

8. THE FUNDING AND COSTS OF TEACHING

- 8.1 It is no exaggeration to say that the Browne Report and subsequent policy developments have led to the most fundamental review of the funding of teaching in the history of modern UK HE. Although originating in England, it has led to a review of funding in other UK jurisdictions. As all governors will be aware, the changes are highly controversial: welcomed by some, opposed by many, and likely to have been discussed by all governing bodies in some form.
- 8.2 At the time of writing, the policy position is extremely fluid, and therefore no attempt has been made to set out likely funding arrangements from 2011-12 onwards. In any case, all governors will be actively involved in discussing the funding implications for their own HEIs, and will receive the necessary briefing from the executive and secretariat. Rather, this chapter briefly sets out some issues for governors in ensuring financial sustainability in relation to teaching irrespective of the funding method.

"I sometimes find it difficult to understand some of the requirements of the funders, so god knows what the external governors make of it."

ELECTED ACADEMIC STAFF
GOVERNOR

Governing Body Responsibilities

- 8.3 Of all the responsibilities of governors finance is amongst the most vital, and this applies as much to teaching as it does to other areas. The CUC Guide⁶⁵ includes in its summary of a governing body's financial responsibilities the need to "ensure the solvency of the institution and safeguard its assets". Governors therefore need to have a range of financial information to hand including: knowing how much teaching costs on a full economic cost basis; the income necessary to meet costs, overheads, and future investment; how teaching costs and income relate to other institutional activities; and how financially sustainable teaching (and perhaps the HEI as a whole) will be in the medium to long term.
- 8.4 Given the challenges to public expenditure, the pressures on governing bodies to ensure financial sustainability will grow, and the income and costs of teaching will be subject to ever more rigorous scrutiny. Programmes, faculties and perhaps whole institutions may be closed or merged, and the potential for conflict within an HEI is evident. It is therefore imperative that governors fully understand not only the overall financial position, but also the funding and costs of teaching.

Funding for teaching: an overview

- 8.5 Although there are major differences between the four UK jurisdictions, in all cases teaching has been funded from three main sources: funding body grants for teaching, tuition fees (where charged), and education contracts.
- 8.6 At present, each funding body provides resources for teaching UK and EU students through a 'block grant' to HEIs, depending on the recruitment and retention of an agreed number of students. The funding bodies have an annual agreement with each HEI involving a given volume of teaching at a certain price, which varies by subject, level of study, and whether students are full time or part time. There is a small margin of tolerance to cope with annual fluctuations. If HEIs want to increase

⁶⁵ CUC, (2009), A Guide for Governors of UK HEIs, op cit

domestic student numbers they can only do so with funding body agreement. Changes to national priorities typically affect funding body allocations (for example, limiting overall numbers, or restricting allocations to particular subject areas). The funding bodies have also typically provided separate funding for specific initiatives, for example to incentivise HEIs to widen access. The details of funding vary in the different UK jurisdictions, and information is available from their various websites.

8.7 The block grant is supplemented by tuition fees, and there are currently two kinds: private HEIs who can set their own fee, and those controlled by government. HEIs determine tuition fees for postgraduate courses (except where they are regulated by professional and statutory bodies), for international students outside the EU, and for short courses. In agreeing fee levels, a governing body needs to be vigilant in checking on market conditions as they are likely to be competitive and volatile.

SUGGESTED TASK

As a governor, on reflection how well informed were you about the implications of agreeing a new student fee, and the implications for demand? If you are a governor in Scotland how well informed were you about the implications for your HEI about increasing student fees elsewhere?

8.8 Since 2006-07 in England and Northern Ireland and 2007-08 in Wales-fee levels for full time undergraduates have been capped at £3000 pa (index linked). Although HEIs have had the choice of charging less, only a few initially chose to do so and they have altered their position since. In Scotland the fee charged in 2010-11 for newly enrolling students was £1820 (£2895 for medicine).

8.9 In all jurisdictions, fee policies are under review following the Browne Report and the proposals of the Whitehall government that in England a minimum fee of £6000 pa can be charged (in the form of a graduate contribution), with the possibility of a maximum of £9000 pa subject to a number of conditions, including HEIs adopting acceptable widening access arrangements approved by the Office of Fair Access. A consequence of such fee levels is that public funding for arts and humanities subjects has been withdrawn. Accordingly, all governing bodies in English HEIs will need to decide on their pricing strategy (and look closely at their costs for teaching) as well as the implications of the conditions imposed for increasing fees beyond £6000 pa. In Wales, the Assembly has agreed a similar uplift in fees, subject to the agreement of fee plans by HEFCW.

8.10 In addition, many HEIs will have substantial education contracts with a range of customers, including nursing, professions allied to medicine, initial teacher training, further education and continuing professional development (including tailored programmes for businesses). Clearly reductions in public sector funding threatens the viability of such contracts, and in England proposals exist for changing the basis of funding teacher training so that schools will have powers to purchase their training from HEIs. Clearly, governors will need to be alert to the impact of all these changes on institutional viability, and seek the advice of their executive.

Assuring data accuracy

8.11 Governors must ensure compliance with funding body requirements about student data. There are two key requirements: first, HEIs must recruit as precisely as possible to their contract numbers otherwise funding penalties will apply. Second, there needs to be clarity about what counts as a student for funding purposes as HEIs can be penalised for inaccurate reporting of student numbers.

8.12 Accordingly, HEIs are required to provide accurate financial and student record data that can be relied on in making allocations. All funding bodies expect that such data will be subject to effective oversight by governors, managers and auditors, and audit committees are now required to provide their own annual assurances about data returns. For student data a key issue is whether HEIs correctly apply the rules concerning recording student completions (or - put the other way - the number of 'drop outs'). This has been highlighted in recent years because some HEIs returned inaccurate data on student retention, and therefore obtained funding to which they were not entitled (see Chapter 4).

8.13 The requirements of the four funding bodies on data accuracy can be found on in their respective financial memorandums. In addition, Hefce have also provided guidance summarising the common problems they find in data audit work in this area⁶⁶. A sample of the issues identified - which are relevant throughout the UK - include:

- Data returns are not in accordance with the student completion definition of the funders.
- Inadequate audit trails exist in student record systems.
- Information to prepare data returns may be undocumented or lie with only one person, thus creating an obvious risk.
- The opportunity to use the student record system as a source of management information is being lost at many HEIs.
- Staff responsible for completing returns for funding purposes may have no idea of the rules governing completion.
- There are examples of a lack of understanding of what a full time equivalent student is meant to represent in data returns.

8.14 Although technical issues, these comments illustrate that governors cannot assume data accuracy, and therefore must ensure that the HEI has an effective system for data collection and reporting. Clearly the audit committee will be the main location for this, and may need to ensure robust validation by the internal auditors, but all governors should be aware of the potential difficulties. Even given robust oversight, it is not easy for audit committees to ensure the complete accuracy of data returns, particularly in large HEIs which operate complex curriculum patterns. Accordingly, many HEIs have increased their levels of assurance and have enhanced data monitoring.

Costs of teaching and TRAC

8.15 Another aspect of data accuracy is identifying the costs of teaching, and governors need to know not only how income for teaching is earned, but also the costs, particularly as understanding and controlling costs has a direct impact on sustainability. All the funding bodies have sought to identify the full economic costs of teaching and research. To do this a system known as TRAC (Transparent Approach to Costing) has been devised and TRAC-T applies to teaching. This is intended to help HEIs and governing bodies understand their costs - particularly staff time - and HEIs provide annual TRAC returns to their funding body.

⁶⁶ www.Hefce.ac.uk/finance/assurance/data/

SUGGESTED TASK

As a governor, have you seen the results of your TRAC return for teaching? Does it identify cross-subsidies that might give you cause for concern about financial sustainability?

- 8.16 In addition to identifying costs, TRAC has other benefits:
- It is possible to obtain comparative costs for HEIs in teaching a student in each of the 41 HESA subject areas.
 - It can provide better information on the cost-pressures which impact on the financial sustainability of teaching and the student experience. A Hefce report on this includes case studies from HEIs, but the findings are relevant across the UK⁶⁷.
 - It enables the issue of cross-subsidy between teaching and research to be addressed. In many HEIs research has been subsidised by teaching, a situation which will be increasingly difficult to justify not just because of the strictures of the funding bodies but also because student fees bring with them the need for greater transparency in how they are calculated and the resources deployed⁶⁸.
- 8.17 Some HEIs have questioned the benefits of TRAC, particularly those that undertake little research. However, although there are real issues concerning the reliability of TRAC data in recording staff time, the answer lies in the hands of management and governors in that any activity based approach to costing requires data accuracy, and therefore governors need to encourage senior managers to find a way of ensuring accurate data returns - whether part of TRAC or not.

Institutional resource allocation for teaching

- 8.18 Finally, governors need to think about how effectively the internal resource allocation system is being used to support the objectives of the academic and learning and teaching strategies. As noted at the start of this chapter, money from the funding bodies is allocated as a block grant for HEIs to use as they wish, and does not have to be allocated using the funding bodies' formulae. As internal resource allocation is the most powerful way to influence academic activity, it follows that allocating the block grant effectively is central to delivering institutional strategies and priorities.
- 8.19 This flexibility raises important questions for governors including:
- In practice, how internal resource allocation systems support the academic and learning and teaching strategies.
 - Whether resource allocation for teaching results in realistic and consistent outcomes, and provides suitable incentives.
 - The extent to which either teaching or research is cross-subsidising the other, and if this is planned or unplanned.
 - Where fully costed overheads on teaching are not being achieved, what are the implications?
- 8.20 Within HEIs there are broadly three approaches to allocating resources for teaching:
- HEIs allocating funding which reflects funding body grant calculations. This may support the idea of a direct link between departmental performance and funding received.
 - HEIs generally following funding body allocations but adopting additional criteria to reflect institutional priorities. This has obvious benefits, but may be

⁶⁷ See www.hefce.ac.uk/finance/fundinghe/trac/tdg/FSSG2009.pdf "Policy overview of the financial management information needs of higher education and the role of TRAC" (2009). A report prepared for the Financial Sustainability Strategy Group and the TRAC Development Group by JM Consulting

⁶⁸ The separate publication in this series on finance describes how TRAC can be used more broadly to ensure financial stability, see CUC-LFHE, (2009), *Getting to Grips with Finance* op cit

controversial if staff feel that resources that should have come to them are being used elsewhere.

- A more managerial model whereby centrally determined allocations are made to limit costs and facilitate new developments, not based on the existing pattern of activity.

8.21 Clearly a governing body should be interested in these issues, and from time to time review how far the resource allocation system is meeting its objectives.

Self-challenge questions

- How well informed are you as a governor about the funding and costs of teaching in your institution?
- How can the governing body assess whether value-for-money is being achieved with respect to teaching and the student experience?
- How do your institution's costs for teaching compare with those of other institutions, and what are the consequences?
- How well placed is your governing body to make difficult decisions on the future of fees and associated issues?

A GOVERNOR'S DILEMMA 4:

As a governor in an English HEI you realise that your institution will have to set a realistic student fee, but this decision greatly troubles you. On the one hand you recognise the need for your own institution to be financed so that academic quality can only be maintained with appropriate investment. You do not believe that this should automatically come from the state. On the other hand you recognise the potential disadvantages of increasing fees, and that some students might be put off applying to your institution. At a forthcoming meeting, the head of institution has made a proposal for a student fee which is not what you personally feel comfortable with.