Value for Money Round Table Discussions, Manchester, 24 January & London, 3 March 2017

Summary of Discussion and Potential Outcomes

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Background and Synopsis

Executive and non-executive representatives from 34 higher education providers and five sector organisations met in Manchester and London to discuss value for money reporting, particularly how HEFCE might develop more structured mandatory value for money reporting by individual institutions.

The need for such reporting is driven by the government's appetite for evidence that public money invested in the sector delivers good value. The Manchester and London meetings, which were also attended by Steve Butcher of HEFCE and Ian Powling of Universities UK, were chaired respectively by Andrew McConnell OBE, Director of Finance at the University of Huddersfield and Chair of Uniac's Board and by Andrew Murphy, Chief Finance Officer of the University of London.

While the government wants evidence of value for money, it has not articulated what form such evidence might take. The recent coalition government searched unsuccessfully for a single performance measure. HEFCE, however, wish to resist a burdensome drift towards a myriad of measures. HEFCE see current institutional value for money reports as unduly qualitative and focused on procurement, strategies and plans rather than reporting outcomes and benefits realised. Governing bodies have a stewardship role to ensure that their institutions are delivering, and demonstrating, value for money. A succinct suite of measures is needed for two distinct audiences: government and students. Some measures already exist, particularly for effectiveness. A task and finish group is proposed to formalise efficiency measures. Where possible these will use existing sector groups and data sources; will minimise the burden on smaller institutions; and recognise distinct institutional missions.

HEFCE will demonstrate anonymised exemplars of good value for money reports later this year. They will also issue guidance on value for money reporting – potentially for the 2017-18 report cycle. In the meantime, the need to be sensitive to individual institutional competitive positions will need to be recognised.

HEFCE and Government – Historic and Current Context

Steve Butcher of HEFCE has worked on HEFCE reports to government since 2004. For much of this period, the need for value for money reporting to government may not have been evident to many in the sector. Until 2010 the government took the view that, relative to other sectors, higher education reporting was effective. During this cycle, the government targeted particular areas which HEFCE translated into delivery plans and then reported progress against plan.

Since 2010 there has been a change in emphasis. The government still wants to know how the sector is performing, but *how* performance should be reported is less clear. The two Universities UK-led Diamond reports were designed to be "task and finish" rather than sustained approaches to value for money reporting; however, there was a sense from government that these reports prioritised justification of the sector, potentially at the expense of a layer of critical analysis and drive for further improvement. Since then, HEFCE has come back into the picture, tasked with reporting annually on the sector's efficiency. The term 'efficiency' is used as a proxy for the traditional 3Es of economy, efficiency and effectiveness, and a new fourth category - equity. Under the coalition government, a single measure of the sector's performance was sought. No suitable single measure has been (nor probably ever will be) identified. While a single measure is unrealistic, HEFCE are keen to avoid a plethora of measures.

In parts of the government there is a sense that the sector is cash-rich and has not experienced the same pain as other sectors. Higher Education lobby group assertions that the sector is doing all that it can sometimes provokes scepticism. Higher Education needs to explain better what it does and how it uses its resources. There is also some cynicism that measures can be susceptible to "massage". To counter this, performance measures must be accompanied by evidence of tangible activity.

Mandatory rather than voluntary value for money reporting enhances the credibility of the information provided to government. The voluntary reporting regime resulted in just under 100 institutions reporting to HEFCE, but automatically created a question about the commitment to efficiency amongst other institutions. Mandatory reporting also allows HEFCE to generate the degree of conformity across the sector that is needed to make institutional value for money reports useful bases for sector-level reporting.

In summary, value for money in the sector has changed significantly. It remains important to individual institutions' governing bodies *but* individual institutional reports also need to be capable of consolidation into a sector report for government. When reporting onwards to government, HEFCE overlays its summary of institutional reports with sector-level data: for example, overall pay cost data; trends in student numbers; and a sense of whether in real terms the sector's performance is steady or is achieving better outcomes with less resources. Sector based IT initiatives, shared services and evidence of effective procurement are all useful in demonstrating to government the sector's appetite for efficiency.

In future, the Office for Students is unlikely to take a radically different stance in seeking evidence of value for money from institutions although it will continue to evolve. HEFCE is already mindful of student perspectives and expects institutions to articulate "student value" in their reports.

Reporting to government will continue to be challenging since the government has not defined its requirements. Government and civil service behavioural norms make it difficult and unlikely that their expectations will be articulated clearly. HEFCE strategy is to aim to develop a system which gives government confidence that efficiency and value for money is embedded in the culture and practice of HE institutions.

HEFCE Feedback on the 2015-16 Value for Money Reports

This was the first year of mandatory value for money reporting. All (or almost all) institutions submitted reports as expected. HEFCE comment that:

(i) very few efficiency savings are reported, with insufficient detail to explain how claimed savings have been derived. Reports of savings are primarily qualitative. Quantitative data is often given without context – for example, year to year and/or peer to peer comparisons;

(ii) there is often a significant focus on procurement and back-office activities with a limited focus on teaching and research, or on demonstrating to students how their fees are being used. There is an ongoing need to get beyond the emphasis on procurement;

(iii) league table positions are often used (inappropriately) as a proxy for value for money;

(iv) there is an undue emphasis on plans and strategies with correspondingly less emphasis on outcomes delivered and benefits realised. Outcomes and benefits delivered are tangible evidence of value for money.

(v) some reports appeared to be written as reports to HEFCE, rather than reports to governing bodies in order that it might improve their assurance over their VFM duties. The strength that these reports give to governance and accountability is potentially valuable.

HEFCE would prefer to see concise and informative reports underpinned by detail which can be provided as supporting evidence if required. Good reports are more readable, have more content, clear introductions, discussions and include numerical and financial assessments. Poorer reports are shorter and with few numbers.

These factors underpin HEFCE's move to a more prescriptive approach to value for money reporting. **HEFCE will define the expected content of institutional value for money reports. To achieve a durable solution, this *may* not be in sufficient time for the 2016-17 reports. In addition, HEFCE will disseminate (suitably anonymised) good examples from the 2015-16 value for money reports.**

Value for Money Report Content

Steve suggested that it may be helpful for institutions to think of value for money reporting in terms of *reporting to government* and *reporting to students*. These are two distinct audiences, with different perspectives on what constitutes value and so the solution may be to have separate reports for government and students rather than a single value for money report. (The government's focus is on students and on teaching funding, but the research community may form a third important constituency for some institutions.)

Reports do need to contain numbers. Clearly the previous BIS quest for a single number was unrealistic – but equally we must avoid hundreds of numbers. There is a strong sense that there has to be something better!

Reporting to students would pose challenges. Institutions should be prepared to explain how cross subsidies from teaching to research benefit students. Students, in general, have shown limited appetite to explore how their tuition fees are spent. Arguably, governing bodies stand in place of students to hold executives to account – although students will generally be focused on the short-term, whereas governing bodies should be taking a medium term view. To reach students, reports for them may need to be completely different in format and medium. BUFDG's work on next generation reporting may offer useful insights.

In terms of reporting to government, the HEFCE Circular Letter about Value for Money reporting (23/2016) was discussed. This lists ten areas that might be reported upon. Potentially the list, with its accompanying questions to consider, and possible sources of evidence for each of the ten areas, is too wide ranging and a tighter focus on efficiency measures might help readers more. Potentially, if these efficiency measures were subject to external verification it would mitigate the risk of massage.

In discussion, the point was made that there are already well established sources of data on effectiveness, including the TEF, REF, NSS, DLHE and ASSUR. The EMM return measures economy, while equity can be demonstrated through institutions' OFFA agreements.

The use of TRAC data was explored. Although it might be instructive if institutions were allowed to see how their subject costs compare with peer institutions, there was a sense that this level of data is commercially sensitive, although some clusters of institutions have agreed to share data.

If there is a gap in data, it is probably in the area of efficiency – so potentially focus may need to be on developing a set of measures to close this gap. This is something that a working group could be asked to resolve.

Governing Bodies – Roles and Skills

Governing bodies are the initial recipients of value for money reports. HEFCE rely on independent governors to test the content of value for money reports. They also need to assess what the reports say about the effectiveness of their stewardship of resources.

Non-executives can sometimes find it difficult to get a broader perspective of what "good" looks like. HEFCE reported that the Leadership Foundation recently held a round table event to investigate the feasibility of a "getting to grips" guide on efficiency. This supports a sector need to show government that competition is driving efficiency improvements.

Hard Measures

Discussions acknowledged that in the absence of a profit motive, performance measurement is more difficult. Steve Butcher highlighted that the culture within the sector is that single sets of best practice indicators or targets tend to result in institutions arguing that their own particular circumstances either warrant a different approach or explain any apparent anomalies in outcomes. Solutions might include having families of similar institutions, or, alternatively, in providing opportunities for institutions to comment on why they differ.

The risk that hard measures can result in "inefficiency being compared with inefficiency" was highlighted. To counter this there should be a focus on each institution having its own baseline, with an expectation that they will track and report upon their own year on year improvements – rather than being solely focused on cross institution comparisons.

The Housing Association sector was cited as an example that faces a similar challenge from government to demonstrate value for money. Initially it responded with standards used by individual associations to self-assess their performance, but now they are moving towards a system of measures.

Encouragingly, the second Diamond report included some well-received estates and procurement efficiency measures. On the other hand, the development of measures in areas such as workforce was less successful. Pay costs do need to be a focus, but staff to student ratios may produce conflicting reactions. A low ratio of staff to students may suggest efficiency to some, to others it may suggest a risk of poor student support or low contact time. A HEPI report on the student experience suggests that students view increased class sizes as one of their preferred options for universities to "save money".

Hard measures could also call into question why students are routinely funded to travel long distances to university; or why there is not greater emphasis on buildings that are purely functional. Understanding academic staff use of time, and understanding what academics' use of time should be compared against, is also problematic.

Focusing on change projects was identified as one possible solution. Requiring all change to be supported by a business case, that articulates measurable benefits, and systematically captures benefit realisation may be one route to demonstrate value for money. There are also reports available on the Efficiency Exchange website of work done by Strathclyde University to formalise benefit realisation from change projects.

An appetite was expressed for, potentially, eight or nine measures that might broadly correspond with the headings in the HEFCE Circular Letter (23/2016). Steve Butcher felt that measures of estates efficiency were already quite well developed and might not need significant extra work relative to other areas. HEFCE representatives confirmed that the themes in the Circular Letter are not fixed.

There was broad agreement for an initial overarching working group, with a maximum of twelve participants, to oversee development of a set of measures. That group might generate sub-groups when needed to develop individual measures.

The need to use existing information is fully understood, although the working group might identify gaps in, or recommend variants of, existing sources. Where possible, existing groups such as the Financial Sustainability Strategy Group and sector representative groups should be drawn upon.

It was acknowledged that measures would need to be carefully framed in order to avoid excessive reporting burdens (particularly for smaller institutions) and to minimise the risks of manipulation; misinterpretation, or distortion to institutions' focus.

Institutional Autonomy and Competition

From a government perspective, one attendee asked whether there is an argument that too many institutions offer too many subjects. Rationalisation and combinations across institutions might deliver better overall value to the government. HEFCE are clear that this is not a matter that they can address.

Institutions' governing bodies are responsible for determining strategy and there is a strong argument that if institutions meet expected measures of performance, then they should be allowed to focus on delivery of the institutional strategy and its associated plans and tactics. In this vein, one attendee highlighted that their institution had worked hard to create a distinctive value for money report, which is focused and is well-received by their Audit Committee. It contains real actions which are measured from year to year. A duplicative and bloated report, designed to fulfil external requirements could damage audit committees' and governing bodies' connections with, and sense of accountability for, their institutions. Reporting needs to be focused on the core mandatory elements that meet government needs rather than being broad documents that attempt to report on the whole institution's activities.

Value for money reporting also needs to be sensitive to competition between institutions and to the fact that institutions may have their own USPs that they want to protect. Value for money reports need to be a valuable tool for the institution itself rather than being seen as an external imposition.

Attendees highlighted that, over the medium term, the development of further competition in tuition fees, which is presaged by government reforms of higher education, may well be the ultimate demonstration of value for money and may render the questions discussed here redundant. A fully competitive market would also place higher education on a similar footing to much of the private sector where value for money is not a standalone concept but instead is seen as being at the core of good business acumen.

In the shorter term, and in the absence of price-based competition, the government wants to promote competition through student choice, supported by measures such as the TEF and with it the arguably counter intuitive situation where "more efficient" institutions are permitted to increase their fees.

Institutions and Organisations Represented

Universities of Brighton, Chester, Cumbria, Derby, Durham, Hertfordshire, Huddersfield, Lincoln, Liverpool, London, Manchester, Oxford, Salford, Sheffield, Sunderland, Surrey, West London, Wolverhampton, Worcester; Bishop Grosseteste, Brunel, Keele, Liverpool Hope, London South Bank, Manchester Metropolitan, Middlesex, and Sheffield Hallam Universities; the Liverpool Institute of Performing Arts, the Royal Central School of Speech and Drama, the Royal College of Art; Queen Mary, Royal Holloway and St. George's, University of London; and University College London; BUFDG, HEFCE, London Universities Purchasing Consortium, Uniac and Universities UK