with private sector institutions, and that is an asset on which I personally believe it would be right to build in whatever model you have and whatever changes are required.
Amyas Morse: Fine, I was not trying to trap you into anything, I just wanted to hear your reaction to that.

Q111 Stephen Barclay: Could I ask, Mr Donnelly, whether you expect the staffing of the Higher Education Council to increase, stay the same, or decrease over the next two years?
Martin Donnelly: We have to look to HEFCE, as to other partner bodies, to share in the reductions in administrative expenditure which we all face. Currently, we would be looking for HEFCE to make administrative savings of around £2 million over the next four years as part of our overall savings package. We will want to keep that under review in the light of the tasks that they may be given when we know Ministers' policy decisions in the White Paper.

Q112 Stephen Barclay: So if they are making those savings, you would expect headcount to probably come down.
Martin Donnelly: That would be a matter for Alan to organise.

Q113 Stephen Barclay: If I can just refer to the Burslem Review, in that it says, and I quote, "a greater level of staff resource by HEFCE would be needed in any funding approach where there is a requirement for greater evaluation of value for money and more explicit outcomes. It is likely that we will see an increase in the number of institutions in financial difficulty. There is a question about the capacity of the Council". In other words, I guess the logic being if more institutions are under pressure, the pressure on Sir Alan's organisation will increase, but at the same time you are going to be asking them to make headcount reductions.
Martin Donnelly: You are right to flag up the tension we have to manage there, as we do inside my Department, and in a range of other institutions. My mitigating strategy is, as we are, to stay very closely in touch with HEFCE; we have the joint accountability group, we have essentially weekly and often daily contact with the sponsor team. If we felt that there were risks which we had to manage in a different way I would expect us to look at that. It is a challenge for us both going forward.

Q114 Stephen Barclay: As part of that daily contact, I am just wondering how closely you as Accounting Officer are able to satisfy yourself in terms of value for money. For example, just taking one expenditure, the Council is spending over £1 million this year on the equality challenge unit, and I was just wondering, given that their staff numbers have gone up 7% from last year and they have £1 million in their bank account, why you felt that was core spending at the same time as potentially cutting staff numbers for the Council, and what sort of performance metrics you have for a unit like that?
Martin Donnelly: We have a range of performance metrics; we have a three year corporate strategy process which we are in the act of reviewing, I believe, with HEFCE at the moment. We do expect organisations like HEFCE to run their own affairs, because our experience is that micromanagement is not ultimately cost-efficient. I was reassured by what the NAO said in their Report about HEFCE, as a cost-efficient organisation delivering value for money, but that has to be a continuing dialogue, and the points that you raise are the sorts of issues that I would expect to encounter.

Q115 Stephen Barclay: There are two issues within that. First, Sir Alan made the same point and as far as I understand it the NAO Report was only focussing on £2 million of this spend in terms of the regulatory framework here. They were not looking at the budget as a whole, although they were making a ratio comparison in terms of the whole budget, in terms of your overall grant. I do not believe this Report has looked at the organisation as a whole and come to the conclusion that was alluded to earlier. But I come to the second point which you raise, and, with respect, was not answered about the performance metrics. If I look at the equality challenge unit's programme for 2011 there are no performance metrics in it at all. In fact, the main piece of work they cite is dealing with the Equality Act 2010, which has already come into force, so I would have thought there would probably have been more work in advance of that than afterwards. Do you have performance metrics, and could you let me have those as a note following the Committee?
Sir Alan Langlands: Yes, happy to do that.
Stephen Barclay: It is £1 million, it is not an insignificant sum.

Q116 Chair: Okay, can I move us back onto another issue. We raised previously, with the representatives from the HE sector, the issue of the change in funding meaning that for many institutions they stop getting HEFCE money, or they virtually stop getting HEFCE money. Courtaulds, I have it down as 91% of their courses being humanity courses, so they will probably not get much, Heythrop 98%, one of our witnesses will not, you could be thinking Goldsmiths, you could probably think University of the Arts, there is a whole range of institutions. Two questions arise out of that: are you expecting more institutions, therefore, to become private institutions? Mr Donnelly first.
Martin Donnelly: That is a matter for institutions, it would depend—

Q117 Chair: I understand it is a matter for them, but you run this big Department, with this big dollop of money, and we must have a view, because public money will be going in in different ways, as to whether or not you expect beyond Buckingham and some small colleges, an increase in private higher education institutions in Britain. Yes?
Martin Donnelly: I do not have a fixed view on that, but I would not be surprised if there were more private providers. I would just add that at the moment we have about 84, with 4,300 publicly supported students, and a cost to the taxpayer of about £30 million.

Q118 Chair: I do not know where those figures are coming from. 84 what, private providers?
Martin Donnelly: Private providers, yes.

Q119 Chair: Do you fund 84 private providers?
Martin Donnelly: No, they do not.
Chair: At all?
Martin Donnelly: We were defining private providers, I believe, as people who do not—

Q120 Chair: What is the definition: they provide degrees that are verified by whom?
Martin Donnelly: Private providers I think are defined as receiving no HEFCE funding.
Chair: Do they fund degrees or postgrad? What are they? Do you know?
Sir Alan Langlands: Of course I know, they are all very different. There are a vast array of private providers, as you probably know as well, and some of them provide degrees directly, if they have university or university college status and degree awarding

powers. Some of them provide them on the basis of a relationship with other mainstream universities, which incidentally are also private providers.
Chair: Everybody is private in one sense.
Sir Alan Langlands: Everyone is private, but the degrees are validated, sometimes by UK universities, sometimes even by overseas universities, so there is a vast array. Some of them are for profit organisations, some of them are not for profit organisations.

Q121 Chair: What arises out of that if they jump free? Are you expecting more to become private?
Sir Alan Langlands: I am not expecting existing universities to cut their ties with the public funding system, because in asking that question we have only been concentrating on one area, which is the question of student fees—your example of Courtauld and others. But these institutions, many institutions, receive different sorts of funding. Courtauld receives a lot of public funding for research, and a lot of public funding for research in relative terms from HEFCE. All of the universities who were here today receive public funding from the NHS, from the Teacher Development Agency. Many of them have relationships with further education colleges, so there is not a simple answer that says the current complex patchwork is suddenly going to go private. I just think that is not the case. They might be different, they might behave in different ways, they might build association and links with private sector organisations. It would appear, from what we know so far, that Government policy is to encourage private sector providers into the higher education market, but there is no simple straightforward black and white division between private and non-private.

Q122 Chair: But will more fall outside your regulatory framework? That is really the point.
Sir Alan Langlands: It depends if they want access to public funding. If they want access to HEFCE funding they would have to be part of our regulatory framework. If they want their students to have access to student loans and student support funding, they would have to be part of whatever regulatory framework exists post 2011.

Q123 Chair: So the regulatory framework would change to ensure that if they access public money they would still be regulated by you or a successor body?
Sir Alan Langlands: There will have to be, in my view, for universities that are accessing public money, a regulatory framework that deals with issues of access, quality and information.
Martin Donnelly: May I add, Chair, that I would expect this issue, for the reasons you have raised, to be covered in the White Paper.

Q124 Chair: Okay. There are other issues which could impact on the market; one, which we raised with the institutions, is the impact of changes in the visa regime. Do you want to comment on that? Either of you? Both of you? None of you? Mr Donnelly.
Martin Donnelly: I cannot go beyond what Ministers said in their statements in this area.

Q125 Chair: I do not know what they said. I should have heard it; what have they said?
Martin Donnelly: This is a personal paraphrase then: I believe our view is that the arrangements that are in place should ensure that the higher education system still has access to the quality of students that it needs going forward, but I think I would have to refer you to the statements of Ministers.

Q126 Stella Creasy: There is quite a financial implication for that, isn’t there? I am still trying to get my head around the different models under the new regime and what that will mean for the finances of universities, but if we look at the impact of institutions’ income on tuition fees for students resident outside of the EU/UK who will be affected by theses changes, you are talking about a 10% increase in the last five years in terms of the incomes of universities, so a change in the numbers of students coming here to study will also have implications. If we go back to that thing about: if you have a billion pound gap that you have to plug and you have not got the students coming from overseas who might pay fees, what options have you got to increase the money going to universities or what options have you got to cut the money that universities will have?
Martin Donnelly: It is a potential gap, not yet an actual one, but I agree with the point you are making. It is also relevant that there is a very diverse impact of non-UK and EU students, varying from virtually zero for some institutions to about a third of total income for, say, the London School of Economics.

Q127 Stella Creasy: So universities that do not offer STEM—primarily humanities universities—that may have large proportions of overseas students could really struggle under this new funding regime?
Martin Donnelly: I believe there is a range of overseas students across subjects.

Q128 Stella Creasy: But as you said, the proportion of universities that have overseas students varies, doesn’t it?
Martin Donnelly: Yes, it does vary.
Stella Creasy: Right. So there are risk factors there. Are you building that into your modelling about the financial viability of our future universities, given this new funding regime?
Martin Donnelly: On the basis of the reactions that we have had to Ministers’ statements last week, we are optimistic that the structures being put in place for student visas will continue to facilitate the access of quality students.

Q129 Chair: So what is the cut in the number of students coming in through the visa system going to be then? Either it matters or it doesn’t; either it is real and we are going to get a cut, in which case there will be a financial implication for some institutions, or it is not real and we are not going to get a cut and then the financial health of institutions will be okay. It is either/or, and we are just trying to pull out of you—like blood out of a stone—what the reality is.
Sir Alan Langlands: If I can have a go, I think it is unknowable. The point is, there was a real concern

about this up until last week. I think the statements that Ministers have made have allayed the worst fears of the sector, and there is a clear sense that the sector can work with the policy that was set out last week, and would undoubtedly work with it to try to sustain the attraction of overseas students.

Q130 Chair: That suggests to me that student numbers coming from overseas will not go down.
Sir Alan Langlands: We do not know until we go through the process.

Q131 Stella Creasy: So why are we optimistic?
Sir Alan Langlands: Because I think the agreement, the settlement, that was reached last week and announced by the Home Office left universities feeling that they had something reasonable to work with, they could make progress, there was still the opportunity to attract able students from overseas.

Q132 Stella Creasy: One of the things that overseas students tend to do, or can do, is pay their entire fee up front so that they do not become publically subsidised: you do not have to borrow to cover them. What assessment have you made on the future funding models of universities of those kinds of students? Are you expecting to see an increase of students who pay their fees completely upfront?
Sir Alan Langlands: Every year, in our relationships with the sector, we ask for forecasts for the four years ahead. Every year in the life of HEFCE the sector has underestimated its ability to attract overseas students. In other words, they have exceeded—

Q133 Stella Creasy: Sorry, I was not talking particularly about overseas students. One of the ways you square the circle is for people not to borrow at all, which means they have to pay their fees up front, and I am wondering what assessment you have done of the numbers of students who would be able to do that that might offer a fourth way of addressing. That is what overseas students can often do, isn't it? They often pay their fees upfront.
Sir Alan Langlands: A completely different issue; I thought you were talking about overseas students. The answer on overseas students is that I think people are confident that they can sustain the current interest.

Q134 Stella Creasy: Fine, but what about in those models? I don't know whether, Mr Donnelly, it is something you want to comment on. What assessment have you made of the students coming in to our system who will not need to borrow any money from the public purse, and therefore will not be a cost to our university system?
Martin Donnelly: We are currently assuming a 90% take up by eligible students of the student loan provisions.

Q135 Stella Creasy: That is not the question I asked, though, is it? The question I asked is what modelling you have done about students paying. This is changing the relationship between students and their universities, yes? One of the ways it can change is that students could pay their fees up front.
Martin Donnelly: I think it is one of the factors that goes into the 90% figure: how many students decide that they will not borrow any funding.

Q136 Stella Creasy: So how many are you predicting will do that?
Martin Donnelly: We are assuming that of those who are eligible for these loans, who get places, 90% of them will chose to take up the loans.

Q137 Chair: And on foreign students, who will be up front? What is the assumption?
Sir Alan Langlands: Overseas students do not have access—

Q138 Stella Creasy: So what is the assumption in terms of a percentage? They make up 10% at the moment, and you are assuming another 10% will be taken up by students who will not need a loan. That is 20% of students now in British universities who will not need loans. Is that what the new model will be? For the financial viability of these institutions, a certain percentage of students will not incur a loan, is that fair to say?
Martin Donnelly: If they are students from overseas then yes, they are not entitled[1]—

Q139 Stella Creasy: Yes, and what about UK students?
Martin Donnelly: For UK students, we are making an assumption that nine out of 10 who can have access to a loan will have access to a loan from the point of view of our internal workings out of the funding. That is obviously something we will keep under review as more evidence becomes available.

Q140 Stella Creasy: What happens if you need to account for more students taking up bursaries, so less money coming in from loans that are eventually repaid, and more money coming directly in the form of, essentially, a grant: what happens to that model then? Is there a change in that model?
Martin Donnelly: It depends on the precise arrangements. If the university decides to charge a lower fee, a fee waiver if you like, then there would be a lower need for a loan. So that would feed through. There may be other arrangements the university might make, which would lead to the student still borrowing the same amount, and in either case we would take the full amount that was given by the Government to the student into account in our figures.

Q141 Stella Creasy: So you are budgeting for a full £9,000 on each student?
Martin Donnelly: No. Our forecasts, which are obviously forecasts that we adjust going forward, took as a central estimate of £7,500 average fee loan, and

[1] English students are eligible for the full package of support. More detail, including the arrangements that apply to EU, EEA and Swiss students can be found at http://www.direct.gov.uk/en/EducationAndLearning/UniversityAndHigherEducation/StudentFinance/Gettingstarted/DG 171574

a 90% take up by relevant students. Should, as we were discussing before—

Stella Creasy: So now you have this gap.

Martin Donnelly: We do not yet know, but should universities choose to, and be allowed to, charge more then there could be a gap and we would have to find ways of dealing with that. There are various options for doing that and that is a choice that Ministers will have time to make and would aim to make through the White Paper process so that there was clarity going forward for the universities.

Q142 Stella Creasy: They have to make that choice in time for September this year, haven't they, because obviously there are students who will be affected by the decisions of universities to charge fees doing their A Levels now, making decisions now. Otherwise the universities are going to have to face a funding shortfall, aren't they, and that is going to put at risk their financial viability, and we could see them failing, couldn't we?

Sir Alan Langlands: All of the information about fees by university, by course, will be on the UCAS website by 11 July.

Q143 Stella Creasy: But is it fair, because students now will not be able to get that information, that we could see universities being undersubscribed this financial year because of a lack of information, and that could cause problems to their financial viability now.

Sir Alan Langlands: It does not apply to this financial year.

Q144 Stella Creasy: But it does apply to people taking deferred courses, doesn't it?

Sir Alan Langlands: No, the new model starts on 1 August 2012. Okay, sure, it might apply to a small number taking deferred courses: they will not have the information, unless there has been some publication of that information by universities in advance, until 11 July. Universities are currently negotiating all of that with the Office for Fair Access, they have to do that by the middle of April: all of this will be available.

Q145 Stella Creasy: But it does mean financial planning for this coming financial year is quite difficult for universities to do.

Sir Alan Langlands: Financial planning for this coming financial year is not an issue. The fee level for the vast number of people remains absolutely the same. They know what their HEFCE grants are and have known since 17 March. They have a very clear view of their financial position for 2011–2012. There is absolutely no uncertainty at all, and there will be no difficult or catastrophic failures in the 2011–2012.

Q146 Austin Mitchell: I cannot resist a reflection. We had yesterday a celebration for the hundredth anniversary of Rutherford's finding of the structure of the atom. He came from New Zealand in 1895 looking for a job. He would not be able to get in now under our new border regulations. That is just a reflection, Chair, very briefly. Martin Donnelly was very coy about whether an institution will be allow to go bankrupt, to fail. Let me ask a factual question: if an institution, a university or a college fails, goes belly up, bankrupt, whatever, is the taxpayer responsible for the debts incurred, the redundancies, and for the repayment of students and for the transfer of students to another institution assuming one would take them? Is that the responsibility of the taxpayer?

Martin Donnelly: No, because these institutions are in the private sector. The legal structures within which they are working, whether they are private companies or charities—and Alan may want to give more details on this—are private arrangements, and in that fortunately unlikely position they would go through the processes that other private sector organisations with the same status go through.

Austin Mitchell: They will be pursued through the courts.

Q147 Chair: Sir Alan, do you agree with that, because the Report is ambivalent on that issue?

Sir Alan Langlands: No, I agree with it. I think higher education institutions are separate legal entities. They have their own governing bodies, and neither HEFCE nor the Secretary of State provides any express guarantees on their liabilities. But you are right: you pointed to it earlier. Let's be clear, we have never had insolvencies in higher education, not because HEFCE has been bailing out universities. HEFCE has spent a very small proportion of its budget helping universities adjust to different circumstances. But there never has been a high risk of insolvency, even in some of the cases you cited, both of which are going to have positive surpluses in their accounts this financial year. The position is, I think, much more stable than this conversation implies. I think in the future if we were faced, through circumstances that we cannot yet imagine, with failures, the same would apply. There would have to be some system of working towards a solution, but absolutely no express guarantees from either the Secretary of State or HEFCE. The whole point of our assurance system—and I hope this will be something that is transported into the new world—is to catch these issues early: prevention rather than cure, and to work away at them, even if it takes years, to try and find a solution that moves things on in a purposeful way. That, I think, has been one of the great successes and one of the reasons why the banks are generous in their lending and why the credit rating agencies are hugely supportive of the regulatory model that we currently have. So, we have a very stable position here, and we therefore have strong foundations from which to work forward. That is the key.

Q148 Chair: I think we were trying to tease out the concept of a market. That is what we were trying to tease out.

Sir Alan Langlands: I understand that.

Chair: I hear what you said. Stephen, very quickly

Q149 Stephen Barclay: I just wanted to refer to the Joint Information Systems Committee, because they commissioned a report from million+, who are a think tank, and one of its key findings was that the perceived barriers to obtaining funding include higher education institutions not possessing sufficient expertise for bid writing. That is an institution that BIS helps fund, and yet they have to do outreach work to help institutions get expertise to submit bids to BIS. It just seems that we are funding people to deal with complexity within the Department. It is really just a question to Mr Donnelly, whether you would agree to work with the NAO, not necessarily within the week, but within a timely manner, in that I looked ahead of the Committee at the annual review from the JISC; they have £87.5 million of expenditure. They only put five lines here: things like central services, £6.98 million, includes outreach, market research, etcetera. Would you agree to work with the NAO and just provide a very detailed breakdown so we can see exactly what the spending is within that budget on consultants, research, support of research, outreach, how much the executive have been paid so we can get a really good detail as to how that money is being spent?

Martin Donnelly: We would be happy to look at that with the NAO as far as we have the powers to do so, yes, and can I just save you time elsewhere by saying that we were able to check: all of our expenditure goes on data.gov.uk, and HEFCE's expenditure should also be in the same place, but if there are further issues you want us to pursue, please let us know.

Stephen Barclay: All of it goes on what, sorry?

Martin Donnelly: The data.gov.uk Government website. We publish all of our spending. We talked earlier about consultancy issues and so on; those are all agreed by BIS before they go into the centre. But then we do publish all this information on the data.gov website.

Sir Alan Langlands: Just in the spirit of trying to be helpful without waiting for a week, the answer to Mr Barclay's question about the £6.5 million, the breakdown of the £6.5 million is in note 5 of our annual accounts, on page 86: saved by the bell, when you were out of the room I was able to find the accounts.

Chair: Thank you very much indeed, thanks for that and apologies for being a bit disjointed this afternoon, that is how the cookie crumbles, really. But thank you very much for your evidence and we look forward to working with you on these issues over time. Thank you very much indeed.

Written evidence from the Department for Business, Innovation and Skills

During the hearing Martin Donnelly mentioned the publication of Government data, and he wanted to take this opportunity to provide the Committee with some more detail.

The Cabinet Office established spending controls in May 2010 which cover ICT; Property; Recruitment; Advertising and Marketing; and Advisory Consultancy. In BIS, we currently supply information on approvals and spend within these controls which we submit to the Cabinet Office monthly. In line with Cabinet Office requirements, BIS published data on exceptions to the spending controls moratoria to the end of October on the Transparency section of the BIS website on 15 December 2010. This is can be found at http://www.bis.gov.uk/transparency/financial

BIS and its Agencies and NDPBs are also required to publish spend over £25,000. BIS' partner organisations publish details on their respective websites and on http://data.gov.uk. BIS exceeds this requirement and from January 2011, has published details of all expenditure, irrespective of value.

The information published is at an individual transaction level and includes the name of the supplier, gross amount paid and the type of expenditure at a detailed level (eg economic research consultancy, corporate management consultancy.)

7 April 2011

Written evidence from Northumbria University

I am writing to thank you for the opportunity to give evidence to the Public Accounts Committee on 30 March on the financial health of higher education institutions.

I promised the Committee further information on Northumbria University's provision of programmes overseas, and the attached tables explain the scale and breadth of this provision.

The Committee asked what proportion of Northumbria's income is received from HEFCE. Northumbria's HEFCE grant in *2010–11* is 30% of total income, not 33% as stated before the Committee.

In case it is helpful for setting this information in context, you may be interested to have the following information about Northumbria.

Northumbria University is a member of the University Alliance. With 38,000 students at home and overseas Northumbria is the sixth largest university in the UK. It has 7,500 postgraduate students.

Northumbria receives around 28,000 applications for 5,000 undergraduate places, and entry qualifications average 327 UCAS points (equivalent to slightly better than ABB at "A" Level). 92.3% of Northumbria graduates are in employment or further study six months after graduation—the highest of any North-East university.

I hope that this information is useful, and I thank you again for the opportunity to speak to the Committee.

Attachment: Northumbria University Overseas Provision

SUPPLEMENTARY DATA ON NORTHUMBRIA UNIVERSITY'S PROVISION FOR INTERNATIONAL STUDENTS

The table below shows details of the University's franchised provision delivered at our partner institutions overseas.

Number of students studying for Northumbria degrees delivered overseas

2009–10 FRANCHISED PROVISION

Location of Partner Institutions	*PGR*	*PGT*	*UG*	*Total*
Hong Kong		2	1,649	1,651
Singapore		74	334	408
Malaysia	6	32	1,266	1,304
Sri Lanka			74	74
Italy		1		1
NU Distance Learning at Partner Institutions	2	381	495	878
Grand Total	**8**	**490**	**3,818**	**4,316**

The tables overleaf give details of the number and domicile of EU and international students who are studying for Northumbria degrees in Newcastle.

Overseas students (non UK) studying for Northumbria degrees in Newcastle

BY COUNTRY OF DOMICILE 2009–10

Country (European Union)	*Headcount*	*Country (non-EU)*	*Headcount*
Austria	5	Cyprus (Non-European Union)	5
Bulgaria	10	Cameroon	5
Cyprus (European Union)	80	Egypt	95
Czech Republic	5	Ghana	5
Denmark	5	Kenya	10
Estonia	5	Libya	55
Finland	10	Malawi	5
France	85	Mauritius	40
Germany	145	Nigeria	175
Gibraltar	25	South Africa	10
Greece	40	Tanzania	5
Hungary	5	Uganda	5
Ireland	75	Zambia	5
Italy	10	Zimbabwe	10
Lithuania	5	Africa—Other countries not listed	5
Malta	5	Bangladesh	405
Netherlands	10	Brunei	20
Poland	20	Burma	10
Portugal	5	China	965
Romania	5	Hong Kong	175
Slovakia	5	India	685
Spain	45	Indonesia	60
Sweden	15	Japan	10
European Union not otherwise specified	5	Korea (South)	20
Norway	5	Malaysia	355
Russia	70	Nepal	25
Switzerland	5	Pakistan	80
Turkey	5	Philippines	15
Ukraine	10	Singapore	30
Other Europe—Other countries not listed	5	Sri Lanka	155
EU Total	**725**	Taiwan	75
		Thailand	175
		Vietnam	95
		Asia—Other countries not listed	15
		Australia	10
		Australasia—Other countries not listed	5
		Bahrain	45
		Iran	10
		Iraq	5
		Jordan	5
		Kuwait	5
		Oman	5
		Qatar	15
		Saudi Arabia	70
		United Arab Emirates	5
		The Bahamas	10
		Canada	20
		United States	70
		North America—Other countries not listed	15
		Brazil	5
		Trinidad and Tobago	5
		Non-European-Union unknown	5
		Non-EU Total	**4,115**

11 April 2011

Written evidence from the Higher Education Funding Council for England

PAC RESPONSE: EQUALITY CHALLENGE UNIT

RESPONSE TO SPECIFIC QUESTIONS RAISED IN THE PUBLIC ACCOUNTS COMMITTEE HEARING ON 30 MARCH 2011

Value for Money

1. The ECU translates complex legal requirements into practical guidance and advice. They do the complex thinking for and on behalf of the sector thus providing a shared service and creating savings, and removing the need for duplicated effort throughout the sector. This in itself represents value for money for the sector as a whole. As evidence of this we would point to the fact that the Scottish Funding Council opted back in to a joint UK approach through the ECU in September 2010 after a four year period, because it was more cost effective than funding a Scottish unit.

2. An independent review of the ECU by PricewaterhouseCoopers LLP in 2009 concluded that:

- There remains a need for a discrete focus on equality and diversity issues within the sector.
- There is progress to be made within the sector in relation to a number of key strategic equality and diversity strands.
- The ECU has enhanced its performance over the past few years, specifically creating a positive relationship with the sector and building a strong reputation as a valuable resource.
- The sector believes that the ECU has achieved its objectives in providing quality products and services and raising the profile of equality and diversity issues within the sector.

3. The Review also recommended that "… the ECU continue to deliver equality and diversity services to the sector through the existing funding arrangements. Funding for a further five years is recommended, with the review process commencing in year three. This will enable the review to evaluate the impact of the new three-year strategy." HEFCE funding is therefore contingent upon the outcomes of a review in 2013. Copies of the Review are available at http://www.hefce.ac.uk/pubs/rdreports/2009/rd22_09/

4. PWC additionally recommended that the ECU should develop a strategy for income generation, and the Funders' Forum has also asked that the Unit consider carefully how it will remain sustainable in the future as the HE sector moves to a new funding environment. Work is currently in progress on both of these.

The ECU's Staffing Levels

5. In 2008–09 there were four full-time members of support staff. The support staff number in 2009–10 was 4.8 FTE, which included one post which had been re-graded to allow for greater responsibility and a new post to take up some of this person's former duties. These changes resulted from some reassignment of duties and reduction of hours elsewhere in the staffing complement following a senior member of staff's maternity leave. In 2010–11 the staff establishment remained at 4.8. However, in 2011–12, following a restructuring exercise, this will drop to 3.5, as a result of one redundancy and a reduction in hours for another post. With a small number of staff, any increase in staff numbers can lead to a percentage figure which suggests a greater increase than is actually the case.

The ECU's Cash Position

6. At 31 March 2010 (the end of its financial year), the Unit had reserves of £797,668. These reserves were held as a safeguard in case ECU were not to be funded beyond 2015 and to provide for transitional funding for projects between financial years. The funders are aware of the size of the Unit's reserves, and have been monitoring and discussing the level of reserves for some time within the Funders' Forum. At its meeting in October 2010 a reserves policy was agreed, which is attached. In essence it ensures that the Unit retains four months' operating costs (£400,000) to allow for an orderly close or transition. The Unit also retains ring-fenced project funds and working capital, and this accounts for the balance of £397,668. The reserve is expected to reduce progressively over the coming years, to £435,740 by 31 March 2012 and £209,405 by 31 March 2013. Total cash balances at 30 March 2011 were £535,000, which includes the £401,000 retained as part of the reserves policy.

Metrics for the Unit's Programme

7. Please note that the Unit's Strategic Plan for 2011–13, published in March 2011 and approved by their Board, contains Key Performance Indicators and identifies how these will be measured. The Plan is attached.

Monitoring

8. Monitoring arrangements are in line with HEFCE's usual practice for monitoring related bodies. In essence the key features are:

- The Funders' Forum bi-annual meetings with the ECU Chair and Chief Executive at which the Unit's risk register, financial health and current developments are discussed.

- — Six-weekly meetings with the Head of HEFCE's Leadership, Governance and Management team (LGM) and the Chief Executive.
- — Day-to-day contact between the Unit's staff and the HEFCE Relationship Manager, who also attends the Unit's quarterly Board meetings, where internal audit reports are considered.
- — HEFCE's annual review of financial stability and risk, as part of our normal assurance processes for related bodies.

Implementation of the Equality Act 2010

9. The Committee raised a question about the Unit's value now that the Equality Act 2010 has been given Royal Assent. While it is true that the Act is now in force, it is being implemented in stages, and addressing and delivering the new requirements is a complex and complicated operation at a time of reductions in public funding. At such a time there is a need to ensure that the equality and diversity impacts of any policy or action are robustly considered and addressed. Alongside the genuine desire amongst many in the HE sector to implement the Act in spirit and to the letter, there is also a desire to be in a good position to withstand challenge. The risks to higher education institutions (HEIs) in terms of time and expense if this is not done properly are obvious. Safeguarding the public interest and public money is thus a key part of ECU's work.

10. It is also worth noting here that the Government Equality Office has recently withdrawn specific duties which had been announced in respect of the public sector duty. This has caused considerable uncertainty and confusion in the public sector. Previous experience, following the implementation of the Race Relations Amendments Act in 2001, suggests that HEIs will continue to require considerable support in making adjustments to comply with the new Act. We therefore believe that the need for the support which the ECU provides to the HE sector is more relevant at this time than ever.

11. The following pages provide some additional information on the Unit and HEFCE's relationship and monitoring procedures.

About the Equality Challenge Unit

12. The Equality Challenge Unit (ECU) was established in 2001 to promote equality for staff employed in the higher education sector. In 2006 its role was extended to cover students where their needs are equally served by addressing the needs of staff. ECU works in partnership with HEIs and sector organisations, undertaking projects and research and providing practical support and guidance. The purpose of ECU is to support the higher education sector to realise the potential of all staff and students, whatever their race, gender, disability, sexual orientation, religion and belief, or age, to the benefit of those individuals, HEIs and society.

13. The ECU's Board comprises experts and current vice-chancellors, who are users and commissioners of the ECU services. It recently agreed the attached strategic plan for 2011–13 (published in March 2011) which contains a set of Key Performance Indicators.

14. In order to achieve its objectives the ECU works in conjunction with a wide range of stakeholders, develops publications, leads or participates in conferences, and conducts surveys and several specific projects aimed at promoting equality and diversity and compliance with the legislation. Further details of its specific activities can be found on the Unit's website at www.ecu.ac.uk.

Relationship with HEFCE

15. Within our Working in Partnership strategy, HEFCE seeks to pursue national policy objectives and priorities in higher education as part of our strategic plan. Our objectives are delivered in part through an extended enterprise of organisations through which significant levels of funding are distributed or activities promoted. We describe these organisations as "related bodies" of which the ECU is one. The ECU is also a company limited by guarantee.

16. We are bound by statutory legislation to promote equality and diversity in everything that we do. The work of the ECU helps us to meet our obligations under the equalities legislation and act as a beacon of good practice for the HE sector.

17. HEFCE and the other ECU funders also believe that the support which the ECU offers HEIs is a critical mitigation of the risk of legal action against an HEI under the Act. Furthermore, we believe that the potential cost to the sector of any such action is offset reasonably by the investment in the Unit.

Funding

18. The ECU is funded by the four UK funding councils (HEFCE, DEL Northern Ireland, SFC and HEFCW) in partnership with the key sector stakeholders: Universities UK and GuildHE, the organisations which represent the UK's higher education institutions (HEIs). Together these six organisations pay the ECU its entire operating budget of £1.2 million per annum. HEFCE is the majority funder, paying £938,506 annually. The six organisations form the Funders' Forum, which one of the ways in which we monitor the ECU (described further below).

19. HEFCE draws up and maintains a funding agreement on behalf of the four funding councils. A new funding agreement is being negotiated in which all the funding councils have committed to fund the ECU up to 31 December 2013. There is potential for a further two years of funding from HEFCE subject to the outcomes of a review to be undertaken in 2013.

20. In line with advice from BIS, in summer 2010 HEFCE wrote to all its related bodies advising them of the need to give due regard to spending restraint, and asking them to respect the spirit of the guidance from Treasury. The ECU was specifically asked to use its search for new premises as an opportunity for savings, that it think carefully about its publicity budget and that restraint should be exercised on salary costs, bonuses and on recruitment.

Approved 3 June 2010 Reserves Policy

The policy of ECU is to have a sum on deposit equivalent to four months operating costs of the Unit, excluding ring-fenced project funds. This is in order to ensure that, in the event of the withdrawal of funding or other major event leading to loss of income, the Unit has sufficient funds to ensure the orderly continuation of operation to close or the acquisition of other funding sources, without risk of trading while insolvent. It is also to provide for transitional funding for projects between financial years. The reserves will be held on deposit in a separate account to the main operating funds of the Unit. The reserves will be invested in accordance with the Unit's Ethical Investment Policy.

Note 5 Analysis—Staff Related and General Admin

		£	
Total		**1,732,165**	
Analysis by code			
"Staff travel & subsistence"		694,324	(see next tab "Staff travel expenses detail")
"Recruit—staff"		205,303	a
"Legal fees"		198,192	b
"Training—specific"		130,971	c
"Organise conferences"		125,895	d
"Training—central"		101,981	c
"Books & periodicals"		54,138	
"Attend conferences"		50,003	c
"Staff welfare"		39,383	
"Professional subs"		30,046	
"Equipment repair"		27,220	
"Medical fees"		23,911	
"Furn purchase"		19,095	
"Training—awaydays"		17,671	c
"Bank charges"		10,016	
"Health & Safety"		4,019	
		1,732,165	
Analysis by main suppliers			
a	**"Recruit—staff"**		
SSAX01	Saxton Bampfylde Hever Plc	89,000	
SBAR02	Penna Barkers	25,685	
SPER01	The Perrett Laver Partnership	20,798	
SEUR05	Euro RSCG Riley Ltd	17,681	
SNIG01	Morgan McKinley Group Ltd	17,240	
SINT05	The Internet Corporation Ltd	13,331	
SROB11	Robert Half Ltd	9,363	
SFLA01	Flair 4 Recruitment Ltd	9,301	
SMIC09	Michael Page International	9,200	
SPSY03	PsychSol.com	7,455	
Others		−13,753	
		205,303	
b	**"Legal fees"**		
SBEA01	Beachcroft LLP	176,022	
SOAK01	Oakleigh Consulting Ltd	14,459	
SBUR02	Burgess Salmon	7,711	
		198,192	

		£
	c "Training—central"	
	c "Training—specific"	
	c "Training—awaydays"	
	c "Attend conferences"	
SCOM14	Computerworld	11,983
SJCA01	JCA (Occupational Psychologists) Ltd	11,453
IBRI03	University of Bristol	9,030
SBES02	Best Companies Ltd	8,724
SMCN01	McNeil Robertson Development Ltd	7,344
SDOD01	Dod's Parliamentary Communications	6,975
SWON01	Wonderinc Ltd	6,933
SNAT10	National School of Government	29,290
SCOD01	Unit 4 Business Software	10,794
SMET01	Meta-Coaching Services Ltd	6,900
Others		191,200
		300,625
	d "Organise conferences"	
SINT01	Booking Services International Ltd	40,701
SCON01	Conference Aston	15,930
SROY13	Royal College of Physicians	10,000
IROY06	Royal Holloway	8,855
SENT02	Entec UK Ltd	7,110
SWOB01	Woburn House Conference Centre	7,090
SHAL07	Hallam Conference Centre	6,690
IORI01	School of Oriental & African Studies	4,655
IMAN03	University of Manchester	4,415
STAR03	Targetspace	4,003
Others		16,446
		125,895

NOTE 5 ANALYSIS—STAFF TRAVEL AND EXPENSES

	£
Total	**1,732,165**
Analysis by code	
"Staff travel & subsistence"	**694,324**
"Recruit—staff"	205,303
"Legal fees"	198,192
"Training—specific"	130,971
"Organise conferences"	125,895
"Training—central"	101,981
"Books & periodicals"	54,138
"Attend conferences"	50,003
"Staff welfare"	39,383
"Professional subs"	30,046
"Equipment repair"	27,220
"Medical fees"	23,911
"Furn purchase"	19,095
"Training—awaydays"	17,671
"Bank charges"	10,016
"Health & Safety"	4,019
	1,732,165
Analysis of staff travel and expenses	
"Staff subsistence"	40,670
"Staff rail first"	73,560
"Staff rail standard"	313,104
"Staff hire cars"	4,866
"Staff private car"	26,268

	£
"Staff air travel"	17,726
"Staff hotels"	148,833
"Staff travel taxi"	48,034
"Staff travel other"	21,263
	694,324

Analysis by individual expenditure code is shown. "Others" includes to the cost sharing recharge to JISC under IAS31 on Joint Initiatives.

NOTE 5 ANALYSIS—BOARD AND COMMITTEE COSTS

	£	
Total	**115,259**	
Analysis by code		
"Board honoraria"	65,228	a
"Board honoraria—NI"	4,008	a
"Board subsistence"	1,393	
"Board travel"	10,034	
"Committees fees"	301	
"Cmttee fees—NI"	288	
"Cmttee subsistence"	1,993	
"Cmttee travel"	32,014	
	115,259	
a "Board honoraria"		
a "Board honoraria—NI"		
Analysis from Remuneration Report 2009–10		
Professor Madeleine Atkins (from October 2009)	2,083	
Alastair Balls CB	5,000	
Rob Douglas CBE	5,000	
Professor Ruth Farwell (from October 2009)	2,083	
Professor Malcolm Grant	5,000	*
Dame Patricia Hodgson	5,000	
Sir Paul Judge (to March 2010)	5,000	
Rene Olivieri	5,000	*
Professor Shirley Pearce CBE (from December 2009)	1,667	
Professor Peter Rubin (to August 2009)	2,083	
Ed Smith	5,000	
Ann Tate (to August 2009)	2,083	*
Professor Paul Wellings	5,000	
John Widdowson	5,000	
Professor Dianne Willcocks CBE (to November 2009)	3,333	*
Professor Tim Wilson	5,000	*
VAT and NI	5,905	
	69,237	

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. Some members are paid directly by their employing institutions, with the subsequent reimbursement from HEFCE to the institutions including VAT where appropriate.

Written Evidence from the Department for Business, Innovation and Skills

JOINT INFORMATION SYSTEMS COMMITTEE

In preparing this note, the Department has consulted with the National Audit Office.

1. JISC is the Joint Information Systems Committee of the UK's further and higher education funding councils. It is not a separate legal entity. JISC is jointly funded by all of these bodies, including all three devolved authorities (which provide around 20% of its funding). These bodies are HEFCE (responsible for HE in England), SFC (funds both HE &FE in Scotland), HEFCW (HE in Wales), DCELLS (the Welsh Assembly Government's Department for Children, Education, Lifelong Learning and Skills, which funds FE in Wales),

DEL NI (Department for Employment and Learning, covering both FE and HE in Northern Ireland) and BIS (responsible for FE in England following closure of the LSC); RCUK also provide a small amount of core funding to fund IT infrastructure used by research bodies. The relationship between JISC and its funding bodies is set out in a Memorandum of Understanding, which is updated each year.

2. JISC's chief function is to provide the UK education and research sectors with a world class digital infrastructure including JANET (the Joint Academic Network), associated services and activities. In addition, it provides strategic guidance, advice and opportunities for using ICT to support teaching, learning, research and administration. The Department regards JISC as a cost-effective shared service (see JISC Value for Money reports at http://www.jisc.ac.uk/publications/generalpublications/2010/valueformoney.aspx) and its infrastructure makes an essential contribution to the success of our universities and colleges; it enjoys widespread support across the sector.

JISC Expenditure

3. JISC is a committee of all the UK HE and FE funding bodies. It has no independent status, but is legally part of HEFCE. HEFCE is the legal signatory for JISC contracts and agreements and provides accountability for its financial management and administration on behalf of all the funding bodies.

4. An analysis of the £87,492,138 total JISC expenditure in the 2009–10 academic year was published in its Annual Review 2010 (http://www.jisc.ac.uk/aboutus/annualreview.aspx) as follows:

Infrastructure & Resources £61,730,068

Learning and Teaching £4,036,930

Organisational Support £10,887,173

Support of Research £3,851,955

Central Services £6,986,012

5. This analysis reflects the four main areas of JISC's work—each currently overseen by a committee involving specialists from across the sectors. A more detailed explanation of each area:

- Infrastructure & Resources
  - Provision of infrastructure is JISC's highest priority, with the JANET network and its associated supporting activities the principal activity in this area (costing £36.615 million in 2009–10).
  - Another key activity is the negotiation with publishers and owners of digital content to provide online resources to further and higher education at beneficial rates, the delivery of such content and the provision of a wide range of advisory services to support the community, (£16.893 million).
  - Innovation programmes to develop new shared services and pilot new activities, in particular to support information resources and the library community (£8.222 million).
- Learning and Teaching
  - Support services for the learning and teaching community, principally the Centre for Educational Technology and Interoperability Standards (CETIS) (£1.033 million).
  - Innovation programme to support the learning and teaching community (£3.004 million).
- Organisational Support
  - Provision of advisory services, in particular the Regional Support Centres (£6.502 million).
  - Innovation programme to support the management and administration of institutions (£2.885 million).
  - Innovation programme to support business and community engagement (£1.5 million).
- Support of Research
  - Services to support the research community, in particular the Digital Curation Centre (£1.823 million).
  - Innovation programme to support the research community and research process, including research information management (£2.029 million).
- Central Services
  - This covers JISC's running costs: the salaries of the JISC Executive (around 85 staff—total salary costs were £4.588 million), associated infrastructure and hosting costs (£1.772 million), and corporate communications activities (£626k).
  - JISC is led by the Executive Secretary, Malcolm Read OBE. Dr Read's salary falls into the range £100–105k. It is determined within and subject to HEFCE's pay and performance system. As he is not a director of HEFCE, Dr Read's salary is not separately disclosed in HEFCE's annual accounts but he is included in the anonymised disclosure of staff salaries on the HEFCE website, as required under the Government's transparency initiative; the salaries of other HEFCE employed JISC staff fall below the requirement for publication.

— JISC Executive salaries are determined by the three employers of JISC Executive staff; HEFCE; University of Bristol; King's College, London.

All JISC expenditure over £25,000 is published by HEFCE on data.gov.uk

Consultancy

6. JISC employs consultancies when impartial reviews are required to inform the future approach to service provision.

7. JISC receives specialist consultancy advice in the area of intellectual property rights and in scholarly communications at a cost in academic year 2010–11 of £15,000 and £17,500 respectively. There have been three other new consultancies in 2010–11 to inform future approach to service provision: £15,000 on a review of the JISC data centres (EDINA and MIMAS), £15,000 on a review of BUFVC (the British Universities Film & Video Council, which promotes moving images for teaching and research in further and higher education) and £10,000 on an external review of the JORUM repository. (The JORUM service collects and shares learning and teaching materials, allowing their reuse and repurposing and is jointly run by EDINAS and MIMAS on behalf of JISC). BIS is currently considering a submission under the current restrictions on use of consultancy for a consultancy service contract to help implement the recommendations in the recent review of JISC, as JISC does not have all the appropriate skills and expertise required to take forward the review implementation (nor for some parts of it would be perceived as having the necessary independence and impartiality of view).

The JISC Bidding Process

8. JISC funds a wide variety and large number of projects on behalf of one or more of its funding bodies. These projects include supporting studies and delivering new products and services.

9. The investment criteria established by the JISC Board are that any project or activity must:

- Be ICT based
- Provide a UK-wide benefit and add value beyond that which could be achieved by institutions acting individually or collectively
- Be not possible, or unlikely, without central support
- Deliver a clear output with demonstrable value for money

10. All bids for funding also needs to demonstrate good risk management and project planning, together with proposals for dissemination across the sector after completion and evaluation mechanisms. Many bids must also include plans for embedding the results and for future sustainability, after project funding ceases. Bids must be submitted in a common format to ensure that all receive fair, equitable and equal consideration within the competitive bidding process. Some complexity is therefore inevitable, so that JISC can ensure public money will be protected and used effectively.

11. Many universities have considerable expertise in bidding for funding for a wide range of projects and research, while other potential bidders are less experienced and may therefore be less successful in bidding. To address this, JISC has both sought to reduce detail and complexity in the early stages of bidding and it provides advice and guidance to potential bidders, including briefing events for larger programmes. JISC's Regional Support Centres support FE and specialist colleges and the smallest HEIs—the institutions with the least experience of bidding for this kind of funding—including helping develop these institutions ability to prepare JISC bids. JISC funding of Million+ to carry out their research into the impact of JISC funding on its member universities (*"From inputs to impact—a study of the impact of JISC funding on universities"*—see http://www.millionplus.ac.uk/file_download/20/JISC_REPORT_final+pdf.pdf) was part of this process. A primary objective of the project was to recommend how to improve access to JISC funding, and the report included ten recommendations with this in mond.

Review of JISC

12. JISC has very recently been subject to a review commissioned by HEFCE and chaired independently by Sir Alan Wilson. The review reports was published on HEFCE's website: http://www.hefce.ac.uk/pubs/hefce/2011/11_04/

13. Sir Alan found that JISC "shared services (most notably the Joint Academic Network, JANET) have become indispensable to the HE and FE sectors. It has done outstanding work to create and collect electronic content and resources, and in negotiating collective procurement on behalf of the sectors. There is no comparable body within the UK, and internationally its reputation is outstanding as a strategic leader and partner".

14. He offered, however, "some criticism of the breadth and complexity of JISC's activity, and of its structure, processes and governance arrangements. Some of this reflects its undoubted success and the demands of different funders and institutions to extend the range of its work, and differences in need between HE and

FE. All this has resulted in, at times, a lack of coherence and follow-through [and] questions about the impact of some if JISC's activity".

15. He concluded that, "in an era of financial constraint, it is necessary to re-focus activities around cleaner priorities and to ensure JISC operates with a sustainable financial model". His report therefore presented the outline of a new vision for JISC, which "build on its considerable successes" and enable it to continue meeting the core needs of the JISC community, but in a more affordable, efficient and sustainable way and make it "more 'fit for purpose' in a financially constrained and highly competitive global environment". His recommendations therefore reflected "the challenging funding environment; the changing role of the sectors' regulators, and the potentially increased role of private providers".

16. The report has been accepted and detailed work to implement it is now being taken forward by the JISC Board and funders' Steering Group, reporting regularly to the HEFCE Board, in order to have a new structure and governance and funding arrangements in place for the 2012–13 academic year, in parallel with the new funding regime for HE in England. This should enable JISC to continue to provide the sector's essential infrastructure within the constraints of its funders much smaller budgets.

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