HE Update
Value for Money Briefing Note
April 2015

assurance for universities

Political and Sector Context

We've been mulling over value for money a lot recently. Although the concept of value for money is not new, it still arouses fundamental debate. Anyone whose background is in the private sector will argue that seeking value for money is, or ought to be, second nature and simple common sense rather than a topic that requires debate, training or to be reported on specifically. Many of us in Uniac approach value for money with this mind set, yet it is also evident that a sector that still draws much of its funding, whether directly or indirectly, from public sources must be sensitive to the expectations of government. HM Treasury and in turn the Department of Business Innovation & Skills (BIS) clearly expect that to compete with the other demands on the public purse, the Sector must demonstrate that it delivers value for money.

With an imminent new government and an inevitable post-election spending review, the Sector has responded with a new Universities UK report[i] "Efficiency, effectiveness and value for money". The report celebrates progress already delivered by the Sector in managing staff, estate research and equipment costs while also ensuring that UK Higher Education continues to maximise its impact. The report also discusses the potential to make greater use of data already held and to continue, the development of procurement and shared services. While intended to make stakeholders aware of considerable progress made within the Sector, the report includes several commitments to improve efficiency further (including continued monitoring of pay growth through an annual report, a balanced scorecard of metrics that will be used to demonstrate estates performance and harnessing the benefits of asset sharing). It is clear though that the Sector as a whole needs to continue to demonstrate value for money – both in terms of efficient use of resources and valuable outcomes – to the government.

Institutional Context

Institutions can help the Sector demonstrate value for money by providing evidence in turn to HEFCE, principally through an annual value for money report. HEFCE state that just over half of the Sector provide such reports. HEFCE has been reluctant, so far, to make these reports a mandatory requirement, believing (correctly in our opinion) that the current approach delivers more thoughtful reports than might be achieved in circumstances where institutions were focused upon compliance with a set of requirements.

Although not directly related to value for money, HEFCE in introducing the most recent report on the financial health of the higher education sector[ii] comment that:

"Although the overall financial position is currently stable, sector financial forecasts project lower surpluses, a fall in cash levels and a rise in borrowing. This signals a trajectory that is not sustainable in the long term."[iii]

This serves as a reminder, if needed, that in addition to the pressure on the Sector to demonstrate value for money, individual institutions too must reflect on how they use their resources carefully to deliver the maximum benefit to society.

Uniac Value for Money Seminar

In February, we facilitated a value for money forum in Manchester to promote discussion about value for money amongst institutions.

HEFCE issued guidance on value for money reporting in 2009 and, more recently, commissioned consultants to review the institutional returns. A point highlighted by the consultants was that the lack of consistency in the value for money reports submitted by institutions makes it difficult to aggregate savings in categories of spend. Moreover, and more fundamentally:

- is it clear what value for money is – the definition is likely to be different, for example, from a student to a University administrator or an auditor?
- can value for money always be measured in pounds and pence?

Our session had four main speakers:

- Adrian Clare, Assistant Finance Director at the Manchester Metropolitan University (MMU)
- Andrew McConnell, Director of Finance, the University of Huddersfield
- Graham Dawber, Chair of Audit Committee, MMU
- Nolan Smith, Head of Finance and Investment, HEFCE.

Highlights and themes arising from the presentations and discussions included:

- agreement that the focus on value for money is not going to go away – the sector will continue to need to demonstrate its value to (any) government and it will be compared with other sectors and headline KPIs will be analysed e.g. employability and research income;
- stark conclusions from HEFCE's review of institutional financial forecasts 2014-17 (based on 2013 year end positions and forecasts submitted in July 2014) which were published in October 2014 which stated:
  - the sector forecast fall in liquid funds and increase in borrowing is not sustainable in the long run;
  - the sector is increasingly dependent on its capacity to generate sufficient surpluses for sustained investment in infrastructure whose quality is critical; and
  - some institutions will need to make larger surpluses to maintain sustainability
- an acknowledgement from Nolan Smith that HEFCE will re-visit the institutional value for money reporting guidance exploring:

    - the advantages of providing a more prescriptive template detailing recommended information requirements. However, Nolan did state that there is a tension in that, ultimately, it is for institutional governing bodies to decide as to how they satisfy themselves that value for money is being achieved (the aforementioned UUK ‘Efficiency, effectiveness and value for money’ report, 2015, covers this and states that a common framework of key information on efficiency should be developed which institutions can use to inform their own value for money reports)
    - the information that HEFCE already receive from institutions which can be used to record quantitative value for money savings e.g. the data held within the Efficiency Measurement Model survey which could then be aggregated to present a sector position
- the importance of ‘effectiveness’ when considering value for money. A frustration expressed during the discussions surrounded the need to assess the outcomes from initiatives rather than just the savings i.e. economy and efficiency measures. The aforementioned HEFCE guidance made little reference to effectiveness and, with the use of the ‘data already in the system’ there is an opportunity for any revisions to the guidance to concentrate on effectiveness and highlight examples of good practice across the sector
- cultural considerations – the benefits of embedding value for money principles across the institution through induction and periodic presentations and training, with an aim of winning the ‘hearts and minds’ of the academic community
- building value for money into institutional strategic plans as an important enabler and developing related KPIs.

Where next with value for money? Our views

We wholeheartedly endorse the increased emphasis on outputs and outcomes that is evident in both the recent Universities UK Efficiency report and in Nolan Smith’s presentation to the recent Uniac value for money event. Both signal a maturity that is missing when there is an exclusive focus on the cost of inputs.

To be slightly controversial, data assurance and risk management are two areas where the introduction of mandatory requirements by HEFCE have sometimes held institutions back from exploiting data as a useful management resource and from getting the most they can from risk management – instead attention is diverted to getting a tick in the box for compliance. For that reason, we hope that value for money reports do not become a compulsory requirement, but that instead governing bodies reflect on how value for money is achieved and how it is demonstrated to all stakeholders – including government, students and students’ families.

While the Universities UK efficiency report highlights some new commitments, we offer our own suggestions:

1. Academic office space continues to be a sacred cow in many institutions. Given space costs, carbon reduction targets and the trends towards cloud computing, bring your own device and electronic journals and texts there is surely scope for more innovative thinking by institutions and staff alike.

2. The Universities UK report contains space measures. We wonder about the place of iconic or trophy buildings in the Sector. Does efficiency require that new buildings be purely functional *or* does a spectacular building inspire staff and students – thus giving better value for money in the long run? We don't know the answer, but it strikes us as an important question.
3. Shared services are a subject dear to our hearts. It seems to us that the Sector has barely scratched the surface here. Cost sharing groups have made a slow start. The Universities UK efficiency report promotes JISC as an example of a successful shared service, yet JISC may not be entirely unscathed as it migrates to a subscription based model. Across the country institutions are reluctant to share back-office services in finance, human resources and estates. Whether institutions have evidence to prove that the in-house approach delivers the best value for money; whether they believe that retention of these services in-house somehow confers competitive advantage; whether it suggests that the Sector lacks confidence in its own ability to run shared services effectively; or whether it ultimately lives in hope of Capita, Group4 or similar organisations entering the Sector in force we cannot comment – but we do believe there is further debate to be had.
4. The Universities UK efficiency report notes approvingly the trend away from reward based on length of service towards reward based on contribution. We agree that this is a good thing. Staff costs are one area though where an overwhelming temptation remains to revert to measures of input rather than output – salary costs as a percentage of income; changes in salary levels in Higher Education relative to other sectors and so on. HM Treasury readers of the Universities UK report may be impressed by the Sector's frugality. Trade union representatives and other members of staff might find the same report makes less enjoyable reading. An emphasis on cost is important of course, but perhaps more emphasis on the return generated from institutions' investment in their staff could be more profitable?

How we can help you

We have undertaken a number of value for money related reviews recently – be it working with institutional management to assess arrangements and measurements in place or Audit Committees in assisting them in providing assurances to include within their annual reports.

We're interested in value for money and keen to help. For further information on how we can help or any other aspect of Uniac's internal audit and assurance service please do get in touch.

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[i] http://www.universitiesuk.ac.uk/highereducation/Pages/EfficiencyEffectivenessValueForMoney.aspx

[ii] http://www.hefce.ac.uk/pubs/year/2015/201507/

[iii] http://www.hefce.ac.uk/news/newsarchive/2015/Name,103631,en.html