

## 7. VALUE FOR MONEY

- 7.1 At one level, getting best value from the resources available to an HEI should be an obvious management objective. Who would do otherwise? Yet governments of all parties have thought it necessary to seek improvements. But perhaps this is not surprising as most academics will be much more concerned about the quality, impact and reputation of their work than how much it costs or the value for money it provides. Therefore the governing body (along with its other financial responsibilities) has to ensure that its institution is achieving optimal value for money (VfM).
- 7.2 VfM is usually defined in three ways:
- Economy - achieving best value taking price and quality into account.
  - Efficiency - maximum output for minimum use of resources.
  - Effectiveness - the optimum realisation of objectives.
- 7.3 Whilst the first of these is a reasonably straightforward concept (given identical goods or services, pay as little as possible for them), the second and third may not be and balancing acts may be required. Research is a classic example, and maximising the volume of published papers in third rate journals is not the way towards international recognition of an HEI as research driven. Likewise, a policy of publishing only in first rate journals regardless of the resource consumed may have the same effect, because either the research is not of sufficient quality to be published, or the magnitude of the resources required means that little is produced.
- 7.4 The reality is that getting better VfM needs regular pressure and it's the governing body's job (through the audit committee) to see that management takes the task seriously. VfM can be investigated through various routes - internal audit investigations, interviews with management, use of benchmarks etc - but should stop short of governors doing the job themselves. Here, as in many other aspects of governance, the job is to ensure that robust arrangements are in place, that they are functioning well, and that the results are measured and actions taken.

### A practical approach

- 7.5 Almost certainly, the next few years will see increased financial pressures on most HEIs, and the need for VfM will be even greater. Accordingly, it might be a good time for a governing body to consider the effectiveness of its attempts to date to achieve better value. A review and updating of the institution's VfM strategy might be beneficial, and relevant questions for governors to ask might include<sup>18</sup>:
- Have we set out our approach to VfM and the underlying rationale?
  - Has the strategy been endorsed by governors and senior management?
  - Does the strategy set out individual responsibilities?
  - Are there effective management arrangements for implementing strategy?
  - Are there sufficient resources to implement the strategy?
  - Has the strategy been effectively deployed throughout the institution?
  - Are the results of our VfM activity reported to governors and senior management?

*"The University is not a business and that word should not be used in official documents"*

A UNIVERSITY SENATE MINUTE

<sup>18</sup> Some of this chapter is taken from Value for Money Strategy, Hefce 1998. The publication contains much useful background material for a review of VfM activity. See [www.hefce.ac.uk/finance/assurance/vfmstrat.htm](http://www.hefce.ac.uk/finance/assurance/vfmstrat.htm)

- 7.6 The task of actually improving VfM is a management responsibility, but the governing body (through the audit committee) should be informed of the planned programme of work and any resulting objectives and targets. Work might include:
- Promoting a culture of continuous improvement throughout an HEI.
  - Considering any VfM reports from the funding councils, the National Audit Office, the Wales Audit Office, and any other relevant source, and taking appropriate action on their recommendations.
  - Monitoring the implementation of any studies undertaken.
  - Ensuring that market testing of all externally contracted services is properly conducted by line management at the agreed frequency, and considering other market testing opportunities.
  - Encouraging the adoption of good VfM practice in all areas throughout the institution, and reviewing any reasons for not doing so.
  - Reviewing existing performance indicators on key elements of the institution's activities to contribute to its assessment of economy, efficiency and effectiveness.

### Looking a bit more deeply

- 7.7 Some areas are obvious candidates for VfM investigation - purchasing, catering, transport, estate maintenance, information technology, insurance and so on. They are all worth putting into a regular cycle of reviews, but they are mainly outside the academic heartland. Other areas may feel like a difficult challenge for a VfM review, but may yield considerable improvement, given the right approach. These include:
- Efficient organisational structure (governing body, management, administrative, academic).
  - The active management of staff costs (especially part time costs and vacancy management).
  - The existence and implementation of a procurement strategy.
  - Participation in sector wide benchmarking activities.
  - Space management techniques.
  - The use of an information strategy to integrate all the information needs of the administrative and academic community.
  - The adoption of good corporate staff management practices, including recruitment, induction, appraisal and staff development.
  - Sharing support services with a neighbouring institution.
- 7.8 The key to a successful review in the above areas may be the use of specialist staff or consultants. Many institutions belong to one of the higher education management services groups, which specialise in providing advice to HEIs. There are also several specialist consulting firms.

### The annual VfM report

- 7.9 Securing an annual report from management on VfM can be a key discipline and all governors should expect to receive one. This is the governing body's chance (through the audit committee) to raise the challenge of getting better VfM by insisting on a report of work done and achievements made during the year and debating it with the head of institution. This report, backed up with evidence, could be the most valuable source for the board's view of VfM and the seriousness with which it is pursued.

- 7.10 Getting better VfM is a continuous process, so the constant search for improvement is a key aspect to look for in any review. It is also a cultural issue at heart and stems, like many other aspects of institutional success, from the top. Does the head of institution drive it? Does it have a narrow focus just on housekeeping issues? Does the finance director challenge costs, operating methods and procurement arrangements, for example? In looking at the annual report, it might be pertinent to ask if any sacred cows have been disturbed this year and what protests resulted - if any.
- 7.11 There is still a widespread belief outside higher education that better value could be secured from the public resources devoted to the sector. This has resulted in government led inquiries in the past, and it remains a major issue. If government believes it is not being taken seriously, not only is further regulation likely, but the sector's regular bids for enhanced funding may meet with the response that 'it is time to put your own house in order'. One vice-chancellor described his appearance before the Public Accounts Committee for a discussion of this issue as the most uncomfortable interview of his life!

#### Self-challenge questions

- Have the savings proposed in last year's VfM plan been achieved? As a governor how would you know?
- Is there any evidence of benchmarking of costs?
- Has VfM work gone beyond administrative areas?
- Are 'shared services' on the institutional agenda?

#### SUGGESTED TASK

Think about what evidence of better VfM you have seen as a governor during the last 12 months. Have you got positive assurance that your HEI takes this seriously?