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Welcome to the Further and Higher Education Panel spring e - newsletter

CIPFA's Further and Higher Education Panel is committed to providing quality publications, seminars and other services for finance professionals working in the further and higher education sectors.

If you have any comments or suggestions regarding future editions or ideas on work that the Panel might usefully undertake, please submit your comments to Kerry Ace at [kerry.ace@cipfa.org](mailto:kerry.ace@cipfa.org)

The Further and Higher Education Panel's membership and remit can be found on its web pages at [www.cipfa.org.uk/panels/fehe/index.cfm](http://www.cipfa.org.uk/panels/fehe/index.cfm)

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## **Panel event: Developments in further and higher education finance**

This event, which will take place on 29 June 2010 in London, is aimed at finance practitioners and those involved in strategic and corporate finance issues in further and higher education. It will cover the following themes:

- The future position of and challenges for further and higher education post election
- Accounting for the economic and employment benefits of further and higher education
- How institutions can become more socially responsible
- Ethical investments
- The costs and benefits associated with a carbon reduction strategy.

For further details please contact [Charlotte.Cordrey@cipfa.org.uk](mailto:Charlotte.Cordrey@cipfa.org.uk)

## **Election 2010 – summary of key policies affecting further and higher education**

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As election fever strikes, summarized below are some of the key policies from each of the 3 main political party manifestos that will affect further and higher education.

### **Labour Party**

The Labour Party will :

- raise the education and training leaving age to 18
- introduce an entitlement to an apprenticeship place in 2013 for all suitably qualified 16-18 year olds
- pioneer University Technical Colleges and new Studio Schools that offer innovative curricula involving practical learning and paid work
- expand advanced apprenticeships, creating up to 70,000 places a year
- enable the best apprentices to go on to higher education through new apprenticeship scholarships
- expand paid internships for students
- overhaul careers advice for young people including younger children
- guarantee mentoring and support for higher education applications to all low-income pupils with the potential for university study, with extra summer schools and help with UCAS applications
- expand programmes to encourage highly able students from low-income backgrounds to attend Russell Group universities
- give priority in the expansion of student places to Foundation Degrees and part-time study, and to science, technology, engineering and mathematics degrees, as well as applied study in key economic growth sectors
- require all universities to set out clearly how they will ensure a high-quality learning experience for students.

<http://www.labour.org.uk/manifesto/staying-on-to-get-ahead>

<http://www.labour.org.uk/manifesto/world-class-higher-education>

### **Conservative Party**

The Conservative Party will :

- provide 10,000 extra university places in 2010
- introduce an early repayment bonus on student loans which are repaid ahead of schedule
- create an extra 100,000 apprenticeships and pre-apprenticeships each year
- give small and medium businesses a £2000 bonus for every new apprentice they hire
- provide an extra 100,000 college places over two years so unemployed young people can improve their skills
- provide 100,000 new 'work pairings' over two years so unemployed people can gain meaningful work experience and mentoring from business people
- improve careers advice including expert advice in secondary schools and colleges and setting up a new careers service for adults
- establish a Community Learning Fund to help adults who want to learn new skills or restart their careers
- abolish many of the further education quangos and reduce inspection in colleges
- delay implementation of the new funding system for universities – the Research Excellence Framework – and work with academics to ensure a robust and acceptable way of measuring the impact of research.

[http://conservatives.com/Policy/Where\\_we\\_Stand/Universities\\_and\\_Skills.aspx](http://conservatives.com/Policy/Where_we_Stand/Universities_and_Skills.aspx)

### **Liberal Democrat Party**

The Liberal Democrat Party will :

- create a general diploma to bring GCSEs, A-Levels and high quality vocational qualifications together, enabling pupils to mix vocational and academic learning
- give 14-19 year-olds the right to take up a course at a college rather than school if it suits them better
- seek to close the funding gap between pupils in school sixth forms and further education colleges as resources allow
- abolish the Government's plans to criminalise those who leave education between the ages of 16 and 18
- abolish university tuition fees for all students taking their first degree including those studying part time
- reform the current bursary scheme to create a National Bursary Scheme for students, so

that each university gets a bursary budget suited to the needs of its students

- replace the Skills Funding Agency and the Higher Education Funding Council for England with a single Council for Adult Skills and Higher Education
- abolish the target of 50% of young people attending university, focusing effort instead on a balance of college education, vocational training and apprenticeships
- start discussions with universities and schools about the design of a trial scheme whereby the best students from the lowest achieving schools are guaranteed a place in higher education
- fund 15,000 new places on Foundation Degree courses and fully fund the off – the –job costs of adult apprenticeships
- end Train to Gain funding for large companies, restricting funding to small and medium-sized firms that need support.

[http://network.libdems.org.uk/manifesto2010/libdems\\_2010\\_life.pdf](http://network.libdems.org.uk/manifesto2010/libdems_2010_life.pdf)

## **CIPFA education and training update**

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### **Professional Qualification**

As the public services continue to change, including the requirements and expectations of its finance teams, the CIPFA Professional Qualification needs to be constantly reviewed and updated.

We undertook extensive stakeholder consultation throughout the UK involving students, employers, members and academics. The aim was to find out how the qualification could be improved and ensure it anticipates and meets future needs.

The feedback was simple – stakeholders are very happy with the existing qualification and our total commitment to the public services. They were of course, willing to suggest ways in which we could maintain this position in the future.

The qualification will be made even more robust and in tune with our stakeholder needs. We will continue to develop competent leaders that have well rounded theoretical knowledge and are confident in applying this knowledge, in practice.

This new qualification will be officially launched later in 2010 and will be live from January 2011.

For further information, please see [www.cipfa.org.uk/students/prospective/index.cfm](http://www.cipfa.org.uk/students/prospective/index.cfm)

### **Certificate in International Treasury Management - Public Finance (CertITM-PF)**

The Certificate in International Treasury Management – Public Finance (CertITM-PF) is a practical professional qualification in treasury management from the Association of Corporate

Treasurers (ACT) and CIPFA.

It was launched in June 2009 with students starting the first cohort in October. The second cohort is about to start in April 2010.

It delivers core knowledge, technical and practical skills and is the only qualification to provide a fundamental understanding of all aspects of treasury management for the public services from an international perspective.

More information can be found at [www.cipfa.org.uk/certitmpf](http://www.cipfa.org.uk/certitmpf)

## **Summaries from CIPFA's most recent responses**

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### **National Commissioning Framework (LSC)**

CIPFA welcomes the guidance on the process for planning and commissioning learning provision for young people in England for the academic year 2011/12 drawn up by the LSC. Given the significant impact on the 16-19 sector following the machinery of government changes, it is particularly valuable.

CIPFA supports the intention of the framework that it should provide a coherent national model whilst allowing for local flexibility. We broadly welcome the principles on which the framework is based. In our view, the principles of transparency, consistency, sustainability, impartiality and value for money are key. We believe, however, that there needs to be greater detail on the criteria that will underpin these principles to ensure their achievement in practice.

We remain concerned that the complexity of structures and number of authorities and separate agencies involved in the commissioning process could lead to an increase rather than a reduction in bureaucracy. If this becomes the case it could be difficult to achieve value for money.

We welcome the notion of a core data set to underpin the commissioning processes for provision provided to local authorities by the YPLA.

We are pleased to see that the harmonisation of success rates for use in schools is underway and expected to be available by 2012.

### **Report on the future of UK GAAP (ASB)**

CIPFA's response focuses on the public benefit entity proposals and strongly supports the ASB work in this area.

CIPFA agrees with the ASB that there is a gap in international standard setting. IFRS are not standards which public benefit entities can straightforwardly apply without additional guidance. CIPFA has supported standards initiatives which fill the gap for the public sector, both internationally through the International Public Sector Accounting Standards Board, and in the UK through the development and review processes for the Government Financial Reporting Manual (FRoM) and other related manuals and codes which apply IFRS to all the different types of government reporting entity in the United Kingdom.

ASB development of a UK Financial Reporting Standard for public benefit entities outside the public sector would fill the remaining gap and would be extremely helpful. All of the CIPFA panels and other sector stakeholders we have spoken to support the ASB in its proposals.

In responding to the questions on the type and content of any ASB pronouncement on Public Benefit matters, we have taken the view that most of the proposals set out by the ASB are workable, and in choosing between approaches have mainly been concerned that the approach to developing and maintaining the standard should be practical, rigorous and transparent.

On balance we are inclined to support a 'lean' Public Benefit standard, mainly focussing on the areas where supplementary guidance is necessary, together with SORPs or similar guidance developed by stakeholder bodies. public benefit entities, and to meet their accountability responsibilities.

The public benefit sector needs and deserves to have high quality financial reporting that is appropriate to its circumstances, and the material in the SORPs needs to be developed with a similar degree of transparency and rigour to other standards material.

In providing any assurance on SORP documents, the ASB would be primarily considering consistency with the standards framework. In this regard we suggest that the Public Benefit standard should function both as a toolkit for the development of standards consistent SORPs, and a specification for the content and structure of the standards related material in the SORP. In saying this we are not suggesting that a 'one size fits all' approach to SORPs is required – the current SORPs differ largely because of the specific needs in each sector, particularly the Charities SORP which is a comprehensive body of guidance applicable to a wide range of different sizes and types of charitable entities. We do however suggest that specification in the Public Benefit standard or other related ASB material should promote a greater consistency of presentation which would make it easier to map the SORP material against the standards framework

CIPFA has also responded to the following consultation documents:

**Revised Financial Memorandum (HEFCE)**

**Regulating HEIs as Charities (HEFCE)**

**Joint Audit Code of Practice (LSC)**

The full text of CIPFA's responses can be found at:

<http://www.cipfa.org.uk/pt/responses.cfm>

## **CIPFA's most recent publications for colleges and universities**

CIPFA's Further and Higher Education Panel publishes guidance on financial management on a regular basis. Its most recent publications are listed below.

- Resource Allocation Models in Further and Higher Education: A Compendium ( Fully revised edition, 2010)
- Guide for Finance Committee Members in Further and Higher Education (2008)
- Handbook for Audit Committee Members in Further and Higher Education (2005)
- A Model Set of Financial Regulations for Further and Higher Education Institutions (

- 2003)
- Partnerships and Other Alliances : Case Studies from the Further and Higher Education Sector ( 2007)
- Mergers and Collaboration – A Guide for Further and Higher Education Institutions ( 2000)
- Further Education Finance ( 2004)
- An Introductory Guide to Risk Management in Further and Higher Education (1999)
- The Use of Service Level Agreements in Further and Higher Education ( 1998)
- A Resource Quantification Model: Case Study from the Further and Higher Education Sector (2000).

For a full list of CIPFA's publications, please see:

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>

## **National Commissioning Framework update**

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The National Commissioning Framework (NCF) has been published by the Young People's Learning Agency (YPLA) following a period of consultation on the draft NCF. The NCF is of interest to finance practitioners as it describes a significant transfer from 1 April 2010 of responsibility from central government to local government.

The NCF signals the end of the beginning of a long process of change in the education of those aged 16 years or older. This process effectively began in 2007 when ministers announced a major change to the machinery of government for funding education.

Back in 1993, the government took English further education colleges out of the control of local authorities and handed responsibility for funding colleges to the Further Education Funding Council (FEFC). Similar moves were also made for Scottish and Welsh colleges. In 2001, the FEFC was replaced by the Learning and Skills Council (LSC), with the LSC also taking on training in the workplace and in 2002 funding of 16-19 year olds in local authority maintained schools with sixth forms.

By the middle of the last decade, ministers set the ambition to raise the compulsory participation age to 17 years old by 2013 and 18 years old by 2015. This two year increase, the first such change for decades, needed new government arrangements to support it.

A key part of this change was to hand over responsibility for commissioning most 16-19 learning to local authorities. Thus, from this April, local authorities have taken over determining the learning needs of 16-19 year olds in their locality and will go on to procure and pay for this learning from colleges, universities and commercial and third sector providers of 16-19 learning.

Local authorities will be funded for 16-19 learning by a new non-departmental public body, the Young People's Learning Agency (YPLA) under the sponsorship of the Department for Children, Schools and Families (DCSF). The YPLA will set a national formula for funding learning outcomes (GCSEs, A Levels, diplomas etc) and set a national price for the outcomes. Local authorities will pay schools, colleges and learning providers for the learning outcome volumes

that the local authorities have commissioned and procured using the YPLA's national formula.

Much 16-19 learning is local however many learners cross local authority boundaries to go to a college or training centre. Local authorities have to work with other authorities through Sub Regional Groups (SRGs) and Regional Planning Groups (RPGs) to ensure 16-19 learners' needs are met across wide areas.

In April local authorities will initially inherit transferred funding agreements (contracts) from the LSC for 16-19 learning and from August 2010 local authorities will put their own contracts in place. Local authorities will ensure that colleges and learning providers perform against their contracts and act as needed where there is under performance. The YPLA will have a set of reserve powers to monitor and intervene with local authorities very actively at the forefront of the contractual relationship. The YPLA will expect local authorities to account to it for YPLA funding.

One other structural change for colleges is that almost all of the 90 plus sixth form colleges will be designated as a new form of statutory corporation under the Apprenticeships, Skills, Children and Learning Act 2009 with all other colleges remaining as they are. The 2009 Act gives local authorities direct powers over sixth form colleges similar to those the LSC previously held. Having said this, sixth form colleges remain independent of government, responsible for their own financial affairs and governance.

16-19 funding will continue to be paid on the basis of purchased volumes of learning outcomes. Schools, colleges and learning providers will still make detailed data returns to central government data collection services. These data returns can be used by local authorities to see if they got what they paid for.

Audit requirements for schools, colleges and learning providers are not changing as a result of the NCF. However, because this is a payment by results funding approach, both the YPLA and local authorities will be interested in ensuring that schools', colleges' and learning providers' data returns are valid and accurate. One means of ensuring this is a 'funding audit' of these data returns. The YPLA and local authorities have agreed with the Skills Funding Agency (SFA) to put in place mutual acceptance of assurance over funding with a lead body auditing all funding at a school, college or learning provider on behalf of all others. These arrangements are set out in part 1 of the Joint Audit Code of Practice issued by the LSC in February 2010 for consultation.

The SFA is the other successor to the LSC and the SFA is an executive agency within the Department of Business, Innovation & Skills (BIS). The SFA will continue to commission, procure, pay for and performance manage adult learning providers in England (not higher education). The SFA will similarly procure 16-19 apprenticeships through the National Apprenticeship Service within BIS. The SFA will procure all European Social Funded 16-19 and adult learning.

YPLA and SFA capital funding for colleges and schools in financial year 2010/11 is now largely committed. Levels of capital funding beyond 2010/11 are uncertain, however capital funding of sixth form colleges and schools with sixth forms will, under current plans, be subsumed into

Building Schools for the Future.

The YPLA has set out how it will fund local authorities from April 2010 in YPLA Finance Guidance 01/2010. This guidance is available from the DCSF website.

Both the YPLA and SFA have been formed using staffing, systems and processes of the LSC. The YPLA at around 450 staff is a slim line body based in Coventry and each of the English regions. The YPLA also keeps direct responsibility for paying education maintenance allowances to some 600,000 young people, and is gaining responsibility for funding the 204 open academies in England. Responsibility for funding academies has been transferred from the DCSF with effect from April 2010.

## **Financial strategy and the role of resource allocation**

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You may think that a strategic approach to financial planning and management would be accepted as common sense for any organisation. But in some sectors the development of an organisation-wide, systematic management of financial policy and practice has taken longer than in others. This article examines the background to and purpose of financial strategy in further and higher education and the role resource allocation plays in it.

In local authorities and health trusts financial planning is a well-developed discipline, driven by the fluctuating levels and purpose of government grants, and their direct impact on policy programmes and staffing levels. Medium term forecasting, sensitivity analysis, scenario planning and risk management have been built into financial strategy approaches over a number of years.

Historically, universities and further education colleges have been led and managed by academic staff, with administrative staff supporting the delivery of education but not represented at a senior management level. This has changed significantly over the past two decades, and developing an integrated, strategic approach to finance has been part of this change. Indeed, in 2008, the Higher Education Funding Council for England (HEFCE) made it clear in its financial memorandum with universities that 'Institutions should have a financial strategy that reflects their overall strategic plan, sets appropriate targets and performance indicators and shows how resources are to be used. To remain sustainable and financially viable they should also assess, take and manage risks in a balanced way that does not overly constrain freedom of action in the future'.

During the last decade, the Learning and Skills Council (LSC) has also developed its requirements for financial planning information from further education colleges. In 2005 its planning guidance made it clear that 'the three-year financial plan should be an integral part of each college's own strategic and three-year development plans, as it expresses in financial terms the cost of implementing those plans and shows the income and expenditure associated with projected levels of activity'.

HEFCE published guidance on financial strategies for universities and colleges in 2002 (Financial Strategy in higher education institutions, Good Practice Guidance, June 2002/34). This defined the purpose of financial strategy as answering the question: 'How can we achieve and sustain our distinctive mission and positioning in the current funding and financial

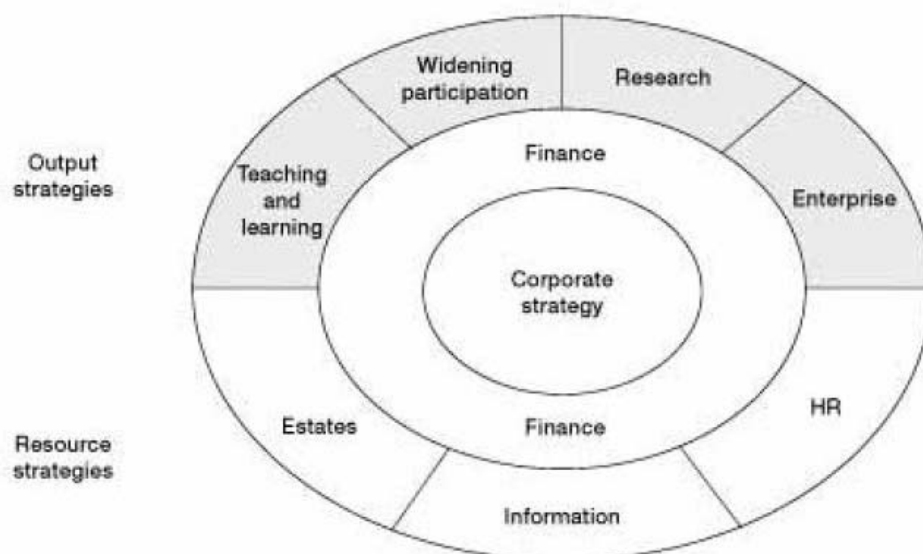
environment?’ The same publication offered a series of checklists to prompt debate and thinking in an institution to help governing bodies and senior management teams to create financial strategies that are fully linked with the business of the organisation, and which consider the many variables and assumptions that a financial strategy should allow for and anticipate.

The guidance showed how a financial strategy is interlinked with all the other business and resource strategies for a university or college. The diagrams re-printed here show why finance must talk with and understand the business, current and future, of all colleagues in order to put together the financial picture on which a strategy is based.

Figure 1 Possible strategies of an HEI (not all links are shown)



Figure 2 Possible strategies of an HEI



*Figs 1 and 2 are from HEFCE's 2002 publication 'Financial Strategy in higher education institutions' and have been reproduced by kind permission of HEFCE.*

A financial strategy is founded on an institution's financial forecasts. Working from the operational plans across the institution, the finance department needs to create a forward projection of 'best guess' income and expenditure in detail for 3-5 years and perhaps 10 years ahead in outline. The projections also need to cover the bottom line, cashflow and the balance sheet and to look at the financial sustainability of the operational plans. Elements of the balance sheet and cashflow should be projected even further, to pick up future estate and infrastructure investment needs, and the shape of the loan and investment portfolios. Universities and further education colleges are in business for the long term – the oldest institutions date back to the 12<sup>th</sup> and 13<sup>th</sup> centuries.

This initial financial forecast is the starting point for financial strategy. The resulting figures may highlight where the margin on activities is changing, and where action is needed to change plans to keep a course or subject or faculty financially viable. Or the picture for the whole institution may show where resources will need to be shifted to allow for re-investment in particular areas at different times. The financial strategy sets the shape and targets for balancing competing needs within the institution, and should also ensure that the institution has the tools and information that managers need to manage the finances to achieve their plans.

A financial strategy should not be simply a plan. The strategy itself should consider how the forecast financial position will be achieved: a strategy is part planning and part implementation. Part and parcel of a financial strategy are the procedures, policies and tools which the finance function will use on a daily basis to monitor, influence, control and change what budget holders and administrative staff are doing when ordering, spending, invoicing,

costing, pricing and managing their resources.

The resource allocation model is one of these tools. Income for further and higher education does not relate directly to its costs. For example, teaching is not charged to recover costs. Instead, it is linked to the numbers, type and subject of students or learners, and the level of funding is decided nationally on a range of indicators. Research or commercial projects may be charged closer to cost recovery levels, but some of the agencies funding such work are allowed to assume that core central government funding pays for part of the academic infrastructure, so not all costs can be recovered. Some work can be charged at a profit, but this is in a competitive marketplace, and cost models need to be rigorously maintained to ensure that academic staff know, understand and take responsibility for the full costs of such work.

As in any business, each pound of income pays for the direct cost of teaching or research delivery plus the indirect costs of the administration and infrastructure of the whole organisation. The role of the resource allocation model is to ensure that the cross-subsidies between activities are known, but also that they are actively managed. One faculty or course may be making a profit on full cost and total income, but this profit may be needed to subsidise a course or faculty where teaching methods or materials require innovation or re-investment. One area of research may not be recovering its costs, but the developing body of knowledge or national profile may link to new income from other sources. The resource allocation model has to make sense of the current and desired future levels of cross-subsidy, in line with the institution's strategic priorities.

CIPFA's Further and Higher Education Panel<sup>1</sup> has recently completed a revised edition of *Resource Allocation Models in Further and Higher Education: A Compendium* (published in February) which revealed a variety of approaches being used to resource allocation across different institutions. This would be expected, since every institution's financial and business situation will be unique. The work also revealed that the principles underlying resource allocation clearly show that institutions are linking these methods with their overarching financial strategies and aims.

CIPFA's panel agreed that models which are open and equitable, with timely and accurate information, are the most effective, whatever strategy is being pursued. The panel supports work on financial strategy through publications on further and higher education finance, and in producing guidance for members of governing bodies working on finance committees.

Financial strategies are developing quickly within the sectors and the public spending reductions ahead will make the effective interaction between strategy and the tools of finance more important than ever. CIPFA's Further and Higher Education Panel is currently working on a revised guide to higher education finance and this features an in depth chapter on financial strategy. The volume will be published later this year.

*The full version of this article by Kirsten Gillingham, independent consultant and Chair of CIPFA's Further and Higher Education Panel first appeared in the March edition of Education*

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<sup>1</sup> See the Panel's web pages at [www.cipfa.org.uk/panels/fehe/index.cfm](http://www.cipfa.org.uk/panels/fehe/index.cfm)

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## **Resource allocation models in further and higher education**

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In future years, the public services will be dealing with the aftermath of the economic downturn as it impacts on public funding. For finance professionals working in public service organisations, these will be challenging times.

As the UK emerges from recession it is likely that unemployment will continue to increase. For further and higher education institutions, it is likely that student numbers and expectations will continue to rise, along with competition for the best staff and resources in a global market. Finance professionals in further and higher education institutions will need to look at the tools available to them to influence change and to help position their institution to best effect – a key tool to do this is resource allocation. CIPFA's Further and Higher Education Panel has responded to these challenges by compiling a compendium of resource allocation models in use in the further and higher education sector. The results are documented in CIPFA's forthcoming publication *Resource Allocation Models in Further and Higher Education: A Compendium* which was published in February. The compendium describes a selection of existing resource allocation models from seven diverse institutions spread across the UK. To do this, the Panel used a questionnaire as the basis for discussion with a representative from each institution.

Resource allocation is essentially a planning and management tool which provides a means of apportioning resources on a methodological basis to various activities of an organisation. In considering the case studies, the Panel found that there were three distinct but related steps. Firstly, *resource identification* – where the resources devoted to a particular activity are identified and set into some sort of context. The calculations that do this are often referred to as the resource allocation model. Secondly, *budget setting* – where delegated budgets are calculated and delegated. Finally, *budget management* – whereby rules concerning virements, spending limits and the treatment of over and under spend are implemented.

Whilst the income in further and higher education institutions relates broadly to activities, the cost base is not linked directly with the income. Indeed, the strategic decisions for senior managers often centre on the levels and reasons for cross-subsidy between different activities at different times.

The Further and Higher Education Panel, in compiling the compendium agreed that in allocating resources to budgetary units, institutions need to ensure that the process complements their academic, staffing, ICT, commercial, financial and estates strategies. The approach they take to resource allocation will be determined by different factors, and result in their own distinctive method.

The Panel identified a range of factors that influence the design of the model. The *size of the institution* is crucial. A large university may wish to adopt a more wide-ranging and complex model than a small college. Secondly, *institutional objectives and the strategic plan* have an impact as it depends upon whether an institution is seeking expansion or to maintain the status quo and a consideration of its investment priorities. The *complexity of the institution* is

also key as a number of separate campuses spread geographically across an area may require a different approach to that adopted for a single campus institution. *Management structures* are an influence too as the model will take into account the extent to which the governing body or senior management is prepared to delegate budgetary responsibility. This will link to the institution's approach to financial risk. Finally, *government policy and/or funding council methodology* must be considered as some institutions may wish to mirror government initiatives or the ways in which funding councils allocate their funds.

The resource allocation process may serve a number of purposes. It can support the strategic direction and operational priorities of the institution. It may empower managers to make local decisions close to the point of service delivery by identifying the resources to be managed by them. It might also show how individual departments or units are performing and the contribution each makes to the overall financial position of the institution.

Some institutions may therefore use a resource allocation model as a means of driving in structural or managerial change. Such change might result from a decision to decentralise much of the financial decision-making process, taking apart a highly centralised power base and empowering local managers to make decisions themselves, albeit often within a well defined scheme of budgetary delegation. Even with the same overall level of institutional funding, this change in financial management may bring a more effective use of resources as local managers take ownership of the process and seek to make the funding stretch further. In this context, the ability for managers to implement their own proposals in place of continued reference to a higher level of authority can become a powerful motivator.

The Panel agreed that the most effective methodologies are those which are both open and equitable. In part, this concerns the availability of timely and accurate information and ease of access to it for budget-holders. It may also involve a degree of 'expectation management' to avoid one party generating demands which another is unable to fulfil. Meetings with budget holders are an important part of the resource allocation process, helping to promote management commitment across the board and to explain why, despite substantial delegation, there remains a need for adherence to common policies. If a resource allocation model is seen as complex any benefits that might accrue from improved equity in resource allocation may be outweighed by the suspicion that something is being hidden from budget holders.

Clearly, each educational institution is likely to have an approach which best fits its profile, organisation and objectives and no two approaches are likely to be identical. It is also unlikely that any institution will get it right first time. Most of the issues considered by the Panel occur to a greater or lesser extent at each institution and a successful resource allocation model is likely to be one which is 'about right, not precisely wrong'.

CIPFA first published *Resource Allocation Models in Further and Higher Education: A Compendium* in 1997. This new version includes four institutions which took part in the original study and three that were new to the process. The compendium also contains a section which explores key themes and provides guidance and advice to be considered alongside the examples shown. The compendium illustrates that universities and colleges have continued to adopt a wide variety of approaches to resource allocation and provides an excellent

opportunity for practitioners to learn from each others experiences.

For further information on the Further and Higher Education Panel's new compendium, please see its web pages at [www.cipfa.org.uk/panels/fehe/index.cfm](http://www.cipfa.org.uk/panels/fehe/index.cfm)

*The full version of this article by Kerry Ace, Finance and Policy Manager at CIPFA first appeared in the November edition of Education Business*

## **Social impact in further and higher education institutions: recognising the public benefit**

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Achievement in education has traditionally been measured by success rates on course attendance and completion; and levels of innovation, evaluated qualitatively. Effectiveness has been measured as a blend of these and financial measures around management of resources, principally funded from Government and its funding agencies...but is this the best measure of impact? With the public benefit question coming into view for higher education institutions and colleges, impact measurement is an issue that we will be required to address.

On 2<sup>nd</sup> February the Alliance of Sector Skills Councils published a research study – Evaluating Economic Impact - commissioned from Baker Tilly's Charity and Education team which looked at the social impact of the sector skills councils (SSCs) through the methodological application of the 'Social Return on Investment' approach. Showing annual returns of over £100m each from funding of only £5m, it has coloured considerably not only central government's view of the value the SSCs bring, but also their own self-image. In the foreword, Alliance chief executive, John McNamara, laid down a challenge to each organisation in the third sector "to ask what impact it is having, and to determine how each wants to apply this approach."

### *Social Impact and the 'SROI' approach*

Social Return on Investment ('SROI'), originated in research by New Economics Foundation in 2002, is rapidly becoming the mainstream methodology for social impact evaluation. Already developing well, it received added acceptance after it was embodied in a publication of the same name by The Office of the Third Sector in May 2009.

Not only is that 'mainstreaming' a result of advances in its application. Now more than ever it is needed to address such widely discussed issues as:

- The public benefit test
- Austerity budgeting, and changing political focus and policy
- Developing demands for sophisticated performance measurement
- A need in many embattled third sector organisations to reinvigorate self-belief and enthusiasm for mission.

So how does it work?

It looks at the targeted outcomes and links them to financial measures of economic, social or environmental impact, termed 'financial proxies'. Three principal measures occur in practice:

- Economic or social impact – such as improved productivity, or lack of time lost to

- retraining, as a result of better training
- Wastage avoided – such as improving the success rate on qualification-based courses so that there is less waste in the funding of them
- Market priced services - where a service is being provided free or at reduced price which is otherwise available in the commercial market at a market price.

From the total evaluated impacts are taken three deductions: deadweight ('...it would have happened anyway...'), alternative attribution ('...it happened but it wasn't just *your* doing...'), and displacement ('...you achieved it, but unfortunately it also caused.....').

The life of the impact is then considered, and reduced to a net present value by applying an appropriate discount rate to the projected future cash flows.

#### *Making SI Evaluation work for you*

Measure *with* people. Rather than accounting-driven evaluation by someone looking in, this evaluation gains much from an 'action research' methodology. Those responsible for the outcomes work with an internal champion and an outside facilitator to co-author the research. This improves the quality of insight into the evaluated projects and means that it is more likely to be followed up and used in future.

Evaluating everything is a Herculean task. Evaluate carefully and thoughtfully five to seven key projects and then consider what that says about the whole organisation. Accept that, if the finding of financial proxies takes, say, six steps of reasoning, two will typically be based on data held by the organisation, two referenced to publicly available research and two will be reasonable estimates or judgments.

#### *Pitfalls to avoid*

Some authors advocate deriving a ratio from the evaluated impacts divided by the inputs. The danger with this, rather than to simply saying that £x of gain has been achieved from £y of input, is that it demands a comparison be drawn between organisations. This would be spurious, if not actually misleading, with such different projects, different assumptions and different types of evaluated impact.

In addition, the approach needs to take account of impact risk (through probability-weighted outcomes, for example, or variations in discount rate), interaction with brand (probably the subject of a separate article) a reasonable approach to what is a predictable and proximate outcome from the intervention and what is just too remote to be evaluated sensibly.

#### *The message for the sector.....*

'Evaluated sensibly.....': maybe that is the key message. We live in an age where funders, regulators and beneficiaries all seem to ask 'how much....' before they ask 'how good....' or '..for how long....' We ignore that demand for measurability of outcomes at our peril. Whether it is the SSCs (who have already begun to act), the Independent Schools, and perhaps the Academies (where Charity Commission scrutiny is starting to turn their heads in this direction), or schools, further education providers and higher education institutions, for whom it is surely just a matter of time before such an evaluation is demanded, all are in the

firing line. The 'sensible' approach is not just to apply the methodology sensibly, but to embrace it and apply it with a true sense as to what is being measured, before that approach to measurement is dictated by central government or regulator, and emerges in a form that doesn't quite work.

*This article was written by Jim Clifford who is the Head of Charity and Education Advisory Services at the third sector advisors, Baker Tilly. His advisory work has included major projects with further and higher education institutions. He was the lead author of the report for the Alliance of Sector Skills Councils published, on 2<sup>nd</sup> February, on the social impact of the SSCs, a high impact piece of research that is significantly influencing funders' views regarding the value brought by the SSCs.*

## **Savings through technology**

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Finance staff within the further education and skills sector may well view technology simply as a drain on resources. This is hardly surprising considering that it is estimated that colleges alone invested £333m in technology and related services in 2007/08. However, for many years now there has been a general view that technology, used appropriately, has the potential to bring about improved efficiency and effectiveness across educational institutions. In the past however, these have often been described in terms of impact and improvement, with few examples of genuine cashable savings being identified.

In the current financial circumstances, with many sectors of the economy facing budget cuts, it is of crucial importance to spend wisely and ensure that every pound spent delivers best value for money. There are many opportunities to achieve savings through technology and many learning providers are already exploiting some of them.

We are keen to engage with finance directors and other senior finance staff in colleges and other learning providers as we know that you are pivotal to the overall efficiency of the organisation, and that you now have to do more with less. You might therefore be interested to know that one large further education college has achieved cost, time and efficiency savings of almost £1 million by re-engineering its administrative processes and operations to maximise the benefits afforded by technology. This is just one of the case studies mentioned below.

**Becta** is the government's agency for technology in education and training. As part of our efficiency programme, we research, identify and publish case studies of colleges and learning providers who are achieving cost savings. We make these available to the sector to enable providers to learn from each other. The collection continues to be expanded and new case studies identified, developed and presented. They are made available on the Becta website at: [www.becta.org.uk/feandskills/efficiency](http://www.becta.org.uk/feandskills/efficiency)

Most case studies describe what a named organisation has done to address an identified issue, together with the outcomes. Wherever possible both the investment costs and the actual cost savings (impact on bottom line) are indicated to give a return on investment and indication of when the investment will have paid for itself. In addition, benchmarks are reported to aid institutions to identify in which areas they might achieve the greatest savings.

The case studies cover a wide range of activities, including some related to streamlining the

organisation, use of procurement frameworks and the sharing of information, resources and services. Some, such as utilising the most efficient print settings or the automatic powering down of computers when not in use, can be classed as 'quick wins'. Others, such as the integration of systems, require investment and longer term change management. They are all examples of actions/changes which can be made by individual organisations and we call these **tactical efficiency savings**.

Many of the savings are currently being built into 'Generator' (our self-review tool) to enable providers to assess where they stand with achieving savings through technology and the areas where there is room for improvement.

In addition we have also identified a number of potential efficiency savings for the sector as a whole. However these require central action and cannot be instigated by an individual provider. We call these **strategic efficiency savings**.

One of the most exciting findings in this area is that, for some learners on some courses, it is possible to get higher success rates, higher learner satisfaction, greater individual attention, faster completion rates, lower drop-out rates and lower costs - through the use of distance-supported delivery. This is online delivery with either e-mail and/or telephone support. In this model, learners study independently at their own pace, place and time, but have the advantage of individual support as and when they need it. There is often also the opportunity for learners to collaborate in groups online. The efficiency is achieved through making best use of your most expensive resource - qualified tutors. Obviously this doesn't work for all learners or all programmes all of the time, but it is worth considering what opportunities there may be in your organisation to replace some face-to-face delivery with this mode.

The barriers we have identified to the greater take up of this mode include the following:

- Fear that it is difficult to evidence learning activity
- High investment costs to set up the systems and acquire quality content
- Limits on learner numbers which can make it impossible to gain economies of scale and an adequate return on the investment
- The changes required to roles and responsibilities and staff development needed for staff to work in the new model.

For these reasons, the opportunity of a significantly greater take-up of e-delivery is classified as a strategic efficiency potential. This is an area where Becta is working with BIS, the funding agencies and our partners, to further explore the requirements for it to work well, and to facilitate its take-up.

Similarly, we know there are huge potential savings through the use of e-assessment. To-date however, this has most frequently been used for formative, rather than summative tests. Colleges and learning providers are seeing ever increasing sums being spent on examinations. Awarding bodies which do offer e-assessments tend not to do so at reduced cost – the reason given is that they have not yet seen a return on their investment and they are having to run both e- and paper-based assessment programmes. In addition, education and training organisations have logistical issues where assessments have to be held for large numbers all at the same time, and in dealing with the different systems in use by awarding bodies. E-assessment does work well for on-demand assessments and can provide the opportunity to test additional types of skills/knowledge and understanding, as for example with the driving

theory and hazard perception tests. Again, some of the barriers can only be overcome by action at the centre. Becta has work planned with BIS, funding bodies, regulators and awarding bodies, in an attempt to overcome some of the issues and thereby increase the take-up of e-assessments.

Finally on the strategic side, Becta has a long history of supporting schools and local authorities to achieve significant savings through the use of shared or managed services – indeed this is a requirement for Building Schools for the Future funding. The FE and Skills sector is significantly behind schools in this regard for a number of reasons. However, there are some notable successes. For example, the University of London Computing Centre (ULCC) hosts ‘Moodle’ (an open source learning platform) for a number of colleges. Perceived barriers to the take-up of shared services etc include colleges’ position with regard to VAT, which is significantly different to that in schools. Becta has recently received a report into the VAT situation which suggests that there may well be ways in which services can be provided legitimately without the charging of VAT. Many colleges are already taking advantage of ‘free’ services such as hosted e-mail, in addition to the centrally provided UK education and research network (JANET). There are a number of organisations already working in this field and we are collaborating with them to explore how these services can be delivered to achieve maximum cashable savings.

If you are keen to achieve cashable savings for your organisation please do take the time to look at our web-site and case studies. Do get in touch if you think your organisation has a good story to tell with regard to technology related efficiency savings – we may be able to publicise your achievements as a case study. Finally, if you are aware of barriers that prevent you making best use of technology, please do contact me to discuss them. It may be that we are already working on it and we will be able to let you know our progress. It may however be an issue we have not yet encountered and, if it is within our remit, we will endeavour to address it.

I look forward to working with you to improve the efficiency and effectiveness of the further education and skills sector.

*This article was written by Ann Hughes, Head of Efficiency and Productivity, Becta.*

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## **Do cuts spell doomsday for higher education?**

Some commentators are presenting a doomsday scenario for higher education. Thirty institutions may not survive, suggests one. Recently announced cuts will bring the sector to its knees in six months, says another.

And on the other hand, we have a secretary of state for universities who belittles the impact of cuts announced to date. Lord Mandelson says he doesn’t believe by any stretch of the imagination that the £915m of spending reductions in higher education to 2013 will seriously damage the sector.

In this PR battle, fought against a backdrop of Lord Browne’s review of top-up fees, some hyperbole is to be expected. But who is right? The real picture looks more like pound-pinching, squeezing and a deterioration in quality, rather than meltdown.

A number of universities, expecting the worst, have already cut teaching and support staff. With each month that passes, more institutions announce cuts in employment. University and College Union have tallied more than 1,000 jobs that have already gone over the past 12 months or so, out of over 5,000 currently at risk. These reductions are not uniform. Leeds University, looking to reduce its staff by 700 (nearly one in ten), is the worst offender. Even if student numbers remain constant, that sort of pruning is going to damage student:staff ratios. That in turn is likely to feed into negative responses to the annual National Student Survey on the quality of their learning experience. In these league-table conscious days, universities can ill afford poor ratings.

The cuts to recurrent funding for higher education institutions in England in 2009-11, of £315m, could see a further 1,000+ jobs go, and the additional reduction of £600m to HE and science by 2013 will add to the damage.

Teaching is not the only area that will suffer. Reducing the research budget will hit applied and blue sky research. The president of US National Academy of Sciences, Ralph Cicerone, said on Sunday that a brain drain of UK scientists is likely. 'You might not see anything immediately, but you will begin to see a movement of scientists over time. They will go to where the opportunities are, to the US and to places like Singapore that have invested heavily in science, and are hiring from all over the world,' he said.

This will have a knock-on effect on the economy, and chances of recovery. Higher education's contribution to the UK economy has been estimated at £60bn a year. Jeopardising that makes little sense, and runs counter to recent policies in the US and elsewhere of increasing funding for higher education to stimulate recovery.

Recurrent funding for teaching and research in England is actually due to rise in 2010-11, but by less than the forecast rate of inflation. The real casualty so far has been capital funding. A recent report indicated that about 25% of all institutions had at least 10% of their buildings in condition D, that is "poor, the room/building fails to support current functions and/or is unsuitable for current use".

Yes, a great deal of funding has gone into university estates over the past decade. But there is still a backlog of work – not least on teaching infrastructure – to be carried out. Too much trimming could put UK HE in a bad light. At a time when high fee-paying international students are the geese that lay the golden egg, we can ill-afford that to happen.

*This article by Stephen Court first appeared in the Public Finance blog on 24<sup>th</sup> February 2010. Stephen Court is senior research officer at the University and College Union.*