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The English Higher Education System:

Market Driven or Politically Controlled?

In a higher education system that is state funded, the establishment of autonomous universities theoretically provides government with no direct control over the system it funds. The article examines how the United Kingdom government has used the indirect levers at its disposal to drive universities to implement its policies. In this context the concept of a market driven system is illusory. Political control can be exercised without direct managerial intervention.

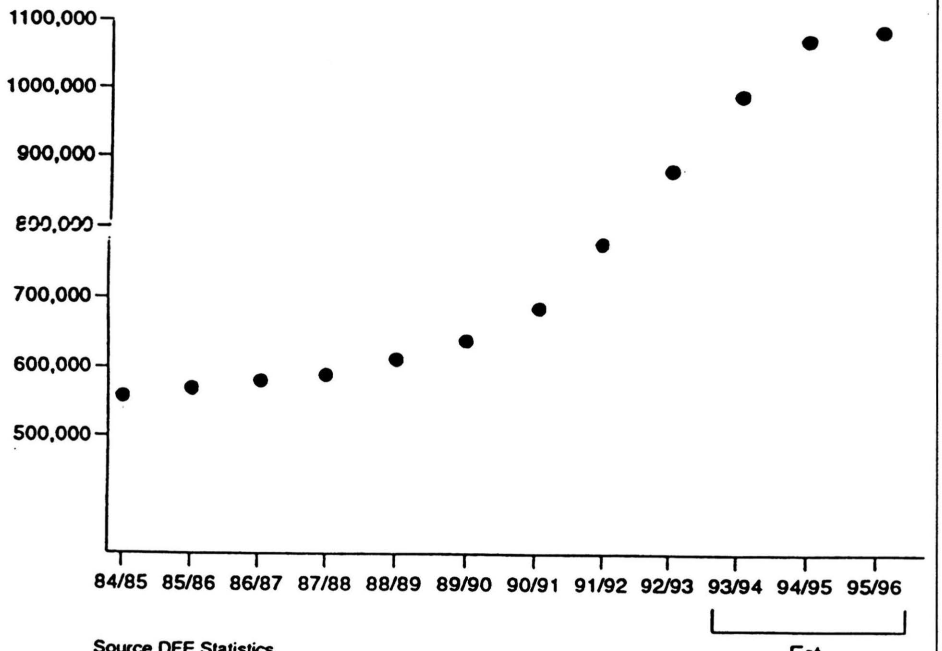
Introduction

In a higher education system funded largely from the public purse, there is, inevitably, a need to retain public accountability and responsibility for the funds expended. This is axiomatic in a democratic environment with a public sector service intending to meet the social and economic needs of the community it serves. Given the perceived needs of a nation for its future development, there exists a temptation, perhaps an obligation, for those in political power to steer the education and training provision within higher education, and indeed within other sectors of education, in a direction that serves those needs. This raises a potential conflict of interests in that the aspirations of the student body to study subjects of their choice may well be inconsistent with subject priorities as perceived by those who hold political power. In this situation the universities, in offering courses of study and reacting to student expectation and staff aspirations, find themselves in a dilemma of market identity. Is the "market" student demand-led or is it supply-led, with the range and quality of the supply constrained, or perhaps determined, by political forces? In the free market economy of the United Kingdom, direct political control over supply in higher education has not operated for the past five years, but the government has, using buffer bodies to interface with institutions, effectively employed levers involving both funding and quality assessment to drive institutions in particular directions. This paper identifies the major levers employed in this strategy in the English part of the United Kingdom higher education system. (The systems in Scotland, Wales and Northern Ireland are similar but not identical.) It examines the effective transformation of what may be initially perceived as a demand-led market into a structure with much in common with a supply-led service industry and briefly projects the likely effects of government levers in future years.

Political Control through Buffer Bodies

The higher education sector in the England has, in common with many other sectors of the UK economy and indeed other national higher education systems, experienced dramatic, almost revolutionary, changes during the last decade. This can be demonstrated by examining the expansion of the number of full time students in the sector (Figure 1) and by examining the policy andstructural changes employed by the various buffer bodies existing during this period.

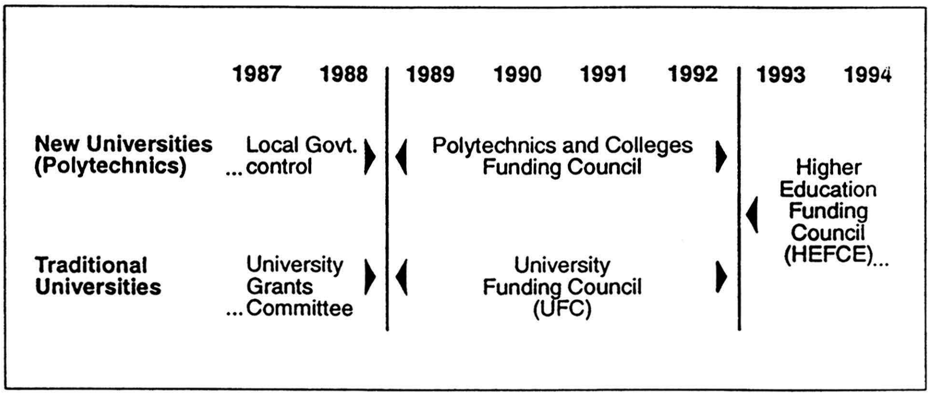
Fig. 1 Full Time Students in Higher Education in the U.K.



Source DFE Statistics

The public sector of higher education in England has been largely funded by the Department for Education (DFE), formerly called the Department of Education and Science. For the purpose of this paper the term DFE is used to refer to both bodies. DFE acts through buffer bodies which have periodically been re-configured and re-constituted over the past decade as they evolved into one single unitary body overseeing the entire sector of higher education in England. The bodies concerned, their periods of authority and primary characteristics are identified in figure 2. It should be noted that, with the exception of the period of influence by local government, these bodies are largely non-political agencies with funding, audit and quality powers, but with few academic directional powers other than those achieved through the funding of academic innovations.

Fig. 2 Department for Education "Buffer Bodies"



KEY FEATURES of Buffer Bodies (from an Institutional Perspective)

Local Authorities
Political Bodies
Intervention Management
Capital and Revenue Planning
Centralised Infrastructure

University Grants Committee
Politically "Independent" Body
Delegated Financial Authority
Programme Intervention
Unified Block Grant (Teaching and Research)

PCFC
Politically Independent Body
Delegated Financial Authority
Quality Monitoring
Expansionist Framework
No Academic Programme Intervention
Minor Research Initiatives

UFC
Politically Independent Body
Delegated Financial Authority
No Academic Programme Intervention
Separation of Research and Teaching Funding

HEFCE
Politically Independent Body
Unified Bodies from PCFC, UFC
Quality Monitoring
Delegated Financial Authority
No Academic Programme Intervention
Separate Teaching and Research Funding
Consolidation Framework

During the period when the local authorities were the intermediate agency through which DFE channelled funding for the former polytechnics, they could, and did, exercise direct management control over these institutions in terms of both financial and academic program influence. Effectively the polytechnics during this period were integral parts of their local authorities, with their program and budgets being influenced by local political policies. The buffer body for the university sector of higher education, the University Grants Committee, although politically independent, did exercise powers in determining the academic profile of individual universities. The replacement of these buffer bodies in 1989 by two new bodies fundamentally changed the executive powers of institutional managers, created autonomous self governing polytechnics, and simultaneously removed a central planning authority overseeing university academic activities. As will be observed from the student participation data, the most marked expansion has occurred since 1988, following the formation of an enlarged self-governing higher education sector which was created after the publication in 1987 of a major government policy paper, *Higher Education: Meeting the Challenge*, and the subsequent Education Reform Act of 1988, removing the polytechnics from local political control and establishing them as "self governing" Higher Education Corporations with non-profit status, monitored and funded, but significantly not controlled, by a buffer body entitled the Polytechnic and Colleges Funding Council (PCFC).

Having eliminated local political control from higher education, the Department for Education effectively created a binary system of higher education, both sections of which consisted of "autonomous" institutions, funded through separate buffer bodies (Funding Councils), with different quality control monitoring procedures. In this situation the two separate Funding Councils were able to set different regulatory frameworks within which the institutions would operate. The PCFC appeared to wish to expand higher education participation during its period of tenure as a buffer body and established a funding framework that drove "its" institutions towards expansion. Given the autonomous nature of the then Polytechnics, the PCFC exerted the most powerful influence at its disposal in order to achieve its objective — the purse. While not openly insisting that institutions expand, the PCFC clearly welcomed the effectiveness of the levers applied.

In parallel to the creation of the PCFC as a separate buffer body for the polytechnic sector, the University Grants Committee was replaced by the Universities Funding Council (UFC) with a constitution similar to that of the PCFC, but with a clearly different agenda in funding and quality issues. The UFC achieved significant success in developing methodologies which not only identified separately the funding of research and teaching within the hitherto block grant structure of university funding, but also assessed the quality of research. That factor was to be essential in the future by creating a mechanism to differentiate between university departments with regard to research quality. This provided a potential capability to direct resources at those with acknowledged excellence.

The success of the PCFC in securing rapid growth in the polytechnic sector between 1989 and 1992, and the perceived governmental appreciation of the strategies employed in achieving this growth, generated considerable political pressure from the polytechnics and their political advocates for these institutions to be awarded University status and hence "parity" in higher education. The clear convergence of activity between the two sectors was ultimately recognized within a 1991 Government Report (in the UK called a White Paper), *Higher Education: A New Framework*, and the subsequent Further and Higher Education Act of 1992. This legislation defined a unitary buffer body for higher education, and the opportunity for polytechnics and colleges if they met appropriate threshold criteria, to apply for redesignation as universities. The creation of the Higher Education Funding Council for England (HEFCE) was a significant milestone in the educational history of England as it brought together over one hundred highly diverse and "independent" institutions under the enabling power of one body, operating common methodologies across the entire sector with powers of funding, audit and quality monitoring. The transformation from a binary system operating under vastly different regulatory constraints and within a plethora of political structures had been achieved in six years by legal and structural re-configuration of buffer bodies. The "levers" employed by those buffer bodies in order to achieve this position are worthy of study.

Quality Levers

Universities within England now fall under the direct quality monitoring authority of three external bodies supported financially by the Funding Council, one primarily oriented towards teaching, one towards research, and one examining the internal quality systems of the institution. In order to appreciate the necessity and authority of these bodies, a brief examination of their formation is useful. The analysis below is limited to the examination to the consideration of first degree level work, the equivalent of undergraduate education in the United States, without introducing the complexities of professional and vocational accreditation. The power of such "external" accreditation is, in particular disciplines, very strong; a topic worthy of study in its own right.

During their period of local authority control, all polytechnics submitted individual degree proposals to the Council for National Academic Awards (CNAA) which undertook a validation and review role in a rigorous fashion on a program by program basis. This process did not determine academic program allocation between institutions. It focused solely on quality assessment and the identification of actions/ recommendations/ requirements for such a validation to be successful. This process was supplemented by Her Majesty's Inspectorate (HMI), which had unique authority to inspect any part of the Institution's operation records or practices. This body, despite its wide powers, focused largely upon teaching quality. The formation of the PCFC coincided with the gradual demise of the CNAA, with polytechnics and colleges acquiring blanket degree awarding powers on an accredited basis from the CNAA as they demonstrated specific procedures and systems implemented to ensure quality monitoring and control.

During the four year existence of the PCFC, the HMI continued to maintain their inspection role and indeed advised the Funding Council on the quality status of institutions on a subject by subject basis. These assessments were subsequently used by the PCFC in awarding a financial premium to those institutions who achieved "Outstanding Quality" status in the judgement of the HMI. During this period the universities, operating under the umbrella of the UGC and then the UFC, maintained their own independent academic quality systems based largely upon external examiners for individual fields. However, the Committee of Vice Chancellors and Principals (CVCP) did introduce a system of institutional quality audit. This monitoring generally emphasized the systems employed in quality monitoring within the University, rather than the delivery of material to the student body. It was not a sector-wide initiative, being funded by voluntary subscription and limited to subscribing universities. It was, nevertheless, a significant step forward in that, for the first time, universities opened their procedures to externally appointed panels of "Inspectors," consisting of peers appointed from within the university system.

The unification of the two higher education sectors required a convergence of quality monitoring. The new Funding Council was required to undertake quality assessment activities by, and on behalf of, the Secretary of State. It undertakes this evaluation through its Quality Assessment Unit on a subject by subject basis, focusing upon the learning experience of the student. The Unit judges the quality of the provision on a three point scale: unsatisfactory, satisfactory, and excellent. Some may equate this to the activities of the HMI, who now play a part in Higher Education only where it involves teacher education. The universities, wishing to retain sector-wide peer assessment, formed the Higher Education Quality Council, tasked with examining university systems and structures, and not with the direct assessment of teaching quality. Significantly however, membership of HEQC is a condition imposed by the Funding Council upon all universities and is indeed explicitly funded by the Council through its universities. Unlike the former CVCP mechanism, universities therefore are compelled both to subscribe to, and be monitored by, the HEQC. Both HEQC and the Funding Council Assessment unit report in the public domain. Nevertheless, the only sanction potentially employed occurs when provision of education is judged unsatisfactory. No direct benefits are obtained should the provision be judged excellent — at least not at the present time.

The power and effect of these two quality review bodies is yet to be fully clarified. Theoretically they have powers at least equivalent to the CNAA and the HMI. Whether they will elect to exercise those powers remains to be seen. It is a potential lever yet to be employed.

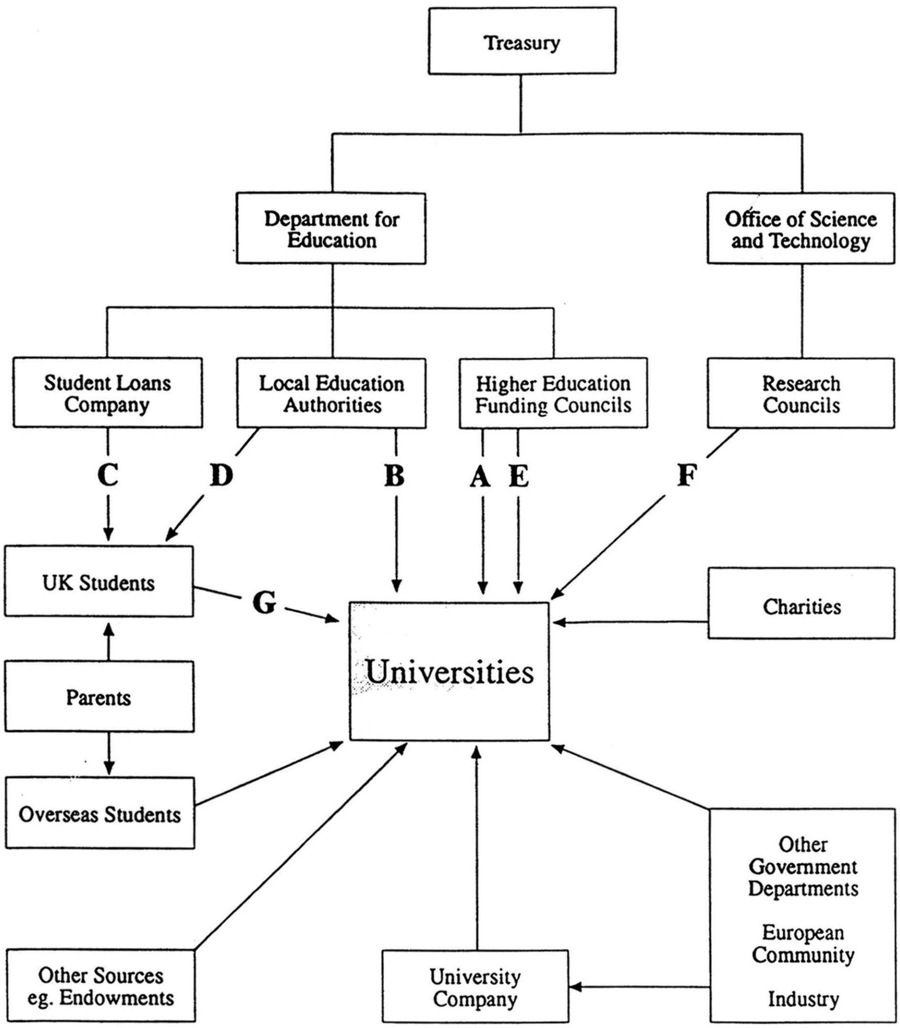
Perhaps a greater immediate impact made by one of the buffer body quality levers lies in the area of research assessment. The UFC, in its period of tenure, designed a methodology of research assessment applied to individual subject areas across the "traditional" university system. This methodology provided a mechanism for the designation of "grades" to individual research units and hence a means of directional funding by allocating research funding proportionately to grading. For the polytechnics research funding had been minimal — and then funded by competitive bids to the Funding Council, through other government sources or, predominantly, through commercial research. The history of research support is therefore very different in the formerly separate sectors. However, by adapting the UFC methodology, the new HEFCE was able to introduce an entire sector-wide Research Assessment Exercise (RAE) and to justify using its outcome to allocate funding. By using a five point scale of assessment, as opposed to a three point scale of the teaching quality audit, real differentials were introduced in resource allocation and hence further research investment. Significantly the intention to move to a seven point scale in the next Research Assessment Exercise in 1996 is expected to focus an even greater share of research funding to those judged as internationally "excellent."

The directional influence of such a lever is clear - it will drive those judged to be performing inadequately as research units to rely on other sources of funding, to a reduction of activity, or perhaps to extinction. Those who achieve high gradings will be rewarded with increased funding for further investment. There is little doubt that the RAE together with the application of formula funding based upon those assessments provides the Funding Council with the power to influence universities in their research direction.

Financial Levers

A summary flow of funds supporting English universities is shown as Figure 3. The flows of funds along each channel naturally varies significantly for each individual institution. The levers available to the Treasury are indicated on the diagrams by funding flows A to F. Flow G represents student contributions to university running costs, accommodation, catering i.e. those activities that are designated "self funding" with no net benefit to the university. For UK undergraduate full time students this particular funding flow, with rare exceptions, does not include tuition fees. These are paid (flow B) by the DFE through the students Local Education Authority (LEA).

Fig. 3 University Funding Sources



adapted from Farrant and Thomas from A Handbook for University Administrators and Managers 1994

Before focusing upon the primary Levers A and B, it is worthwhile to examine flows C, D, E, F as they too represent funding flows from the treasury into higher education.

Historically UK students received, by right in most disciplines, a subsistence grant from the government, directed through the LEA (flow D). However, as Figure 1 has already demonstrated, growth during the last decade has been dramatic. The resulting increased demands upon the Treasury by student subsistence grants has escalated proportionately. Although these grants are "means tested" and scaled according to parental income, they represented an uncapped flow of funds from the Treasury while institutions were free to recruit students without restraint. An uncapped expenditure budget is clearly an unacceptable liability in Treasury terms. The introduction of student loans as a gradual replacement of subsistence grants changes student financial aid into a retrievable expense for the Treasury, and will move the balance between flows C and D towards the former during the forthcoming years.

The funding flows relating to research are indicated by lines E and F. It should be noted that a transfer between flows E and F changes a balance of emphasis between funding awarded on the basis of periodic Funding Council assessment of quality in a generic subject area, on the one hand, and funding for a particular research area on the basis of a competitive grant program through the Research Councils. Thus the Government has a potential lever to promote either investment in certain specific fields or to reward the achievement of excellence in a generic subject area.

The major levers employed by the Funding Councils to affect student volume lie, however, in determining the balance between flows A and B.

For teaching purposes, English university funding is allocated on a per student basis. The sum involved varies by discipline, mode of study and university, but it is a per student allocation. This methodology was established and separately identified by the PCFC and the UFC during their periods of tenure as they moved away from a block grant system of financial support. With the exception of some specialist provision, student recruitment was not constrained by the Funding Councils between 1989 and 1991, levels of recruitment were determined by the universities themselves. Each Funding Council would enter into a "contract" for the education of a specified number of students by a university, additional recruitment being at the discretion of the university itself.

Flow A represents Funding Council grant income for an agreed contractual number of students in a particular category. If that number is exceeded, no more funds will be forthcoming for that funding cycle. If it is not reached through under-recruitment, the appropriate proportion is repaid to the Funding Council.

Flow B represents tuition fee income paid by the Local Authorities for each student enrolled, regardless of the contractual agreement between the university and the Funding Council. Hence if the university recruits above its contract numbers, it still receives fee income through the Local Authority but no additional income through the Funding Council. It is the balance of flows A and B that the DFE primarily uses to exert influence upon the student recruitment activities of the English universities.

Prior to 1989, the per student flow B was relatively small compared to flow A and additionally both the UGC and LEA often constrained recruitment by imposed quotas. The advent of the PCFC and UFC, however, introduced "market economies" into recruitment with institutions determining their own recruitment targets. The policies adopted by the two Funding Councils were fundamentally different. The PCFC designed a competitive bidding methodology that would drive institutions to expand rapidly to avoid either having to impose dramatic cuts in activities or financial embarrassment caused by inadequate revenue flows.

Each year the PCFC would determine the contract for the following year with each institution through a two phase process. Acknowledging the existing contract, the council would, in the first phase, agree to fund a proportion of the existing contract numbers, albeit at a reduced unit price. For example, 95 percent of the existing contract numbers might be funded at a reduction in unit price of 5 percent per student. Clearly the effect of this phase would give an institution a reduction of about 10 percent in its contract revenue. Phase 2 however provided an institution with an opportunity to regain the 10 percent of lost revenue by bidding for a specified number of students at a specific unit price as part of a "sealed tender" process. As Phase 2 contracts were awarded on a lowest price basis, with no contracts being awarded after the available funds were exhausted, the bidding process focused the attention of academic administrators upon marginal costs and projected revenue budget shortfalls. Although some "moderation" formulae were introduced into the process in an attempt to avoid extreme results, the cumulative effect of this process was to reduce dramatically the unit price of contract students to the PCFC. The effect of this methodology was a substantial decrease in unit funding coincident with a substantial growth in student numbers. In contrast, the UFC elected to introduce a relatively stable financial environment for teaching purposes, focusing its efforts on the development of its Research Assessment methodology.

Institutions in both the PCFC and the UFC were not, during these years constrained in their recruitment of students above their contracts and many did recruit students for whom they received no Council income (flow A) but only Local Authority fees (flow B). These "fee only" students enlarged the student body and enabled institutions to generate additional revenue income at their discretion, but nevertheless subject to student market demand. Should the fee be below marginal unit cost, institutions would naturally be reluctant to adopt such a strategy, a fee above marginal unit cost would, however, find such recruitment attractive in financial terms. Hence, in an attempt to encourage further expansion, the DFE moved the balance of flows from A towards B, thus encouraging institutions to expand above contract numbers and hence attract additional revenue. Significantly those "fee only" students recruited above contract numbers were eventually to be included in the following year's contract at zero cost to the Funding Council, thus providing a new base line for future contracts at a reduced unit cost to the Funding Council. It is in that environment that the growth identified in Figure 1 was achieved.

However, the capability of these levers lies beyond a simple influence of student population. By a subtle variation, it is possible to encourage institutions to recruit additional, fee only students in specific areas. This was to be achieved by creating a three fee band structure — broadly translated as non-technology, technology and medical areas — and then manipulating flows A and B for each band, altering their balance according to the subjects that are to be encouraged. A perception that expansion of the non-technology student body was less desirable than growth in the other two areas could be reflected in a significant transfer of funds from flow B to flow A for humanities and liberal arts students, making fee only recruitment unattractive to the universities, while maintaining the attraction of technology students in fee only revenue terms by retaining the previous balance between flow A and flow B. This lever was applied strongly in 1993, with fee funding for non-technology students being diverted from flow A into flow B. The declared objective was to slow down overall expansion to 7 percent in 1994 and to consolidate the student population by 1996. The lever did not entirely work, as some universities still elected to recruit an increased number of students despite the disincentive in order to maintain revenue flow albeit at a reduced rate per capita. As a result, student enrollment grew by over 11 percent. In order to achieve the 1996 government objective of limiting growth, the Funding Council were required to apply the lever even more severely — by transferring 45 percent of the funds in flow B to flow A in 1994 for non-technology contract students. However, in recognition that even this drastic measure may not work, a cap has been introduced for each institution for flow A — the first time this cap has now been used since the Education Reform Act of 1988. Indeed, conscious that Institutions may still exercise their rights as autonomous bodies and recruit students in excess of the "capped" amount, the Funding Council declared an intention to financially penalize those who exceed this limit. Such draconian measures aimed at creating a supply-led market are a measure of the DFE's determination to constrain growth and hence contain expenditure on higher education.

Although the funds involved are almost insignificant when compared to those supporting teaching and research, it would be wrong to omit reference to other levers employed by the Funding Councils to promote specific academic developments. During the last few years funds have been made available by competitive tender for special initiatives in several politically promoted areas. Such areas include:

- funding for 2-year degree programs using the full calendar year;
- funding for 2-year Vocational Diploma courses;
- funding for the promotion of disabled access;
- funding for restructuring for institutions wishing to downsize staffing levels;
- funding to develop and promote new teaching/learning strategies based on instructional technology.

All these could be considered as enabling funds to provide universities with funding to fulfill their goals. But they could also be interpreted as levers to encourage universities to develop their academic activities in specific directions.

Additionally the DFE has continued to supply additional funding to support part-time provision, with a premium payable for recruitment of engineering and science students studying in this mode.

The Future

The higher education system in England is planned to enter a consolidation phase during the forthcoming four years. The levers available to the Funding Council are sufficient to ensure it is possible to design a framework for this to be achieved.

Although, theoretically, the system operates within a "market," the levers available to the Funding Council have proved to be largely effective (with the exception of 1993 growth) and there is no reason why they should not prove to be so in the future.

Indeed, if the DFE wishes to create an elite of research universities and a majority of teaching universities, this is entirely possible by a constant reduction in teaching funding to avoid any potential cross-subsidy into research, and the formulation of a research allocation formula that heavily weights highly ranked universities in the financial allocation methodology. While such a strategy would not explicitly remove research from "teaching" universities, effectively it would re-create a binary system within a unified sector.

Without doubt the DFE has, through its buffer bodies, created a mechanism to manipulate the supply side of higher education and therefore distort the free market which would be determined by simple demand. Many universities may consider this system unjust and manipulative, others pragmatically plan to accommodate expected future government policies that are exercised through the quality and funding levers available to the Funding Councils. For some, institutional identity may well depend upon their ability to anticipate new policies and prepare for the necessary changes required to meet them. In this regard, university "autonomy" is a remote concept. However, England has a predominantly public sector higher education sector. Perhaps it is therefore right that the elected political authorities exercise their levers to influence the direction of higher education — it is the nation's funds that support the universities and the DFE is the custodian of those funds.