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A critical review of the role of the English Funding Body for Higher Education in the relationship between the State and Higher Education in the period 1945 - 2003

By
Gerard James Taggart

A dissertation submitted to the University of Bristol in accordance with the requirements of the degree of Doctor of Education in the Graduate School of Education, Faculty of Social Sciences and Law

February 2004
Abstract

There is a single aphorism that aptly describes the fundamental shift in the relationship between the state and higher education in England in the past quarter of a century: it was once the role of Governments to provide for the purposes of universities; it is now the role of universities to provide for the purposes of Governments. Why this has occurred and the mechanisms that support this conceptual inversion have been explored in this dissertation in the context of the changing role of the funding body for higher education – the University Grants Committee (UGC), Universities Funding Council (UFC) and the Higher Education Funding Council for England (HEFCE).

Through an historical approach, the case histories of the UGC, UFC and HEFCE describe and analyse the changing role of the funding body in the context of the development of a system of mass higher education in England, and increased state pressure on the management and strategic development of higher education. As the role of the state has changed from facilitator to interventionist in the external and internal affairs of universities, the role of the funding body for higher education has metamorphosed from being exclusively a provider of state funds to being increasingly a regulator of the higher education system. The relationship between the Government and the funding body is continuing to change with the Government seeking increasingly to influence the policy development and policy implementation role of the HEFCE. This dissertation explores why and how this has happened, and the implications for the HEFCE.

In a global knowledge economy driven by a knowledge society, the contribution of higher education has become critical to economic competitiveness and social inclusion in England. Increasingly, the state has defined higher education as a form of personal and state investment that requires increased accountability and regulation. In order to keep politics out of the allocation of state funds to individual higher education institutions, the Government has created and placed a funding body between the Government and the universities and colleges of higher education. It is argued that the funding body acts as both an independent provider of state funds for higher education institutions, and increasingly as a regulator of the public investment in higher education.

The product of the research is a critical review of the English funding body for higher education in the period 1945-2003 through which the author's interpretation of the data seeks to provide new insights to the role of the funding body in the relationship between the state and higher education.
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My sincere thanks go also to the staff in the Library at the Graduate School of Education, and the staff in the HEFCE Knowledge Centre.
Declaration

I declare that the work in this dissertation was carried out at the University of Bristol in accordance with the Regulations of the University of Bristol. The work is original except where indicated by special reference in the text and no part of the dissertation has been submitted for any other degree.

Any views expressed in the dissertation are those of the author and in no way represent those of the University of Bristol.

The dissertation has not been presented to any other University for examination in the United Kingdom or overseas.

Signed: [Signature]

Date: 20 February 2004
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Abbreviations

APR – Annual Participation Rate
BRRG – Better Regulation Review Group
BRTF – Better Regulation Task Force
CSR – Comprehensive Spending Review
CVCP – Committee of Vice-Chancellors and Principals
DENI – Department for Education, Northern Ireland
DES – Department for Education and Science
DfE – Department for Education
DfEE – Department for Education and Employment
DfESE – Department for Education and Skills
DTI – Department of Trade and Industry
ESRC – Economic and Social Research Council
FDTL – Fund for the Development of Teaching and Learning
GDP – Gross Domestic Product
HEFCE – Higher Education Funding Council for England
HEFCW – Higher Education Funding Council for Wales
HEI – Higher Education Institution
HMI – Her Majesty's Inspectorate
ILTHE – Institute for Learning and Teaching in Higher Education
LSC – Learning and Skills Council
MASN – Maximum Aggregate Student Number
MORI – Market and Opinion Research International
NAB – National Advisory Board for Local Authority Higher Education
NDPBP – Non-Departmental Public Body
NCIHE – National Committee of Inquiry into Higher Education
OFFA – Office for Fair Access
PCFC – Polytechnics and Colleges Funding Council
QAA – The Quality Assurance Agency for Higher Education
QAD – Quality Assessment Division
QCA – Qualifications and Curriculum Authority
RAE – Research Assessment Exercise
RDAs – Regional Development Agencies
SCOP – Standing Conference of Principals
SHEFC – Scottish Higher Education Funding Council
TLTP – Teaching and Learning Technology Programme
TQA – Teaching Quality Assessment
TQEF – Teaching Quality Enhancement Fund
TTA – Teacher Training Agency
UCC – University College Cardiff
UFC – Universities Funding Council
UGC – University Grants Committee
UUK – Universities UK
UWIST – University of Wales Institute of Science and Technology
Chapter One
Introduction and overview

Introduction

The past 40 years has witnessed the transformation of higher education in England. It has moved from a position in 1961 in which 6% of those aged under 21 participated in higher education to one where in 2003 around 43% of those between the ages of 18-30 participate in higher education. The Government target is to move towards a 50% participation rate for those persons aged under 30 by 2010 (NCIHE 1997; DfES 2003b).

Until 1988 the Government funding for the university sector in all four countries of the United Kingdom was allocated by the University Grants Committee (UGC). In the academic year 1987-88 the UGC allocated just under £1.5 billion to 44 universities (UGC 1990a and HMSO 1987a).

The Universities Funding Council was created by the Education Reform Act 1988 to provide funding for the university sector in Great Britain. The two universities in Northern Ireland were in future to be funded by the Department for Education, Northern Ireland (DENI). In the academic year 1990-91 the UFC allocated £1.7 billion to 51 higher education institutions (UFC 1991a).

On the other side of the binary divide from the late 1960s onwards the polytechnics, and colleges of higher education, were funded by local authorities initially, then by the National Advisory Body for Local Authority Higher Education which was established in 1982, and finally by the Polytechnics and Colleges Funding Council (PCFC) between 1988 and 1992. Created by the Education Reform Act 1988, the PCFC had responsibility for funding 84 institutions (polytechnics and colleges of higher education) and allocated £1.1 billion of public funds in 1989-90 (PCFC 1990).
There is now one single funding body for higher education in England. The Higher Education Funding Council for England (HEFCE) was created by the Further and Higher Education Act 1992. As a non-departmental public body (NDPB), the HEFCE is funded by the Government and operates within the framework of Government policy articulated by the Department for Education and Skills (DfES). The HEFCE will allocate £5.5 billion to the higher education sector in England in 2003-2004 providing funding for 132 higher education institutions (HEFCE 2003b). A chronological history of the UGC, UFC and HEFCE is set out in Appendix A.

Within the changing structure of funding for higher education in England one feature has remained as a constant: the existence of a funding body balanced between the state and the higher education institutions acting as the buffer body between two forces, and designed to keep politics out of the funding allocations to individual higher education institutions. As the current funding body for higher education, how does the HEFCE view its own role? It is interesting that the HEFCE’s image of itself in 2003 continues to be that of a mediator and buffer organisation between the Government and the higher education sector. Sir Howard Newby, the Chief Executive of the HEFCE stated on 15 July 2003:

‘In carrying out our role we act as a mediator between Government and universities and colleges. We robustly represent the needs of higher education to Government, and convey the views of Government to higher education. In many respects it is difficult for people to judge the effectiveness of our role in advancing the interests of higher education, because much of our advice to Government has to be given in confidence. The Council is responsible for developing and implementing policies within a broader policy framework set by Government. We are doing that through our own strategic plan, and working with Government in delivering the White Paper, The Future of Higher Education ’ (Guardian 2003).

Sir Howard Newby issued this statement following a survey by Market and Opinion Research International (MORI) commissioned by the HEFCE to review the ‘...relations between the HEFCE and universities and colleges’ (HEFCE 2003e). The MORI survey included 25 universities,
17 higher education institutions, and 29 further education colleges with a higher education teaching responsibility, and was conducted in the period November 2002 to January 2003. In the MORI survey some 90% of respondents agreed with the statement that the HEFCE was an agency of Government, 51% agreed that the HEFCE is primarily a regulatory body, and 62% agreed that the HEFCE is increasingly a planning agency (HEFCE 2003e). Therefore, there would appear to be a gap in perception between the HEFCE’s view of its role and that articulated by the higher education sector. One of the aims of this dissertation will be to disentangle this ambiguity through a study of the changing role of the funding body.

Aim of the dissertation and research questions

This dissertation explores the relationship between the state and higher education and provides, through a series of case histories, a critical review of the role of the UGC, UFC, and the HEFCE in that relationship. The central purpose of this dissertation is to review critically, in the context of the academic literature and the evidence, the changing role of the funding body. Greater emphasis is given to a critical review of the role of the HEFCE, to reflect its key position as the sole funding body for all higher education institutions in England.

The research questions addressed in this dissertation are:

- What has been the role of the UGC, UFC and HEFCE in the relationship between the State and Higher Education Institutions in England in the period 1945-2003, and how has this role evolved?

- To what extent has the HEFCE mediated Ministerial guidance over the period 1993-2003?

The research questions are prompted by the review of the literature in chapter two covering the role of the HEFCE and its predecessor funding bodies in the relationship between the state and higher education institutions. Within Shinn (1986) and Shattock (1994) we have a detailed historical account of the role of the UGC but there is a considerable gap waiting to be filled on the role of the successor funding bodies, the UFC and HEFCE. A full historical study of both
organisations is beyond the scope of this dissertation. However, the material reviewed for this research, and the conclusions of the author, could be expected to play a part in any future understanding of the roles of the UFC and the HEFCE.

Framework for the research

The framework for the research relates to three inter-related strands of thought explored in the academic literature:

- Firstly, the transformation of higher education in England since the 1960s from an elite to a mass system of higher education with the consequent financial implications for the public funding of higher education;

- Secondly, in the context of the relationship between higher education and the development of a knowledge economy and knowledge society, an ever-increasing desire on the part of the state to manage and regulate the higher education system through financial levers;

- Thirdly, in the context of increasing state pressure on higher education, the transformation of the funding body from being less exclusively a provider of grant to increasingly a regulatory body for higher education (Salter and Tapper 1994; Shattock 1994; Henkel 2000; Kogan and Hanney 2000; Delanty 2001; Scott 2001; Deem 2002).

Research methodology

The aim of this dissertation is to provide an interpretation of, and new insights into, the changing role of the English funding body for higher education in the period 1945 - 2003. In seeking to achieve the aim of the dissertation and answer the research questions, this study adopts a
qualitative research methodology through which the case histories of the UGC, UFC and HEFCE are used to provide an interpretative account of the changing role of the funding body. The research seeks to describe, explain and interpret the relationship between two of the key players within the state apparatus for the creation, implementation and funding of higher education policy (DfES and the HEFCE), and the consequent impact of that relationship on the funding and management of the higher education sector in England. The research is underpinned by an extensive body of primary and secondary research material which has been read, analysed and interpreted by the author in the context of the research questions.

The author has not made use of any data in this dissertation that is not publicly available through the official documents and publications of Parliament, the Government or the funding bodies, or available on request from the funding body. All of the publications referenced in this dissertation, in respect of the funding bodies, are publicly available from the Public Records Office, the Knowledge Centre of the HEFCE, and the HEFCE website.

The author of this dissertation has been an officer of the Department for Education, UGC and UFC, and is a serving officer of the HEFCE. Through this dissertation he has sought to produce an interpretative account of the role of the funding body (UGC, UFC and the HEFCE) by means of an analysis of official and publicly available documents, in other words documents that are available to all other researchers in this field of study. The author’s proximity to the development of policy within the funding body will undoubtedly have had an impact on his understanding of the changing role of the funding body, and the changing relationship between the funding body and the Department for Education. However, the author has not sought to use his ‘insider’ knowledge of the activities of the funding body, Department for Education, or that of specific individuals, in support of his research objectives. The research is not a personal memoir. Specifically, the author has not sought to mirror the approach undertaken by Carswell (1985) whose study of the relationship between the Government and the universities in the period 1960-1980 is written from the perspective of a former civil servant, and is candid about his personal recollections of policy
formulation in the Treasury, Department for Education, and the UGC. Carswell’s study was written after he had retired from public service. The author of this dissertation is still a serving officer of the HEFCE and has therefore sought to steer clear of personal recollections and write an ‘inside’ account: an interpretation influenced by his knowledge of the higher education system but reliant primarily on the empirical base of the publicly available primary research documentation. The author has reflected at the end of this dissertation (chapter 6) on the research process and specifically on the distinction between the ‘insider’ and ‘inside’ dimensions of the research process.

The research methodology is based on a detailed reading and analysis of primary research documents in the public domain – official publications. The research is historical in that it charts the development of higher education policy, the role of the Department for Education, and the funding body, over time in the context of policy creation, policy development, and policy implementation. The historical approach combined with a detailed reading and analysis of primary documents supports the research objective of explaining and understanding change in higher education. The dissertation has sought to make use of those documents that chart the significant changes in the influence of the state (Government and funding body) as it has pursued a policy of seeking to exercise greater strategic and operational control over the management and funding of higher education.

Although the research for this dissertation has not involved attributable or non-attributable interviews with any of the key players with a role in determining the funding for higher education, for example Ministers, senior civil servants, or the Chief Executives of the UGC, UFC and HEFCE, this specific deficit is balanced in part by the on the record statements provided through the oral evidence from the Secretary of State for Education and Skills, and the Chief Executive of the HEFCE, to the House of Commons Education and Select Committee Inquiry in 2003 into the future of higher education (Clarke 2003; Newby 2003). The author’s decision not to use
This dissertation incorporates historical research as part of the research methodology. Historical research is defined as involving '...the systematic search for documents and other sources that contain facts relating to the historian’s questions about the past ... The essential steps involved in doing a historical project are as follows: defining the problems or questions to be investigated, searching for sources of historical facts, summarising and evaluating the historical sources, and presenting the pertinent facts within an interpretive framework' (Borg and Gall 1979, pages 373 and 375). The interpretive tradition in historical research has been discussed extensively by the historian E H Carr who responded to his question ‘What is History?’ by stating that history ‘...is a continuous process of interaction between the historian and his facts, an unending dialogue between the present and the past’ (Carr 1961, page 30).

The starting point for the research in this dissertation is a review of both the academic literature, and the reports from the two major public inquiries into higher education from the 1960s onwards in England (Robbins 1963 and NCIHE 1997), as set out in chapter two of the dissertation. The literature review informed the aim of the dissertation, the research questions, and the research methodology. The literature review has a focus on the key texts that provide a commentary, analysis, and interpretation of the relationship between the state and higher education in England, and in particular the respective roles of the central Government Department with responsibility for higher education policy and funding, presently the Department for Education and Skills, and the role of the English Funding Body for Higher Education, presently the HEFCE. The texts and documents included within the literature review have been read by the author with the objective of drawing out the key themes that have been identified by academic commentators as representative of the changing relationship between the state and higher education. Through a reading of the literature, the author has gained an understanding of the methodological approaches used by other writers in their analysis and interpretation of the changing role of the
funding body, and the relationship between the state and higher education. A dominant theme within the academic literature is the way the authors underpin the empirical authority of their research through the location and analysis of a comprehensive range of primary documentation which includes official documents on higher education funding and policy published by the Government or the funding bodies.

The literature review gives a prominent voice to the higher education community. Where there is additional evidence about the views of the academic community on the role of the funding body, for example in the MORI survey (HEFCE 2003e), then the data has been included in the dissertation.

**Researching the University Grants Committee (UGC)**

Although the 70 year history of the policies of the UGC has been covered in the texts by Shinn (1986) and Shattock (1994), it was essential for the author's understanding of the history of the UGC, and the changing role of the funding body over time, to undertake a selective but detailed reading of some of the key primary documents published by the UGC, particularly those documents that provide evidence about the changing relationship between the UGC and the Department for Education. The author also undertook a literature search to ascertain the research published about the role of the UGC. The author decided to concentrate on a detailed reading of the UGC annual reports from 1960 to 1989, a period that coincides with a significant expansion in student numbers and funding for higher education in England. The purpose of the detailed reading of these primary documents was to capture the views of the UGC in relation to its own role within higher education, and critically its perception of its level of independence as a buffer body between the Government and the higher education institutions. The annual reports helpfully provide in one place a comprehensive and reliable source of data on higher education funding, student participation, and staff numbers. All of the UGC annual reports were made available to
the HEFCE Knowledge Centre by the Public Records Office and therefore were readily available to the author.

The UGC annual reports also provide an historical record of the role of the UGC in the creation and development of policies that underpin the annual funding allocations to higher education institutions. An advantage of using the UGC annual reports as a source of historical evidence is that these reports include from the early 1980s onwards the key exchanges of correspondence between the UGC and the Secretary of State for Education, which starts the process of the Government making public and transparent its changing role in the strategic management of higher education, and initiate the Government policy of providing the UGC and its successor bodies with 'letters of guidance' (often described as the annual grant or funding letters) as a means of linking the funding policies of the funding body with the Government's plans for the overarching strategic development of higher education. The author has used these primary research documents to inform his understanding of the changing relationship between the Department for Education and the UGC, and his understanding and interpretation of the critical points in the changing relationship. The UGC reports also helpfully provide a point of reference for the detailed reading of other public documents that have had a significant impact on the future development of the funding body, and in particular the independence of the funding body in relation to the creation, development and implementation of policies for the funding of higher education.

Researching the Universities Funding Council (UFC)

In comparison to the UGC, the history and role of the UFC has hardly been touched by researchers. It is not possible within the scope and scale of this dissertation to seek to construct a detailed chronological and narrative account of the role and policies of the UFC. Therefore, the author decided to focus on a particular aspect of the activities of the UFC which will serve to illuminate and exemplify the changing role of the Council, particularly in its relationship with the
Government, and the higher education community. To understand the reasons why the UFC was established it was essential to read initially the publicly available documents published by the Government: the White Paper (HMSO 1987) which preceded the Education Reform Act 1988, the legislation which created the UFC; and, the initial letter of guidance from the Secretary of State for Education to the first Chairman of the UFC (DES 1988). The author also undertook a literature search to identify research covering the role of the UFC.

In reaching a decision about which aspect of the UFC to research in detail, and thereby which UFC documents to read and analyse, the author was influenced by the following factors: the views of Sir Peter Swinnerton-Dyer, a former Chief Executive of the UFC, in his commentary on the abortive attempt of the UFC to introduce market forces into the funding and planning of higher education (Swinnerton-Dyer 1991), and the impact this policy had on the relationship between the UFC and the higher education community; the commentaries in the academic literature on the funding approach of the UFC, and the related tensions between the Chairman of the UFC and his Chief Executive; and, the author’s own knowledge of the funding policies of the UFC from his time as an officer of the UFC. The author decided to use the funding and planning exercise of the UFC for the period 1991-92 to 1994-95 to demonstrate the significant change in the role of the UFC as it changed from being a provider of public funding to a purchaser of teaching and research from higher education institutions. To achieve this objective, the author read through the UFC annual report, and the Circular Letters published by the UFC over its lifetime (1988-1992) and then selected and read in detail all of the Circular Letters issued by the UFC in respect of the funding and planning of teaching. Therefore, the case history of the UFC includes a narrative of one specific but critical aspect of the planning and funding role of the UFC. This case history enabled the author to analyse and interpret: the way the Department for Education was able to influence the role of the UFC; the way the UFC defined its own role through its policies and funding mechanisms; and, the changing relationship between the UFC and the higher education institutions. All of the UFC Circular Letters, and UFC annual report, were made available to the
HEFCE Knowledge Centre by the Public Records Office and therefore the author had ready access to all of the published papers of the UFC.

Researching the Higher Education Funding Council for England (HEFCE)

A literature search undertaken by the author confirmed his understanding that the history and role of the HEFCE was relatively under-researched. As with the chapter on the UFC, the author read initially the Government White Paper (HMSO 1991b) and Parliamentary legislation (FHE Act 1992) that preceded the establishment of the HEFCE. To provide a structure for the analysis of the role and funding policies of the HEFCE, a decision had to be made initially about which publicly available documents the author would read and analyse in detail in order to answer the research questions for this dissertation. As with the case histories of the UGC and UFC, the author decided to adopt chronological narrative to provide the reader with an understanding of the way the role of the Department for Education, and the HEFCE, changed over time.

The author's knowledge of the role and policies of the HEFCE, and its relationship with a range of stakeholders in higher education, particularly the Department for Education, and the higher education institutions, proved helpful in guiding the author's selection, reading, analysis and interpretation of primary documents published by the Government, Parliament, and the HEFCE. It should be acknowledged that the author's role as an officer of the HEFCE since 1992, and his current role within the Chief Executive's Office of the HEFCE, will undoubtedly have facilitated the process of locating key public documents about the role of the HEFCE in the context of the wider development of higher education in England in the period 1992-2003. In this context, the author had readily available to him all the letters of guidance (grant letters) and the singular letter of direction (DfES 2003c) to the HEFCE from the Department for Education. Working within the HEFCE, the author also had ready access to all the published papers of the HEFCE which included the Council's annual reports and circular letters. The task of reading and analysing the HEFCE documents was undoubtedly made considerably easier as a result of the author's
knowledge of all the key public documents on higher education, and ready access to these
documents. The author’s knowledge and understanding of the traffic of information between the
HEFCE and the Department for Education, and between the HEFCE and Parliament, will also
have facilitated the location and analysis of key public documents that provide an insight to the
role of the funding body in the relationship between the state and higher education.

Given the plethora of papers published by the Government and HEFCE in the period 1992-2003,
the author has had to be selective in his reading and analysis. In the context of the changing role
of the funding council, and the relationship between the Department for Education, HEFCE, and
the higher education institutions, the author focussed on a detailed reading of the HEFCE annual
reports alongside the annual letters of guidance from the Department for Education. The annual
reports provide a synoptic overview of the policies and funding decisions of the HEFCE, and
where necessary the author was able to take forward his investigation of individual policy
initiatives through a detailed reading of specific Circular Letters. This approach enabled the
author to make connections between, and an interpretation of, the relationship between the
Government and the funding body, and thereby to identify the influence of various parties, and
the roles played by the Government and funding body in respect of the strategic planning, funding
and management of higher education.

The research methodology described above was chosen with the expectation that it would enable
the author to write an interpretive account of the changing role of the HEFCE through a detailed
reading and analysis of a wide range of publicly available primary research documentation. The
detailed reading and analysis of a very wide and rich source of primary material established the
empirical underpinning for the author’s interpretation of the changing role of the funding body as it
metamorphosed from being exclusively a provider of grant to increasingly a regulatory body for
the public investment in higher education.
Historical research and documentary analysis in educational settings

In implementing the research methodology for this dissertation, the author has reflected on the methodological issues raised by other writers in the context of historical research in education, and the analysis of documentary sources.

Andrew (1985) makes the point that the availability of authentic and reliable primary documentary evidence will inevitably influence the choice of research topic. Where there is a plethora of research material then choices have to be made and the sampling undertaken by the researcher can be guided in part by references and guidance in the secondary sources. For example, there could be instances where earlier commentators indicate a particular line of enquiry that might be further investigated should further documentary evidence become available. Often the research focus on specific 'significant events' will be guided by references in the secondary sources.

Andrew emphasises that the selectivity of historical evidence can be guided by the theoretical perspective within which the research is conducted and argues that the facts of the past do not simply 'speak for themselves'. In reality, there is an interaction between the researcher and the documentary evidence. The researcher plays a critical role in the selection and interpretation of evidence. Andrew makes the point that:

'...historical research demands both interpretation and some kind of theoretical framework on which to hang 'the facts' obtained from historical documentary material' (Andrew 1985, page 167).

The importance of locating and analysing valid and reliable primary documentary sources is emphasised by McCulloch and Richardson (2000) in their review of historical research in educational settings. The authors emphasise the importance of adopting a critical relationship to the documentary material with each document requiring careful assessment and interpretation in the context of the reason the document was produced, and the messages it was intended to disseminate.
Semel (1994) provides a reflective account of the methodological issues associated with researching the history of a school in which she was over a 25 year period variously a student, teacher, parent and researcher. Semel acknowledges the possibility of researcher bias but accepts that ultimately she had to treat her own perceptions about ‘her school’ as part of her evidence base alongside the evidence she collected through the reading and analysis of school documentation, and the data collected from interviews.

In her study of evidence and proof in documentary research, Platt (1981) provides a list of issues that the historical researcher needs to take into account in documentary analysis:

'(i) How to establish the authenticity of a document; (ii) whether the relevant documents are available; (iii) problems of sampling; (iv) how to establish the extent to which a document can be taken to tell the truth about what it describes; (v) how to decide what inferences can be made from a document about matters other than the truth of its factual assertions' (Platt 1981, page 33).

In the context of the guidance from Platt (1981) on evidence and proof, the author of this dissertation had the significant advantage of knowing that the primary research documents used in this dissertation were all public documents.

The product of the research

This dissertation uses an historical approach to provide a critical review of the changing role of the funding body. This methodological approach has provided the author with new knowledge which he has used, in the context of the research framework derived from the literature, to provide an interpretation of, and new insights to, the changing role of the funding body, and the related changing relationship between the state and higher education. The product of this dissertation will have two audiences: firstly, there is the academic audience which will be interested in the new insights derived from the interpretation of the primary literature, and the critical use of that interpretation to examine the existing research frameworks in respect of the changing relationship between the state and higher education, and the changing role of the funding body; secondly, the dissertation has a purpose in holding a mirror up to the activities and
role of the HEFCE thereby providing an opportunity for the staff of the HEFCE to discuss critically the contemporary relationship of the HEFCE with the Department for Education and Skills (DfES), and the higher education sector.

Limitations to the research and ethical issues

This dissertation has a focus on the role of the UGC, UFC and HEFCE. While it refers briefly in places to the role of the Polytechnic and Colleges Funding Council (PCFC) it is not possible within the scope and scale of this dissertation to describe and analyse the role of the PCFC. An area for future research, which is addressed in chapter six, is a comparative study of the funding approaches of the UFC and PCFC in the period 1989-1993.

The author of this dissertation is aware that literature in this area of research has included within the research methodology empirical evidence based on extensive fieldwork involving structured interviews with key informants on policy changes and policy implications for higher education (Henkel 2000; Kogan and Hanney 2000). It is questionable, and indeed in the judgement of the author highly unlikely, that he would have gained access to interview Ministers or senior civil servants in the DfES. It is possible that, in view of the author's present role within the office of the Chief Executive of the HEFCE, a more formal approach to senior figures in the higher education community could have resulted in less open discussions than those that have taken place with the author informally under the non-attributable 'Chatham House Rules' on occasions such as the HEFCE annual conference, a gathering that includes the heads of higher education institutions in England.

The author did not seek to interview senior figures associated with the funding body to take account of their perspective on the changing role of their organisation. He made this decision for two reasons: firstly, the views of the recent Chief Executive's of the funding bodies –
Sir Peter Swinnerton-Dyer, Sir Graeme Davies, Sir Brian Fender, and Sir Howard Newby – are in the public domain through speeches (Swinnerton-Dyer 1991), the annual reports of the funding council (1994-2001), and in the case of Sir Howard Newby in his oral evidence to the House of Commons Education and Skills Select Committee, and his public statement on the role of the HEFCE (Guardian 2003 and Newby 2003); secondly, there could be a danger that the proximity of the author’s employment to these individuals, in his various roles as Clerk to the Funding Council (UFC and HEFCE) and presently as Executive Assistant to the Chief Executive of the HEFCE, might impact on the objectivity and independence of the interviews.

Although the dissertation makes use of a wide range of data in the public domain, the author has not, with one exception, when reference has been made to the draft HEFCE strategic plan for 2003-08 considered by the HEFCE Board of Council in September 2002 (HEFCE 2002c), made use of publicly available UFC and HEFCE Board of Council papers. These documents provide evidence of the path of progress of public policy making at a very fine level of specificity. However, the strength of the documents used by the author, such as circulars and annual reports, is that they represent the public policy of the funding body.

The author’s location within the Chief Executive’s Office of the HEFCE, and his previous roles within the Department for Education and Skills, UGC and UFC provide an interesting vantage point from which to view the funding body relationship with both the wider academic community and central Government. This dissertation seeks to inform not only the author’s professional practice but also to inform debate within the Executive of the HEFCE on the present and prospective role of the Council. The research is prompted by the author’s personal and professional interest in the role of the funding body. It is the author’s knowledge of the key participants in, and documentation on, higher education that is arguably one of the strengths of this dissertation.
Is the author 'too close to the action' to take an impartial and objective view of the topic under research? The author has been a participant in higher education policy making in the past 15 years but could not for the purposes of this research be described as a participant observer as he has not undertaken any systematic recorded observations of his life in higher education either within the Department for Education or in the UGC, UFC and HEFCE. However, the author’s participation in higher education as a public servant will inevitably have shaped his interpretation of events. The author has sought throughout this research to maximise his objectivity by basing any conclusions or judgements exclusively on the evidence that is in the public domain.

The author has not made a secret of the fact within the HEFCE or elsewhere that he is undertaking this research. This open approach has, as a result, provided many opportunities for the author to discuss on an informal basis the issues raised in the research with colleagues within the HEFCE, and more widely within higher education. From an ethical perspective, the author has reflected on the danger that an employee of the HEFCE might be viewed as the author of a hagiography about the role of the Council and has therefore sought to be as objective as possible in his selection of research material, and the conclusions he draws from that material.

Organisation of the research

This dissertation is composed of six chapters. The first chapter describes: the aim of the study and the research questions; framework for the research; research methodology; the product of the research; the limitations to the research and ethical issues; and the organisation of the research. Chapter two provides a review of the academic literature covering the relationship between the state and higher education, and the changing role of the funding body in that relationship. Chapters three, four, and five provide case histories on the role of the UGC, UFC and HEFCE. Chapter six provides a discussion of the findings of the research in relation to the research questions; offers the author’s perspective on the contemporary and prospective role of the HEFCE; relates Berdahl’s (1959) five tests for university autonomy to the contemporary role
of the HEFCE and its relationship with the higher education institutions; and, finally suggests some areas for further research.
Chapter Two

A Review of the Literature

Introduction

In the past 44 years there have been a number of key texts which have reviewed the relationship between the state and higher education in England. The purpose of this chapter is to review these key texts, drawing out the main themes and ideas as a way of informing the aims of the dissertation, the research questions, and framework for the research.

The literature review has a focus on the texts which analyse specifically the relationship between two key organizations within the state apparatus for the strategic management and funding of higher education – the Department for Education, and the funding body for higher education (UGC, UFC and the HEFCE); the impact of that relationship on the changing role of the funding body; and, the consequences for the funding and management of the higher education sector. This approach has been taken for two reasons: firstly, the central purpose of the dissertation is to focus on and review critically the changing role of the funding body; secondly, it is not possible within the scope and scale of this dissertation to review the wider literature on the changing role of the state in civil society, and specifically the role of the state both in relation to the development and decline of social democracy, and the funding and management of public services in England since 1945 (Codd, Gordon and Harker 1997; Dale 1989; Dale 1997; Hill 1997).

The key themes are:

- The funding body as a benign organization (Berdahl 1959; Shinn 1986)
- The funding body as a safeguard for institutional autonomy and academic freedom (Robbins 1963; Clark 1983; Carswell 1985; Neave 1988b; NCIHE 1997)
• The funding body as a buffer organisation between the state and higher education (Berdahl 1959; Shinn 1986; Shattock 1994)
• The economic ideology of education in support of increased state control over higher education (Salter and Tapper 1994)
• The changing role of the funding body from provider to regulator (Henkel and Little 1999; Henkel 2000; Kogan and Hanney 2000; Kogan et al 2000; Scott 2001; Delanty 2001; Deem 2002)
• The changing role of the state from facilitator to interventionist (Neave 1988a; Neave 1988b; Neave and Van Vught 1991; Neave and Van Vught 1994; Neave 1998).

The funding body as a benign organisation

Shinn’s historical analysis (1986) of the role of the UGC in the period 1919-1946 is based on a literature review of a range of primary material which includes: UGC papers; documents from the archives of a number of universities; Parliamentary; and, Government publications. Shinn’s study describes how Treasury grants were distributed to universities in England from 1889 to 1919 through a series of ad hoc Government committees and argues that it was the catalyst of the First World War (1914-18), and the recognition of the importance of the university sector to the economic development of the nation, that prompted the formal creation of a funding body to allocate state funding on a systematic basis to universities. Shinn argues that the UGC was created by the Government in 1919 as a funding body to separate state funding from state control. For Shinn the UGC operated Janus like, listening to both the Government and the sector in the process of the creation and development of a university system in England. Shinn describes the arrangement:

'Between the two, as the key component, buffer, catalyst, crutch or channel, came the UGC to amass information, to disburse monies, to make one party acceptable to the other, to impose an objective and informed layer between politician and academic, central Government and local community, the state and the individual ...The interface between Government and the UGC was vital to success since it involved the transmission of Government views to the universities and
university needs to the Government... the UGC's position of strength was founded in part on the volume and the objectivity of the data it carried' (Shinn, 1986, pages 59, 280 and 283).

Berdahl's (1959) historical approach to the study of the British universities and the state is based on an analysis of the papers of the UGC and Government. Berdahl reviews the issue of the delicate balance between the role of the state as the national provider of public funding and the independent role of universities as they exercise their right to academic freedom and institutional autonomy. The crucial issue for Berdahl is 'to distinguish between universities being influenced and their being determined by outside considerations' (Berdahl 1959, page 6). Berdahl uses five tests for institutional autonomy. He argues that autonomy exists where the governing bodies of universities have control over the following functions:

- The admission and examination of students
- The curricula for courses of study
- The appointment and tenure of office of the academic staff
- The allocation of income among different categories of expenditure
- The final authority in determining the proper subjects of research' (Berdahl 1959, page 162).

Berdahl's (1959) analysis of the state and higher education relationship tested against these five areas of activity concludes that as a general principle the state did not, in the period up to the late 1950s, seek to influence or control the universities in any of these five areas of activity. For Berdahl the role of the UGC was to reconcile the twin forces of national planning and university autonomy and any natural tendency of the universities to act solely in their own interests or to soften or slow the pace of change would be mitigated by the catalytic effect of the UGC as both a stimulating and mediating influence. The overall tone and mood of Berdahl's analysis is to portray the UGC as a benign agency that managed the development of a university system in a way that suited both the Government and the universities.

Both Shinn's (1986) and Berdahl's (1959) analysis reflects the growth of a system of higher education in Great Britain that is defined by the autonomy of the universities, independence of the UGC, and an arms length approach by the Government to the affairs of the universities and the UGC.
The funding body as a safeguard for institutional autonomy and academic freedom

The Robbins Report (Robbins, 1963) abuts the period described by Berdahl (1959). Robbins commented on the machinery of Government appropriate for a national system of higher education consistent with the need for institutional autonomy and academic freedom. Robbins takes a similar view to Berdahl (1959) arguing that notwithstanding the increased funding from the State over the 20th century, the Government had not interfered with the internal affairs of the universities. Robbins accepted that individual universities would be unlikely to locate their mission and ethos in relation to national needs and priorities and therefore it was reasonable that Governments should seek to exert pressure to effect change in the national interest. Robbins believed that this process of ensuring that the universities took account of the needs of Government could be managed, with the mechanism of the funding body, within a process of discussion and persuasion. For Robbins one of the key safeguards for institutional autonomy and academic freedom was the creation of the UGC:

'...the device of interposing between the Government and institutions a committee of persons selected for their knowledge and standing and not for their political affiliation. In this way it is possible to ensure that the measures of co-ordination and allocation that are necessary are insulated from inappropriate political influences...The Government is thus advised by a body which, though appointed by the Government, is independent of ministerial and departmental control and is composed chiefly of persons with an intimate knowledge of university life and its conventions' (Robbins 1963, pages 235-6).

A similar view was taken in the next Government sponsored review of higher education in the late 1990s. The National Committee of Inquiry into Higher Education chaired by Lord Dearing (NCIHE 1997), commenting on the relationship between higher education institutions and Government concluded:

'We are wholly convinced and firmly commend to the Government that there should continue to be an arm's length relationship between Government...and the higher education system, so as to assure the autonomy of institutions within a broad framework of public policy...we conclude that there should continue to be intermediary bodies, such as the present Funding Councils'. (NCIHE 1997, page 349).
Carswell's (1985) study of the relationship between the Government and the universities in the period 1960-1980 is written from the perspective of a former senior civil servant who worked on university funding within the Treasury, then as an official within the Department for Education and Science, and at the end of his career as Secretary to the UGC. His historical analysis is based on a review of Government and UGC documents, as well as his own personal experience of life in Whitehall. Carswell describes the UGC as a mediator between the Government and the universities. He accepts that it is the legitimate role of the Government to set the macro-level policy in relation to the planning and funding of higher education but it is then for the UGC, as an honest broker, to manage the process of allocating grants to individual universities and colleges.

Carswell's (1985) overall assessment is that at the time he left the UGC in the late 1970s there was little evidence to support the argument that Government action had encroached significantly on institutional autonomy and academic freedom. The exception was the Government's decision to cut the subsidy to universities for the overseas student fee in 1964-65. Traditionally, it had been for the universities to set the fee rate for home and overseas students. This was the single instance for Carswell of Government action in breach of university autonomy.

In his comparison of national systems of higher education, Clark (1983) argues that in those circumstances where higher education is viewed as a private arrangement between the university and the student then it is possible to make the case to remove the influence of the Government. However, he argues that it is inevitable that where higher education is defined as a public good through public financing then the Government will have a larger voice in determining the purpose and structure of higher education. Clark's argument is that if you have a system of major public funding for higher education then the best mechanism for managing such a national system of higher education is to have a buffer body such as the UGC. Clark's observation on Britain was that the universities had discovered a formula for taking funding from the state without taking orders from the state.
Clark's view of the UGC is that:

'Equally important is the buffering of control provided by intermediary bodies... In its golden age (1920-1965), the British University Grants Committee came close to the ideal... Holding intermediate powers between the university people and Government officials, the UGC clearly protected one from the other. There were many informal features of trust and friendship, and common background among political, administrative and academic elites, that helped make the committee work as well as it once did. But it is the form, the primary structure itself, that has been the most important invention in twentieth-century higher education in buffering central control by intermediate bodies' (Clark 1983, page 268).

Neave's (1988b) historical analyses of models of university autonomy across Europe, identifies university autonomy in Britain as being identified with a model of institutional independence based on the legal independence from the state as well as self-government and self-regulation. He argues that the relationship between the state and higher education developed within a framework in which the facilitatory state provided funding for the purposes of the universities and within this model, the UGC acted as the buffer body that managed funding allocations within a 'zone of negotiation' between the state and the higher education sector. The key point for Neave is that the universities, through the machinery of the UGC, controlled the 'zone of negotiation'. Neave argues that with the movement in Britain to mass higher education, the state started a process of redefining the boundaries between the state and higher education: the facilitatory state precedes the evaluative state which in turn transforms into the interventionist state. Neave argues that:

'...the type of 'public service' that the universities were expected to perform was no longer subject to negotiation. It had been set down in Government statements of priority ...In the case of national priorities it was non-negotiable...What has happened since 1981 is a massive reversal in the purpose of the zone of negotiation. Instead of being an extension of the university into central government, it has become a 'zone of penetration' of central government into the university world...' (Neave 1988b, pages 44 and 45).
The funding body as a buffer organisation between the state and higher education

Shattock’s (1994) analysis of the role of the UGC in the management of British Universities is informed by his knowledge of the higher education system viewed from his vantage point as a former Registrar at the University of Warwick, and his role as an adviser to the UGC.

Shattock’s (1994) historical account of the role of the UGC in higher education in Britain in the period 1919 to 1989 uses as primary material the papers of the UGC, and Government documents relating to higher education over this period. Shattock’s argument is that the UGC went through a number of phases over its lifetime (1919 to 1989). Shattock views the UGC as a ‘buffer organisation’ in the period 1919-1963 with the UGC managing an elite system of higher education with a broad measure of support from the universities and the Government. He argues that the UGC reacted to pressures whether from the Government or universities and it had no imposed or self-generated role as a policy making body. For Shattock the next stage in the life of the UGC is marked by the period 1963-1979 covering the post-Robbins period until the election of the Conservative Government in 1979. Shattock views the UGC as moving from a ‘buffer’ organisation or ‘shock absorber’ to having a more strategic and planning role in higher education as a consequence of the growth in public expenditure on higher education. Shattock views the UGC as moving from being a relatively passive organisation or reactive body to one with a role in the planning of the higher education system. It is Shattock’s argument that the failure of the UGC to build on the momentum of its initial role in shaping the future policy direction of higher education led ultimately to its demise in 1989.

Shattock (1994) argues that in the period 1979-1983 the UGC to some extent regained the initiative as it took responsibility for managing the funding cuts imposed by the Conservative Government in the early 1980s on higher education as the Government implemented a general policy of cutting back on public expenditure. Shattock argues that the incremental and stable approach to funding was simply no longer sustainable in the 1980s and the UGC was forced to
make hard choices between individual universities. For Shattock, it was the severity of the cut in 1981 to the UGC grant that thrust the UGC irrevocably into the political spotlight. The tension between the Government and the UGC is summarised by Shattock:

‘...Government did not want a UGC that that would be assertive about the universities’ financial needs; it believed that it was Government’s job to define national needs; and it did not want a UGC that claimed it was not ‘the servant of Government’ or one that would ‘guide and encourage’ universities to change. It wanted a new body that would be legally separate from Government but strictly accountable to it, a body that would use funding mechanisms much more decisively than in the past to ensure that the changes that Government wished to see took place’ (Shattock 1994, page 140).

The analysis of the role of the UGC by Berdahl (1959), Shinn (1986), and Shattock (1994) presents us with an image of the UGC as a buffer organisation between the state and higher education. In a sense there is a contradiction in this image: the UGC was always a part of the state apparatus for funding higher education; the UGC was funded entirely by the Government; and, the staff of the UGC were civil servants. But the important point is that the UGC viewed itself as independent and owned by neither Government nor the higher education institutions. Shattock (1994) argues that the independence of the UGC started to break down with the arrival of the Conservative Government of 1979 which engaged in a strategy of reducing public funding for higher education (Kogan and Kogan 1983) and used the UGC as an instrument for the implementation of Government policy. Shattock (1994) argues that there is a sea change in the role of the UGC from the early 1980s onwards as the funding body was viewed more transparently as a part of the state apparatus for the funding and management of higher education.

The economic ideology of education in support of increased state control over higher education

Salter and Tapper’s (1994) study of the relationship between the state and higher education is based on their analysis of a range of primary material including publications from Government, Parliament, and the funding bodies. Salter and Tapper’s analysis of change in higher education is
guided by their theory of educational change which seeks to understand change in the context of ‘...the ideological struggle between the economic view of higher education and the traditional liberal view of the role of the university’ (Salter and Tapper 1994, page X).

Salter and Tapper (1994) argue that the combined impact of the Education Reform Act 1988 and Further and Higher Education Act 1992 has changed irrevocably the relationship between higher education institutions and the state, with state pressure, through the medium of the funding body, becoming an inevitability. Salter and Tapper argue that in order for the state to be able to exercise control over the universities it had to take control of the ‘economic ideology of education’. They argue that education is promoted by the Government as an economic resource that has to be managed in the national interest, and the state, therefore, has a right to ensure that education has as its primary objective the improvement of the country’s economic performance. They argue that once the ‘economic ideology’ argument had been established, the state used this foothold as the justification for an expansion of bureaucratic power. Salter and Tapper’s (1994) analysis views the last two decades of the 20th century as one of increasing state control over the funding, planning and management of higher education. Salter and Tapper structure the state and higher education relationship hierarchically arguing that:

‘There are thus three levels to the current relationship between the state and the universities: the parameters which are under the control of the state, the management of those parameters (which includes translating them into precise operational procedures) as carried out by the funding bodies, and the autonomy of the individual universities which is exercised within the framework of the above two levels of control’ (Salter and Tapper 1994, page 202).

For Salter and Tapper (1994) the UGC had to be replaced because the desire of the Government to manage and control higher education meant it needed a stronger base on which to exercise its authority. They argue that the Further and Higher Education Act 1992, which created a unified system of funding for higher education in England through the HEFCE, provided the platform for the apparatus of the state (Government and HEFCE) to exercise increased control over the universities and colleges of higher education. Salter and Tapper have little to say about the role of the UFC other than commenting briefly that as it existed for such a relatively short time it was
difficult to make a definitive judgement about its role although there was some evidence that it was actually unsuccessful in imposing its will on the higher education sector. It is the assumption of the author of this dissertation that Salter and Tapper had in mind the failed attempt by the UFC to introduce a market mechanism into the teaching funding exercise for the period 1991-92 to 1994-95. This important issue is covered in detail in chapter four of this dissertation.

An argument that is not prominent in Salter and Tapper's (1994) analysis but arguably of relevance is the proposition that the state could have justified its pressure on higher education through the argument that in a situation of escalating public funding for higher education since the 1970s, the state had the democratic right and responsibility to decide on the most effective and efficient use of public funds. Therefore, state funding on education generally, and on higher education in particular, becomes simply a matter of political and budgetary judgment rather than an ideological position adopted by politicians.

The changing role of the funding body from provider to regulator

The changing role of the funding body from provider to regulator is analysed within the research on the changing relationship between the state and higher education by Henkel and Little (1999), Henkel (2000), Kogan and Hanney (2000), Kogan et al (2000), Scott (2001), Delanty (2001), and Deem (2002).

Henkel and Little (1999) argue that through a combination of ideological and economic forces there has been a collective movement across the world which has resulted in a significant change in the relationship between the state and higher education institutions since the early 1970s. Henkel and Little describe the relationship between higher education and the state as changing from one of an 'exchange relationship' to one of 'sponsorship-dependency'.
Henkel and Little (1999) locate change in higher education as driven by political and economic forces: the political is driven by the democratic imperative, and the forces of social demand and social aspiration; the economic recognises higher education as a tool of investment for the state and individuals. Henkel and Little argue that within a knowledge society, the production and transmission of knowledge generates considerable power and influence and therefore the state is forced to manage to a far greater extent its relationship with the universities as knowledge producers. Although Henkel and Little argue that the power relationship between the state and higher education has changed over the past quarter of a century, the authors recognise that academics still have considerable influence over the way the state seeks to manage higher education through, for example, both the Research Assessment Exercise (RAE) and Teaching Quality Assessment (TQA) exercise which are managed through a process of peer review within which academics review and assess the performance of other academics.

Henkel's (2000) study of policy change in higher education has a focus on '...the implications of policy changes for academics, their values, agendas and self-perceptions, in other words for their academic identities' (Henkel 2000, page 9). Henkel's research is in part reliant for its empirical base on the interviews conducted by Kogan and Hanney (2000) but based substantially on the extensive fieldwork by the author including 327 interviews in 11 higher education institutions and 7 subject areas. Henkel identifies the 'massification' of higher education as the single greatest driver for change in the state and higher education relationship. Henkel cites Martin Trow's categorisation of educational systems, within which a mass higher education system is defined by an annual participation rate (APR) of between 15% and 33%, and universal higher education at between 33% and 40%. If we use Trow's taxonomy of elite-mass-universal higher education, then by this definition we have already reached, at 43% in 2003 in England, universal higher education in England (Trow 1970; DfES 2003b). Henkel argues that in the late 1980s and throughout the 1990s there was a reconceptualisation of the relationship between the state and the market as the Government wanted to reduce overall public funding for the higher education sector and introduce some measure of market forces into the system. Henkel argues that to some
extent this was achieved by the introduction of performance indicators in the form of the RAE and TQA which would inform student choice. Henkel’s conclusion is that since the early 1980s we have seen radical changes in the relationship between the state and higher education supported by changes in the legal framework, and the management of the higher education system at the macro level by the Government or its agencies, in particular the funding body. Henkel concludes that:

‘In the terms of Clark’s (1983) triangle of co-ordinating influences, it had been pulled towards the state and the market, and away from the academic profession. A major shift had occurred in the exchange relationship between higher education and the state. The state had asserted its power as the paymaster. Government not only took command of the externalist arena of higher education policy but also asserted its right to intervene in the values and regulation of the internalist arena...by the mid-1990s it had established a framework of law, regulation, incentives, rewards and sanctions within which higher education institutions were to operate...Traditional academic values now had to compete with a multitude of values and objectives – economy, efficiency, utility, public accountability, enterprise and various definitions of quality’.

(Henkel 2000, page 47).

The analysis by Henkel (2000) and by Kogan and Hanney (2000) is informed by just under 400 interviews of past and present informants from the world of central Government (Ministers and civil servants), the funding bodies, and the higher education sector. The interview data is anonymised in the text of both books and their analysis is supported through a review and interpretation of primary material including Government and funding body documents.

Kogan and Hanney (2000) define the role that universities play within the wider state apparatus. They suggest that there are many organisations that are funded by the state and each has a particular relationship with the state because of the nature of the funding relationship. They argue that in the case of some institutions such as the army and police we would expect to see a close relationship between the ideas and wishes of the state, as represented by the Government, while in other cases such as the academic sector and the judiciary we see a different relationship through which these two groups have a large measure of independence within a democratic state. Kogan and Hanney argue that the unique relationship between the state and higher
education flows from the role of universities as knowledge creators and knowledge communicators and unless this role is undertaken by academics without undue restriction then the very essence of the collegiate nature of higher education will be lost and ultimately the state as well as higher education will be the loser.

Kogan and Hanney (2000) argue that there has been an increasing tendency for the state to seek to exercise control over the externalities of higher education and examples of this include the development of the evaluative state through which universities are held accountable for the quality of their teaching (TQA) and research (RAE). They argue that the evaluative state is linked to the growth of a new public management of the public sector in which the universities receive public funding against the production of specified targets such as increased student numbers.

Kogan and Hanney's (2000) analysis supports the argument that since the early 1980s higher education has been increasingly subject to state control through the Government, and its agent the funding body, with higher education institutions shifting from a position of autonomy and freedom to one of accountability and regulation. A particular strength of the analysis by Kogan and Hanney (2000) is the colour they bring to the changing world of higher education through the use of interviews. This is particularly illuminating in respect of the role of the UFC and the tension in the relationship between Lord Chilver and Sir Peter Swinnerton-Dyer, and the potential this provided for the DES assessor John Vereker (now Sir John Vereker) to influence the policy making process of the UFC (Kogan and Hanney 2000, page 169).

In their comparative study of higher education in England, Norway and Sweden, Kogan et al (2000) describe the system of higher education in England as being managed by two forces, each acting as tectonic plates that rub up against each other to create friction and energy. They argue that on the one hand there is the central-policy making of the Government and funding bodies, and on the other the universities and colleges which control the internal structures of higher education having clear responsibility for the award of degrees and appointments to
academic posts. Kogan et al locate change in the English system of higher education over the past quarter of a century within a framework that is bounded by: changes in ideology within the successive Conservative Governments of the 1970s and 1980s; the impact of an increase in student numbers over this period with the consequent funding implications for the Government; the drive for accountability and new public management promoted by the Conservative Governments; and, the decline in the autonomy and overarching authority of the higher education sector to manage, control and direct the higher education system.

In the context of the contemporary role of the university in the knowledge society, Delanty (2001) argues that the state is becoming '...increasingly a regulatory agency and less exclusively a provider state...' (Delanty 2001, page 8). This analysis chimes with the views of others (Salter and Tapper 1994; Henkel 2000; Kogan and Hanney 2000; Scott 2001; Deem 2002) who argue that the last two decades of the 20th century has seen an inexorable increase in the regulatory role of the state in the management and funding of higher education.

Scott (2001) argues that institutional autonomy has been eroded by the imposition of increased accountability imposed by the Government through its agencies, in particular the HEFCE. Professor Scott writes from a particularly interesting vantage point as Vice-Chancellor of Kingston University, and as a member of the HEFCE Board of Council (2001-). Scott argues that higher education is increasingly managed and controlled by the HEFCE. Scott argues that the funding council controls the fee structure for undergraduate students and links funding to special initiatives to ensure the delivery of political directives. Scott concludes that higher education institutions have become increasingly accountable to the agencies of the Government, with the HEFCE increasingly an instrument of the Government.
The changing role of the state from facilitator to interventionist

In their publications on the relationship between the state and higher education, Neave and Van Vught (Neave 1988a; Neave 1988b; Neave and Van Vught 1991; Neave and Van Vught 1994; Neave 1998) argue that the role of the state in Western Europe has, since the 1960s, undergone a number of stages of progressive development from facilitator to evaluator to interventionist. They argue that this is an international phenomenon with different forms of Government action in different countries. They state that the facilitatory state reflects the commitment of the state to underwrite the full costs of higher education such as in the post-Robbins expansion of higher education in the late 1960s and early 1970s in Britain. In the context of Britain, and the development of a mass system of higher education, the authors conclude that the imposition of the evaluative state, stimulated through the combined impact of the Jarratt Report (CVCP 1985), Croham Committee (Croham 1987), and Education Reform Act 1988, facilitated the steering of higher education by the state through its agent, the funding body, to ensure compliance from the higher education sector. Neave and Van Vught argue that the funding body has become an instrument of state control as it evaluates the quality of research and teaching, and links the evaluation of research to funding at the level of the institution.

Conclusion

This chapter has focused on the key texts and ideas covering the relationship between the state and higher education, and the role of the funding body. It is the comprehensive nature of the primary material used by the authors, and the interview data provided in Henkel (2000) and Kogan and Hanney (2000), which forms the empirical authority for the arguments and conceptual frameworks advanced in the literature.

There are many areas of common agreement within the literature in respect of the changing role of the funding body in the relationship between the state and higher education including the
arguments that: the role has changed in parallel with the growth of higher education in England; the growth in Government funding has operated alongside an increase in the interest of the state in the management and funding of higher education; in a global economy that is driven by the creation, exchange and dissemination of knowledge, the universities and colleges of higher education have become key institutions in the survival of the state; social inclusion and economic competitiveness have become key twin objectives for the state in the knowledge economy and knowledge society; and, higher education has become too important to be left exclusively to the higher education institutions with the consequence that higher education is increasingly, from the early 1980s onwards, managed and regulated by the state through the Department for Education, and by the agent of the Government, the funding body.

It is argued in the literature that in a system of mass higher education, the role of the state develops from being exclusively a provider of funds to being both a provider and regulator for the higher education system in England in which the higher education institutions are increasingly required to deliver against national priorities. The medium through which the Government translates its requirements of higher education is the funding body, an organisation that has developed from its traditional role as a buffer body and, as the literature suggests, is now arguably demonstrating the characteristics of a regulatory body for the higher education system. The funding body is therefore no longer exclusively a provider of funds but increasingly a regulator of higher education.

Although there are references in the literature to the increasingly regulatory role of the state, as exercised by the Government and its agent, the HEFCE, there is no systematic attempt in the literature to describe and review the mechanisms by which this regulation takes place. If the role of the funding body is moving from being less exclusively a provider of funds for higher education and increasingly a regulator of the higher education system then we need to understand how this change has taken place.
The literature is strong on the role of the UGC (Shinn 1986 and Shattock 1994) but there is very little by way of parallel historical analysis on the changing roles of the UFC and HEFCE. The fact that so little attention is paid to the role of the UFC is a significant gap in our knowledge of the transition from the UGC to the HEFCE. Although the HEFCE has been in existence for just over a decade, there is also little in the literature by way of an analysis of the changing role of the HEFCE, and in particular the relationship between the HEFCE and the Department for Education and Skills. Therefore, there is a gap in our knowledge and understanding of the changing role of the funding body.

The relationship between the HEFCE and the DfES is particularly important because it provides a key to understanding which part of the state apparatus for the funding and management of higher education has the dominant role. This has implications for the independence of the HEFCE in the relationship between the Government and higher education. Does the HEFCE have a distinctive and independent role through a mediation of the policies of the Government or might the contemporary role of the funding body be better described as less of a mediating and buffer body and more of a delivery unit for the Department for Education and Skills?

This dissertation seeks to take forward the analysis of the state and higher education relationship in the context of the argument in the literature that the higher education sector has become less autonomous and increasingly accountable to the funding body. The funding body is perceived by many researchers (Salter and Tapper 1994; Henkel 2000; Kogan and Hanney 2000; Scott 2001) as an instrument of control within an evaluative and regulatory state and less as an independent provider of funding for the higher education sector. Why is it that the HEFCE (Newby 2003; Guardian 2003) and the Government (Clarke 2003) still advance in public the proposition that the HEFCE is an independent buffer body that is owned by neither the higher education sector nor the Government? Through a critical review of a wide range of primary material this dissertation seeks to provide a new insight to, and an understanding of, the space between the rhetoric and
the reality of the role of the funding body in the relationship between the state and higher education.

The literature argues that the funding body was established by the Government for two purposes: firstly, to provide the mechanism for the allocation of state funds to universities and colleges of higher education; secondly, to keep the politics out of the allocation of funds to individual institutions to ensure institutional autonomy and academic freedom. The funding body was the buffer body between the Government and the institutions. In the past 25 years in England the Government has progressively exerted pressure on the higher education sector to deliver a mass higher education system. And the higher education sector has been by and large a willing partner in this compact as long as the additional funds were made available by Government to support the expansion. One of the key concerns of the higher education sector has been the intensity by which the Government drove down the unit of resource to bring higher education to a point of near financial collapse in the late 1990s (NCIHE 1997).

In the context of increasing state pressure, the literature argues that the facilitatory state has metamorphosed into the evaluative state which in turn has transformed into the interventionist state. In parallel, the funding body has metamorphosed from being exclusively a provider of funds to being both a provider and regulator.

The proposition in the literature that the role of the funding body has developed from provider to regulator is not developed in the literature. Therefore, there is an opportunity, through a critical review of the roles of the UGC, UFC and HEFCE to explore the argument that the role of the funding body has changed from being exclusively a provider of funds to being a regulator of the public funding for higher education.

The next chapter provides a critical review of the UGC in the first of three case histories of the role of the funding body for higher education.
Chapter Three
The role of the University Grants Committee (1919-1989)

Introduction

This chapter reviews the role of the first funding body for higher education, the University Grants Committee (UGC) and seeks to answer the question why it was that by the late 1980s the UGC was considered by its last Chairman, Sir Peter Swinnerton-Dyer to be so ‘...out of keeping with the spirit of the age’ (Swinnerton-Dyer 1991, page 226). After all, the UGC was a model 'widely admired abroad, and copied in other Commonwealth countries' (Croham 1987, page 20, para 3.3). And yet after 70 years of service to the higher education community it disappeared with very little resistance. How did the UGC manage its role as the 'buffer' between the state and higher education institutions?

The UGC was conceived in a minute in 1919 and lasted seventy years. The UGC was established by the administrative convenience of a Treasury Minute on 14 July 1919. A Treasury 'Minute' is a rather formal term for what is known in the lexicon of Whitehall as a memorandum.

With the establishment of the Universities Funding Council (UFC) in 1989 under the Education Reform Act 1988, the UGC passed into history as part of the administrative machinery for managing the payment of grants from Government to higher education institutions in Britain. The formal minute of 21 June 1989 was signed by Kenneth Baker as the Secretary of State for Education and Science and reads:

'Sections 131 and 134 of the Education Reform Act 1988 provided for the establishment of a new Universities Funding Council to succeed the University Grants Committee established by the Treasury Minute of 14 July 1919. The Universities Funding Council was established on 1 November 1988 and took over full funding responsibilities from the Committee on 1 April 1989. Accordingly, the terms of office of the last members of the Committee expired on 31 March 1989.'
but, to provide for the orderly winding up of the Committee's affairs, the Secretariat will continue in existence until 14 July 1989' (UGC 1990b, page 8).

The UGC was wound up on 14 July 1989 some 200 years after the fall of the Bastille in France. The coincidence of timing was viewed by the Committee's last Chairman, Sir Peter Swinnerton-Dyer, as a symbolic gesture by the Conservative Government. In August 1989 a workman arrived at the UGC to take down the pictures of the ten former Chairmen of the UGC that lined the corridor to the UGC boardroom.

**UGC 1919 – 1945**

What were the key features of the UGC in the period 1919-1945? It was essentially a funding body established by Government to distribute grant to institutions. Although the Government controlled the membership of the Committee, its members were drawn primarily from the higher education sector. Shattock (1994) describes the early role of the UGC as essentially 'reactive' to the demands from universities and colleges. From its inception, the UGC was acquiring an unrivalled knowledge of the funding of higher education in Britain. The authority this gave to a Government funded organisation should not be underplayed in any assessment of the role of the UGC or its successor bodies.

The fact that responsibility for the UGC lay initially with the Treasury provided two sources of comfort for the fledgling UGC: firstly, the Treasury was the key department in the allocation of resources throughout Whitehall; secondly, the Treasury had no specific expertise to offer in the field of higher education and therefore the UGC could hold the primary and unchallenged position as the lead body of opinion and expertise on the university system.

In the inter-war period (1919-45) the early period in the life of the UGC is often associated with Berdahl's (1959) description of the UGC as a 'benign' organisation that played an important role in the development of the university system but a role limited in scope and ambition. Shinn's
(1986) study of the UGC reflects an organisation that did not believe it had a role to define the activities of the institutions it supported through its funding.

It is often remarked in many facets of life that organisations or systems define themselves or are defined by others. The universities defined themselves through their traditions of academic independence and institutional autonomy. The UGC established itself as an enabling organisation that supported rather than planned the activities and direction of the universities and colleges. And this is an important distinction. The fact that the UGC allocated Government funding did not lead the UGC to move to the conclusion that it had the right or responsibility to manage the higher education sector.

UGC 1945-1963

We see in the immediate post-1945 period a more pronounced coming together of two very powerful forces in higher education, the UGC and the Committee of Vice-Chancellors and Principals (CVCP), with a common purpose of working in partnership to persuade the Government that the higher education sector needed ever-increasing amounts of public funds to maintain the quality of research, and to support the growth in student numbers. It is important to explore this concept of partnership (Shattock, 1994). In many respects it was a partnership of convenience between two organisations, the UGC and the CVCP, which had a common purpose and agenda notwithstanding the separate and distinct functions of each organisation. Both organisations were concerned with extracting as much money as possible from the Government for higher education: the former because it believed the universities needed adequate funding to maintain quality and growth; and, the latter because it was the representative body (pressure group) for the university sector. Within these arrangements, the UGC operated as the 'critical friend' to both the Government and the universities.
Within the framework of a post-war consensus, the UGC did not need to play the role of mediator between the Government and the university sector. There was nothing to mediate: the Government was willing, within the constraints of the budgetary process, to provide ever increasing funding to the universities (Shattock 1994).

In the post 1945 mood of growth in the welfare state and development of the higher education sector, the Government wanted the UGC to play a more active role in identifying the future needs of the university sector. The Government needed advice from the UGC to ensure a congruence between ‘national needs’ and the capacity of the universities to meet the needs of the state. The role of the UGC in this period is summarised by Berdahl (1959) when he writes of the triple role of the UGC in ensuring university autonomy, supporting national planning, and ensuring the probity of public funds.

The UGC operated as an intermediary between the Government and the universities. It was able to explain the needs of the sector to the Government while at the same time pulling off the trick of keeping the universities content with the annual allocation of grant. It had the respect of both sides of the equation. But perhaps more importantly, neither the Government nor the universities had a better way of allocating public funds to higher education. If the UGC had not existed then it would have had to be invented by the Government.

There are a number of turning points in the history of the development of higher education in Britain. The creation of the UGC after the First World War (1914-18) linked the imperative of using the intellectual resources of the universities to support the development of the economy. The higher education system took another step change forward after the Second World War (1939-45) with the growth in student numbers linked to the development of the welfare state and widening of the social base of students having the opportunity to participate in higher education. Another key turning point was the Robbins Report published in 1963. The UGC had the responsibility to work with the university sector to deliver the growth in student numbers.
recommended by Robbins. The Robbins Committee estimated that there were 216,000 students in full-time higher education in Great Britain in 1962/63 and recommended that the Government should fund 390,000 in 1973/74 and 560,000 in 1980/81 (Robbins 1963, page 277).

UGC 1963-1979

The Robbins recommendations represented a considerable challenge for the Government, the UGC, and higher education institutions. The UGC Chairman at the time (Sir John Wolfenden, 1963-1968) writing in 1970 described the period as follows:

‘Over recent years the UGC has gradually but visibly moved from being a buffer to becoming a strategist ... If through ...dramatic and rapid changes the former relationship between Government and the universities was to endure, if, that is, there was not allowed to develop a direct control by the Government of the activities of the universities, then the passive buffer must come to life and undertake some positive and planning initiatives’ (Shattock 1994, page 5).

The impact of the Robbins Report on growth in higher education brought with it a change in the constitutional arrangements for the management of the UGC within Whitehall. Since 1919 the UGC had reported directly to Treasury Ministers and officials. On 6 February 1964, the Whitehall responsibility for the UGC was transferred to the newly created Department for Education and Science (DES). The UGC and the university sector therefore came squarely within the ambit of educational policy-making with university funding having to fight its corner against all other parts of the educational system.

Even in the midst of step change growth in higher education in the 1960s the UGC still did not see itself as a ‘manager’ of the university system. In the UGC review of university development in the period 1962-1967, the UGC reflected on the arguments for and against having full or part-time members on its governing Committee and concluded that:

‘... the concept of full-time membership implies a degree of ‘management’ of the universities which would fundamentally alter the relationship between them and the State and the functions of the Committee itself’ (UGC 1968a, page 4).
This same report (UGC 1968a) reflects the very close relationship between the UGC and DES. The UGC officials had regular meetings with the senior civil servants at the Department. And the DES had an assessor at all of the main UGC Committee meetings. However, the Croham Review (Croham 1987) of the UGC pointed out that the role of the assessor from the Department for Education was constrained as they were excluded from some crucial parts of the UGC business:

'...because the placing of items of business on the closed agenda denied them access to the accompanying papers, they were less well informed than they should be. Exclusion is confined to two main areas of business: the preparation of advice to the Secretary of State, where the purpose is both to avoid inhibiting discussion within the Committee and to demonstrate to the universities an independence from Government interference or pressure, and the affairs of individual institutions, again to safeguard the UGC's independence of action' (Croham 1987, page 23).

In its publication on university development in the period 1962-67, the UGC emphasised its independence by posing the rhetorical question, 'Whose side is the University Grants Committee on?' And the UGC responded:

'We are not on any 'side'. We are concerned to ensure that a vigorous and creative university life prospers in this country without interference from the Government of the day and at the same time to ensure that the tax paying community, represented by Parliament and the Government, gets a proper return for its money in this field of considerable expenditure. Nobody supposes – certainly we do not – that these twin tasks are easy to perform. But we do believe that these two objectives represent our role and function, and we expect that the years will see our successors develop them further in accordance with the Committee's history of organic evolutionary development' (UGC 1968b, page 192).

From 1964 onwards the UGC came within the ambit of the newly created DES. It is arguable that this change was of greater concern to the universities than the UGC. The former had become used to having the Treasury determine the budget for the university sector and were concerned that bringing the university demands alongside those of, for example, the schools sector could ultimately be to the disadvantage of higher education. In its commentary on university development over the period 1967-1972, the UGC was quick to downplay such fears arguing that the DES was well placed to argue for its own budget within Whitehall. The language of the
periodic UGC commentaries on university development (UGC 1968a and UGC 1974) reflect the
tone of the relationship between the UGC and the Government. When commenting on the
decision of the Government to set firm targets for student numbers, not only in aggregate but also
between arts and science subjects and between undergraduates and postgraduates, the UGC
reported:

'But while we should not necessarily agree with, and must occasionally regret, Government
decisions on these matters we should not claim that they are matters outside the Government's
proper competence' (UGC 1974, page 52).

Following the publication and implementation of the Robbins Report (1963) the UGC was drawn
into a planning framework to ensure that growth was managed actively in the creation of the new
universities. Shattock (1994) has argued that one of the failures of the UGC in the period 1963 to
1979 is that it took a very narrow view of the role of the universities and university education. It
failed to link the development of the university sector with the changing needs of the economy
and society. The consequence was:

'Moreover, by not encouraging attempts to break out of the traditional university model, it left the
whole system vulnerable to changes in the political climate and to the charge that it was no longer
in tune with the needs of the times. It may be argued that the UGC was in no position to initiate
policy when a policy vacuum towards higher education existed in Government itself. The fact
remains that despite calls for more positive approaches in the immediate post-war period, the
UGC remained a largely reactive body preferring the system to be tidy rather than innovative'.
(Shattock 1994, pages 11/12).

for Expansion' (HMSO 1972) the UGC provided the universities with the grant allocation for the
period 1972-1977. In making the allocations, the UGC accepted that the level of resources
represented a real cut of 2% for the university sector. In the publication on university development
for the period 1974-75 the UGC decided to go public on:

'...a general account of the university system as we have found it during an eventful year in which
many difficulties have had to be faced...In periods of economic stringency priorities change and
the balance may perforce shift from the optimum. We consider it appropriate to state at the outset
of this Annual Survey that this balance may become so far displaced as to be permanently damaged and preclude return to full symbiosis when circumstances permit' (UGC 1976, page 4).

The UGC used its annual review of higher education for 1974-75 (UGC 1976) to explain publicly that it did not wish to be seen as the overlord of the university sector with universities subordinate to the UGC. The impact of inflation over the period 1973-75 had imposed considerable economies on the university sector. The UGC did not believe that it was possible to maintain academic standards in the face of inflation running at nearly 30%. A continued campaign of economy in the university sector had the consequence of posts being frozen and the prospect of insolvency for some institutions. The impact on universities was sudden and drastic. The UGC reported low morale which would not serve the country well in a situation in which the Government was looking to the university sector to deliver national needs through economic growth and social mobility.

No longer able to meet emergency funding from its reserves, the UGC found itself unable to support the development needs of the university sector. The sector inevitably looked to the UGC for support but the UGC found itself unable to respond through lack of funding from the Government. Within its annual reports for the mid to late 1970s the UGC speaks with two voices: as a servant of the Government and as a passionate and committed supporter of the university system. By the mid-1970s the system of planning university funding some five years in advance had effectively collapsed. Annual financing and short-term decision making was now the mode of operation for the UGC. Inflation effectively cut the unit of funding per student and the UGC acknowledged that it was forced to accept the 'justified grievance' of university staff (UGC 1976 and UGC 1977).

The mid-1970s marked a downturn in the fortunes of the university sector flowing from the previous three decades of continuous growth. In recognising the seriousness of the situation the UGC commented:
"Universities are conscious now not only of difficult but of novel problems which cannot be solved by improvisation. At the same time the financial system which permitted and encouraged forward planning has been seriously damaged by successive short-term decisions related to changing national pressures. As a result there is a deep and damaging sense of uncertainty which can only be removed by the restoration of a longer planning horizon" (UGC 1977, page 9).

For the UGC, and the university sector, the period from the mid-1970s onwards was one of sudden change and shock. No longer were the universities protected from the ravages of inflation or cutbacks in public expenditure. It was as much a shock to the universities as the UGC. The UGC did not wish to preside over a system that was declining in terms of the unit of funding for teaching and research and yet it had no alternative but to allocate the funds it received rather than the funds it deemed necessary to maintain and improve quality and standards for teaching and research.

The mood of the UGC as understood from a reading of its annual report for the academic year 1979-80, is one of a recognition that the ‘Universities were in a new situation’ (UGC 1981, page 5). The UGC and the universities had previously understood that the expansion in higher education would be fully funded. All bets were now off on this assumption. This was a new situation for the UGC, and the university sector. While acknowledging that the universities had historically found solutions to their own problems, the UGC also acknowledged that the Committee had a unique role in providing a synoptic view of higher education and was therefore well placed to give advice to the university sector, particularly at time of financial stringency. The UGC was forced to engage in ‘scenario planning’ in concert with the universities.

UGC 1979-1989

The Government cuts to the university sector, following the arrival of the Conservative Government of 1979, were a shock to the sector, as well as the UGC. The university sector had faced budget cuts earlier in the decade but nothing on the scale of cuts now experienced (Kogan and Kogan 1983). The UGC’s assessment was that the cumulative effect of the cut in grant for home students plus the withdrawal of subsidy for overseas students would lead to an 11%
reduction in universities' general income in the period 1980-81 to 1983-84. The 11% reduction was over four times the 2.5% that the UGC believed was the critical line of reduction that could be managed and absorbed by the university sector.

The UGC was concerned not only by the scale of reduction in funding but also by the speed of reduction. In a bold statement the UGC announced:

'The Committee has always announced that there are no absolute standards by which to determine an appropriate level of public financial support for the universities. This must be a matter for political decision. The system can in principle operate effectively within a wide range of levels of support. The problems now facing the university sector are due to too rapid a rate of change from one level to another' (UGC 1982, page 6).

What was to be done? The UGC decided that in order to manage the cuts in public funding it had to change its role. In a sense the UGC had always had to make choices between competing claims for funding. But this was materially different. In the past the UGC had managed growth so that the sector was receiving ever-increasing grants from the UGC. Now the UGC had to make hard choices which resulted in substantive reductions in income from the UGC to some institutions (Kogan and Kogan 1983; UGC 1984b). The UGC had at its disposal a mass of data about the university sector and it used this information, and the resources of its subject committees which were composed of academics, to undertake the 'complex task of comparing competing claims' (UGC 1982, page 8). The UGC started by making allocations based on the basis of subject-based decisions which were then reviewed and moderated in the light of the overall impact on individual institutions.

The period 1919 to 1979 represented substantially a period of growth in higher education with expansion fully funded. The incoming Conservative Government in 1979 reversed that trend. The UGC's submission to the House of Commons Select Committee for Education, Science and the Arts in November 1981 captures the pain that the UGC felt in managing such a swift and dramatic change in fortune for the university sector. The cutbacks and nature of the discussions between the UGC and the universities were 'unique in the history of the UGC' (UGC 1982, page 24).
The key point is that the UGC was prepared to make the cuts in as rational and transparent a way as possible to keep the university show on the road. The UGC main Committee did not resign en masse nor did Sir Edward Parkes resign as Chairman of the UGC. The Committee accepted the responsibility to make the best of difficult circumstances. From the moment the UGC accepted responsibility for managing the cuts in recurrent grant in 1979-80, it implicitly accepted responsibility for actively managing and for re-shaping the university system to cope with the cuts in Government funding.

The UGC assessment of the state of the university sector in 1981-82 includes an exchange of correspondence between Sir Keith Joseph, the Secretary of State for Education and Science and Sir Edward Parkes, the UGC Chairman. It is an important exchange of views because for the first time we have the Government making explicit the terms on which it will fund higher education in the future. Joseph expected universities to continue to control their costs. The university sector would have to come to terms with continuing reductions while maintaining ‘that which is most valuable in the present system’ (UGC 1983, page 32). The letter from the Secretary of State for Education to the UGC argued that reductions in grant needed to be applied selectively, universities should be given help by the UGC to restructure, and there should be a preference in funding towards the natural sciences and technology. Universities needed to have a focus on the contribution they could make to commerce and industry, and the production of wealth (UGC 1983, page 32).

The letter of 14 July 1982 from Sir Keith Joseph to the UGC Chairman (UGC 1983, page 32) is significant in the relationship between the Government and the UGC. This letter was the start of the public process of the Government telling the funding body explicitly what it should do. It did not tell the UGC how to do it and that is the distinction. The Government would set the tone and direction of change and it was up to the UGC to deliver change while holding the higher education sector together.
Sir Edward Parkes replied for the UGC on 24 November 1982. He wrote:

’Suggestions have been made in various quarters that your letter of 14 July represents a significant change in its [UGC] relationship with Government, with the possibility of future intervention in its affairs and those of the universities. The Committee itself does not regard the letter as a departure from existing practice, although that practice has not been made explicit hitherto. It accepts that there are broad strategic requirements concerning the expenditure of public money for which it is appropriate for Ministers to take explicit responsibility... It is glad that you uphold the principle that responsibility for judgements on these allocations lies with the Committee, just as the Committee wishes to uphold the principle that the universities, as autonomous bodies, are responsible for managing their own affairs’ (UGC 1983, page 38).

Both the Government and the UGC agreed that the time was ripe in late 1983 to start the process of developing a long-term strategy for higher education. Sir Keith Joseph made it clear to the UGC in a letter of 1 September 1983 that it was the view of the Government that in future the universities should be less dependent on public funds and that generally the Government intended to reduce the share of Gross Domestic Product (GDP) allocated to public expenditure. The Government’s planning assumptions for the university sector indicated three modelling scenarios: level funding; a reduction of 5%-10% between 1984-85 and 1989-90; and, a further 5% reduction in the next five-year period to 1994-1995 (UGC, 1984a, page 40).

The UGC started the consultation process with a letter to all universities in November 1983 just one month after the appointment of Sir Peter Swinnerton-Dyer as Chairman of the UGC. The UGC sought views on the way higher education should be developed into the 1990s. In August 1984 the UGC submitted its advice to the Secretary of State for Education in a report, ‘A Strategy for Higher Education into the 1990s’ (UGC, 1984b). This report from the UGC argued that the severity of the Government cuts after 1981 had done great harm to the higher education system. The report also signalled the intention of the UGC to develop a more selective approach to the funding of research. The report concluded that:

‘The Committee’s aim in July 1981 was to minimise the damage to the system caused by the cuts imposed by Government. But those cuts were so severe that great harm has still been done. Academic planning has been disrupted, morale has been impaired, thousands of young people
have been denied a university education, confidence in Government has been shaken and will be difficult to restore ... in this advice we have pressed for adequate resources and an adequate planning horizon. Without them the prospect is of further disruption and decline ... The UGC stands between Government and the universities as it has done for 65 years ... We are not the servants either of Government or of the universities. As one half of our task we shall continue to assert to Government the needs of the universities for resources which will enable them to provide teaching and research of the highest quality as they must always aim to do. As the other half of our task we shall guide and encourage universities towards the changes which we are convinced they must make, and are willing to make, in order to serve the national interest into the 1990s and beyond' (UGC 1984b, page 44).

This report from the UGC provides a clear indication of the UGC’s view of its relationship with the Government and the universities. It felt comfortable floating between the two forces, owned by neither. The UGC would not accept, perhaps naively, that it had become an explicit arm of Government. It clung vigorously to the image of independence but it acknowledged that it had a clear role in managing change in higher education. And the UGC, under the leadership of Sir Peter Swinerton-Dyer, believed that it had a responsibility to rebuke the Government, if it felt the Government had been unfair to the university sector.

The Jarratt Committee

A key turning point for university development was the establishment of the Jarratt Committee by the CVCP in 1984 to ‘...promote and co-ordinate a series of efficiency studies of the management of universities...’ (CVCP 1985). The Jarratt Committee was established by the CVCP in part to provide authoritative guidance and advice to universities on strategic planning in the context of Government cuts in the funding for the higher education sector, but also to seek to separate the university sector from the wide ranging efficiency studies taking place throughout Whitehall in the mid-1980s. In one sense it was a safety valve put in place by the CVCP as the representative body for the universities (Scott, 1995). Jarratt was a successful businessman and Chairman of Reed International PLC and his presence as the Chairman of the CVCP review of the efficiency of universities would inevitably carry weight in Government.
The Jarratt Report (CVCP 1985) argued that despite the catalyst of the cuts in public funding for higher education, universities had not been engaged in essential strategic planning. Universities’ planning horizons were too limited and they needed to bring the functions of planning, resource allocation and accountability together within a corporate planning process. The report also commented on the role of the UGC. Jarratt took the view that the UGC needed to become proactive in the new policy environment. The future funding of higher education looked uncertain and the higher education system needed a new focus on leadership and vision to cope with the management of change in higher education. Jarratt argued that the UGC was uniquely placed to deliver value for money from the university system through its central role in promoting and encouraging good management practice. However, there was a sting in the tail. Jarratt concluded:

"Whether the UGC as now constituted and staffed can carry out these roles must be seriously open to doubt. We recommend that Government should commission an investigation into the role, structure and staffing of the UGC. We do not think that the UGC can reasonably be asked to do this for itself" (CVCP 1985, page 33).

The Croham Committee

The Jarratt recommendation was the catalyst for the review of the UGC undertaken by a Committee appointed by the Government and chaired by Lord Croham. The Croham Committee was established in July 1985 with the following terms of reference:

'To review, within the context of expected developments in higher education, the University Grants Committee’s constitutional position and role in relation to the Government and to the Universities, its membership, its internal structures and working methods, and its secretariat'. (Croham 1987, page 5).

The Croham Committee Report was published in February 1987 (Croham 1987) and supported the case for an intermediary body such as the UGC on the grounds that the Government required independent policy advice from a professional ‘expert’ organisation. The Croham Committee recommended that the UGC should be reconstituted as a University Grants Council and that it
should have a substantial proportion of non-academic members on its governing Council to represent the wider national interest. The new UGC should have a non-executive Chairman, someone with substantial experience outside of the academic world.

The UGC main Committee in 1989 had 15 out of 19 members with a higher education or education related background, and three representatives from the world of business and industry (UGC 1990). The main Committee membership included, as the UGC Chairman, Sir Peter Swinnerton-Dyer, a former Vice Chancellor of the University of Cambridge. UGC Main Committee members were appointed by the Secretary of State for Education. The Main committee of the UGC had traditionally been dominated in terms of numbers by persons with experience of higher education.

Croham (1987) was concerned about the inability of the UGC to take action in respect of the financial performance of an institution. Croham clearly had in mind the unfolding financial crisis at University College Cardiff (UCC) in early 1986 which led ultimately to a merger of UCC and the University of Wales Institute of Science and Technology (UWIST). On the financial crisis at UCC, the UGC was subsequently criticised by the Public Accounts Committee for ‘not taking earlier and more positive action and for taking too passive a role until it was too late’ (Shattock 1994, page 127). Croham’s message was that the UGC would not know whether or not an institution was in financial difficulties and in danger of collapse. Even if the UGC had the necessary financial and management information from the institution, it was not necessarily the case that the UGC had the right blend of professional staff to interpret the information correctly.

The Croham Report (1987) included the recommendations that: the Department of Education and Science should appoint a non-voting assessor to the main Board of the newly constituted UGC; the Council should be free to appoint its own staff; and financial relations between the Government and the UGC and between the UGC and the universities should be governed by a financial memorandum.
In the White Paper ‘Higher Education: Meeting the Challenge’, published in April 1987 (HMSO 1987), the Government accepted the broad thrust of the recommendations from the Croham Committee (1987). The Government announced in the White Paper its intention to introduce legislation to establish a new funding body for higher education to be named the Universities Funding Council (UFC).

The tone of the White Paper (HMSO 1987) was that although Britain had a higher education system among the best in the world it could not afford to rest on past achievement. There had to be a much closer link between the economic requirements of the country and the products of the university system. Just as the planning arrangements and funding control for the universities would reside with the new UFC, the polytechnics and colleges would transfer from local authority control to the central funding of the PCFC. Both the UFC and PCFC would be established by legislation and their governing Councils appointed by the Secretary of State for Education. The key features of the White Paper were enshrined in the Education Reform Act 1988. The UFC was established on 1 November 1988 and assumed full responsibilities, in succession to the UGC, on 1 April 1989. Lord Chilver was appointed as the first Chairman of the UFC. Lord Dearing was appointed as the first Chairman of the PCFC.

The UGC was created on 14 July 1919 and met for the first time on 16 July 1919. It had its 541st and last meeting on 30 March 1989. For administrative reasons the UGC was formally wound up on 14 July 1989.

Conclusion

The UGC was the first intermediary funding body for higher education created by the Government as a mechanism for allocating public funds to the higher education sector. It lasted 70 years and gained an international reputation for its management of the university system. It was commonly
perceived as a ‘buffer’ organisation between the Government and the Universities. The UGC did not believe this to be an uncomfortable position. On the contrary, it took pride from the fact that it was owned by neither side of the higher education equation. The UGC was fundamentally a non-political organisation and indeed was established to keep the politics out of the funding allocations to the higher education institutions.

The UGC saw itself as working in partnership with the higher education institutions. While not a pressure group for the sector, the UGC had a responsibility to represent the needs of the higher education sector to the Government. If the Government wanted to expand the number of students in higher education in the university sector then the UGC was ready and able to give the Government the price of that commitment. The UGC was strongly committed to maintaining quality and standards by maintaining the unit of funding per student (unit of resource). This was an arrangement that worked well for the UGC, Government and universities until the ravages of inflation hit Britain in the mid-1970s.

The Government cuts in funding for higher education in 1981 forced the UGC to move from its position as the honest broker to an all-powerful arbitrator of funds to the university sector. Notwithstanding the criticism it received for its role in making choices between institutions, the UGC did manage to hold the higher education sector together at a time of considerable financial crisis throughout the 1980s (Kogan and Kogan 1983).

The last Chairman of the UGC, Sir Peter Swinnerton-Dyer, argued that the UGC was abolished because it was out of keeping with the spirit of the age. And Sir Peter is as good a witness as any other of this period of considerable change in higher education. He was in the 1980s perhaps the biggest player in the higher education system. He tried with some success to move the UGC more overtly in the direction of a strategic body, with the advice to the Government in 1984 on the strategic development of higher education into the 1990s (UGC 1984b).
The UGC was prepared to make and defend hard choices in the allocation of funds to individual institutions but it also believed it had a responsibility to make public its views on the damage the cuts were having on the higher education system (UGC 1984b). The jagged edge relationship between the Government and the UGC was not something the Government was going to find acceptable. The financial crisis at University College Cardiff was a contributory factor in the demise of the reputation of the UGC. It had not seen the crisis coming, and arguably did not have the right staff in place to anticipate the financial collapse in Cardiff, or indeed at any other higher education institution (Shattock 1994).

The UGC was part of the Government machinery and totally dependent on the Government for its funding. The UGC has always been staffed by civil servants on secondment from the Department of Education. Could these staffing arrangements have affected the behaviour of the UGC? Shattock (1994) has argued that for most of its life the UGC was a policy free zone and therefore there was no reason why civil servants on secondment to the UGC from their parent Department, the Department for Education, should have had any confusion of roles. The UGC was always part of the state apparatus.

Although the UGC was part of the state apparatus for the funding of the university sector, it considered itself to be independent of its political masters. The Government was determined to move into the age of mass higher education in the 1990s with the pro-active private and public support of an organisation that was managed in a way that supported and delivered Government policy while ensuring that no institution of higher education went bust, or indeed looked likely to go bust. The Government wanted active management of the university sector. And the UGC looked unlikely to deliver that objective.

If the UGC had taken a more pro-active approach to the management of the higher education system and been seen to be a more willing servant of the Government, would it have survived? It is a question that is impossible to answer categorically. It would have seemed odd for the
Government to centralise the funding for the polytechnics and college sector within the legislative framework for the PCFC and not provide a similar structure for the universities. Moving to a mass system of higher education while disagreeing openly in public with the UGC was not an option that the Government was ever going to find acceptable. The Government wanted a fresh approach to funding for higher education and it wanted a funding body that was more obviously an agent of the Government. The spirit of the age in the new public management of the 1980s in England demanded a funding body that took funding and orders from the Government.

The next chapter reviews the role of the UFC, the successor funding body to the UGC.
Chapter Four

The role of the Universities Funding Council (1989-1993)

Introduction

This chapter reviews the role of the UFC and examines how the funding body moved from being a provider of grants to being a purchaser of teaching and research on behalf of the Government. The abortive attempt by the UFC to introduce market forces into the funding and planning of higher education is reviewed in this chapter. The UFC was established on 1 November 1988 by the Education Reform Act 1988 and assumed its full responsibilities, in succession to the UGC, on 1 April 1989.

The period 1989-93 represents an interim phase for higher education in England: a phase in which the polytechnic side of the binary divide was brought under one funding body – the Polytechnics and Colleges Funding Council (PCFC) – and funding for the university sector was provided by the UFC. These two funding structures for higher education represent staging posts on the way to a unified system of funding for higher education in England with the creation of the HEFCE.

The Government wished to create a single funding body for the polytechnics and colleges of higher education, the PCFC, to take these institutions out of the control of local authorities and arguably it would have been illogical to create a PCFC without a corresponding statutory body for the university sector in the United Kingdom. Ministers argued during the passage of the Education Reform Act 1988 that a funding body established by statute would have more independence than a body established through a Treasury memorandum. Sir Peter Swinnerton-Dyer believed this to be a somewhat disingenuous explanation from the Secretary of State for Education, Kenneth Baker, given that the newly created UFC suffered considerably more
interference from Government than he had encountered in his time as Chairman of the UGC (Swinnerton-Dyer 1991).

While the UGC lasted for seventy years the UFC and PCFC both lasted for just five years and were dissolved on 31 March 1993 under the provisions of the Further and Higher Education Act 1992. The HEFCE was established under section 62 of the FHE Act 1992 and it assumed its full responsibilities for distributing grants for teaching and research to higher education institutions in England from 1 April 1993.

Through a review of the funding policies of the UFC for teaching set out in this chapter, it appears that the UFC wished to be seen as a new organisation that was conceptually different from its predecessor, the UGC. The key difference that will be reflected in this chapter is the way in which the funding body moved from a position of being a provider of public funding to a purchaser of teaching and research from universities and colleges. The funding body became a purchaser on behalf of the Government. And the role of purchaser was an important step in the transformation of the funding body from a provider of grant (UGC) to a regulator and manager of the higher education system (UFC and HEFCE).

In some respects the story of the relatively brief life of the UFC is one of the relationship between strong personalities. The new Chairman of the UFC was Lord Chilver who had spent most of his working life as an academic leading to his appointment as Vice-Chancellor of Cranfield University. When appointed as Chairman of the UFC in 1988, Lord Chilver had retired as a Vice-Chancellor and was employed primarily as Chairman of English China Clays PLC. The former Chairman of the UGC, Sir Peter Swinnerton-Dyer, became the first Chief Executive of the UFC. Sir Peter was still the senior officer within the UFC but he no longer chaired the UFC Council meetings, and his relationship with Government could be mediated through his new Chairman, Lord Chilver. The role of the assessor from the Department of Education and Science (DES) Mr John Vereker (now Sir John Vereker) was also influential in the development of the
UFC. The assessor's role was to represent the Secretary of State at UFC Council meetings. This meant that the assessor would offer advice and guidance at the UFC Council meetings but would also act as a conduit in the relationship between the UFC Executive and the DES. The subtlety of this relationship allowed the Government to operate at arms length for the purposes of university autonomy but in reality allowed the DES to guide and manage higher education policy. The point is well made by Swinnerton-Dyer when, after his retirement, from the UFC he stated:

'...the UFC has suffered far more nit-picking interference from DES civil servants in the last two years than the UGC did in the previous five' (Swinnerton-Dyer 1991).

In starting its life, the UFC was guided by, and operated within, both the overarching context of the Government White Paper 'Higher Education: Meeting the Challenge' (HMSO 1987b), and the letter of guidance of 31 October 1988 (DES 1988) from the Secretary of State for Education and Science, Kenneth Baker (now Lord Baker). Another key contextual document in the development and expansion of student numbers in higher education into the 1990s is the speech by Ken Baker on 5 January 1989 (Baker 1989) which signalled the Government's acceptance of a significant increase in participation in higher education from 15% to a target of 30% by the end of the 1990s.

The 1987 White Paper (HMSO 1987b) underlined the critical role of higher education in the economic and social development of the nation. The key objective of the White Paper was to develop a higher education system that could respond effectively to meeting the needs of the economy. To support this objective the Government proposed: increased and widened participation in higher education; more selectively funded research; greater links between higher education institutions and industry; and, an emphasis on measuring quality and efficiency in teaching and research.

The letter of guidance from the Secretary of State on 31 October 1988 to the UFC Chairman, Lord Chilver (DES 1988), is historic because the 'letter of guidance' has served as the primary mechanism since 1988 for ensuring that the Government has been able to link its overarching
framework for higher education policy with the funding bodies’ policies. The letter of guidance is essentially a letter of instruction from the Government to the funding body. The role of the funding body is to translate and mediate the letter of guidance in a form that delivers funding mechanisms and polices that are acceptable to the higher education institutions and would be considered fair and equitable if challenged by institutions under the judicial review procedure. In the words of the Secretary of State, the purpose of the letter to Lord Chilver was:

‘...to provide broad guidance on the functions of the Council; on Government policies which are relevant to the exercise of these functions; and on particular matters to which I shall expect the Council to have regard ... I will write further to the Council, from time to time as necessary, about the Government’s higher education policies and about the public funding it intends to make available for the universities’ (DES 1988).

The letter of guidance provided an opportunity for the Government to establish a new relationship with the funding body and in turn this would enable the funding body to establish a new relationship with the higher education sector. The key to this relationship lay critically within the section of the letter of guidance that dealt specifically with ‘funding arrangements’. The new arrangements required the UFC to:

‘...develop funding arrangements which recognise the general principle that the public funds allocated to universities are in exchange for the provision of teaching and research and are conditional on their delivery. Whether this principle of exchange is embodied in agreements or through conditions attached to grant, and to what level of detail, will be for the Council to consider’ (DES 1988, paragraph 24).

This section of the letter of guidance provided the bedrock for the future relationship between the Government, funding body and the higher education institutions. Funding would be provided for specific activities and deliverables. The funding for research and teaching would be identified separately by the funding body in the grant letter to universities. Funding was no longer unconditional but conditional on delivery. The principle of ‘something for something’ was created. Thus, the Government moved from being a provider of funding to higher education institutions to more transparently being an investor in higher education. The funding body thus begins its
metamorphosis from a provider of grant to a regulator of the Government’s investment in the higher education system.

The concept of investment in higher education by the Government and the funding body brings into play an entirely different relationship between the state and higher education. Investment does not necessarily imply an arrangement through which funding is guaranteed. Rather, funding becomes increasingly selective relative to the needs of the investor and the ability of the higher education system to deliver.

The Government used the creation of the statutory UFC as a break point in the state and higher education relationship in order to establish new rules of engagement between the funding body and higher education institutions. Although the UFC would be given a free hand in the allocation of funds to specific institutions, the funding allocations would be made within the Government’s overarching policies for public funding generally and higher education specifically.

Under the provisions of the Education Reform Act 1988, the Council of the UFC would consist of no more than 15 members, including the Chairman, and members would be appointed by the Secretary of State for Education. In making these appointments the Government was required to ensure that between six and nine of the members should have experience of, or be engaged in the provision of, higher education (ERA 1988, section 131). The membership of the UFC Council reflected some change from the overwhelming dominance of the academic sector on the Main Committee of the UGC. On the UFC Council in the period 1990-91 there were eight out of fourteen members with senior academic backgrounds in higher education and there were five members with private sector experience and responsibilities. Lord Chilver, as Chairman of the UFC, had been previously the Vice-Chancellor of Cranfield University and a senior academic. Therefore, although the UFC Council was smaller in number than the UGC, it still included a majority of members (9 out of 14) with experience of higher education (UFC 1991a).
The UFC had been established by the Government with a duality of purpose: it needed to take a much more pro-active approach to the management and funding of higher education to ensure the financial sustainability of the university sector; additionally, it was clear from the initial letter of guidance from the Secretary of State for Education that the UFC needed to ensure that public funds were provided in exchange for teaching and research. The developing ethos of the UFC was to manage the higher education sector in the context of the strategic framework provided by the Government (DES 1988).

The circular letter has traditionally been the mechanism by which the funding body (UGC, UFC and HEFCE) communicates its policies to the higher education sector. The UFC issued its first circular letter on 18 January 1989 (UFC 1989a). This circular dealt with the development of a financial memorandum between the UFC and the higher education institutions. The UFC was subject to a financial memorandum from the DES and in turn, and as required by the DES, the UFC would impose a similar requirement on the sector. Through the financial memorandum, the UFC auditors exercised a right to receive and analyse a university's financial control procedures. Therefore, the UFC used this mechanism or regulatory tool to follow the UFC grant and to take a view on the overall viability of the institution as a recipient of the continued investment of public funding.

By April 1989 the UFC Council had decided to relocate its headquarters from London to Bristol and to share the same premises in Bristol with the PCFC. The fact that at this early stage it had been decided to co-locate the UFC and PCFC served to pave the way for a unified funding body for higher education just a few years later.

The UFC approach to funding and planning in the period 1991-92 to 1994-95

The rest of this chapter has a focus on one aspect of the development of a critical area of policy within the UFC, the Council's approach to funding and planning. This is a key area of the UFC's
work and provides an insight into the way the UFC sought to develop its own policies within the context of the demands of Government and needs of the universities. There is nothing more critical than the funding role of the UFC and this case history illuminates the UFC attempt to include an element of competition into the funding allocations to institutions over the four year planning period from 1991-92 to 1994-95. It was the first attempt by a funding body to use public funding to engage the higher education sector with market forces. In the words of Sir Peter Swinnerton-Dyer:

'...In respect of teaching, the first attempt to bring in market forces was the 1991-95 planning exercise; that was Lord Chilver's brainchild (though probably with Ministerial guidance) and the rest of the Council had very little say. As you all know, the failure of that was acknowledged last November and it took desperate improvisation on the part of the office to announce the 1991-92 grant at the usual time. Lord Chilver blames the failure on lack of co-operation from the universities in not tendering at cutthroat prices; but I do not myself see how the Exercise could ever have been made to work' (Swinnerton-Dyer 1991, pages 226-227).

This is a damming statement from the person who was Chief Executive of the UFC at the time of the planning exercise. How did it come to this state of affairs? A new funding body established to manage a new era for higher education finding itself in difficulties when required to undertake its most basic function – the allocation of the annual grant to universities.

Through a circular letter dated 1 June 1989 (UFC 1989b) the UFC informed the sector that for the four year planning period 1991-92 to 1994-95, the Council intended to include an element of competition. The nature of the competitive element had yet to be worked through by the UFC but this was early notice of a prospective change in the way the Council allocated funding for teaching.

The next letter on funding and planning was issued by the UFC on 25 July 1989 (UFC 1989c) and confirmed that funding for the planning period would be determined on a competitive basis, with student number allocations influenced by institutional performance, and success in achieving stated objectives. Funding for teaching would be based on competitive bidding for student numbers against a set of offer prices set by the UFC. It was intended that student numbers would
flow to those universities which submitted lower price bids. However, price would not be the only factor in the allocation process as the Council would also need to take into account whether a tender by an institution considerably below the offer price had implications for the quality of service that a university could subsequently deliver. Although the UFC wanted universities to bid against each other to create a market situation for teaching allocations, the UFC needed to ensure that cheapness did not lead to a loss of quality.

Universities would also be able to admit students beyond the numbers funded through the UFC grant. Therefore, universities could admit students on a fees-only basis, the fee being that paid by the local authority direct to the university. Fees-only students did not attract the UFC funding contribution and would therefore be taken by a university at a lower rate of funding. This had consequences for the overall unit of resource per student. The funding of research would continue to be allocated on the basis of quality as evinced through the RAE. The UFC letter (UFC 1989c) acknowledged that a great deal more work needed to be done by the UFC Executive to ensure the effective implementation of the guiding principles for the competition for student numbers.

What was the UFC trying to achieve? It was seeking to move away from a model in which the funding body maintained the unit of resource per student. To support the expansion of higher education, which was a Government objective, universities were being encouraged to increase the number of student places at a reduced unit of resource. And the method of allocating the additional student places would be on the basis of a bidding competition. So if an institution bid below the offer price and was able to persuade the UFC that this would not lead to a decrease in quality then that institution could be allocated a greater share of the available student places. This method of allocating student places had never been attempted before in the university sector. And the Chief Executive of the UFC did not believe the idea had been thought through adequately or indeed that the UFC Council fully realised the consequences of their policies on this issue (Swinnerton-Dyer 1991). It was this tension that played out in front of the UFC Council.
It can be assumed from what he has said subsequently in public that this policy was not supported by the UFC Chief Executive (Swinnerton-Dyer 1991). It is inconceivable that Lord Chilver would have gone down this policy road without the support of Ministers and thereby the support of the DES assessor on the UFC, John Vereker.

Circular letter 39/89 issued on 12 December 1989 (UFC 1989d) explained how the UFC intended to distribute the recurrent grant for teaching and research over the four-year planning period 1991-92 to 1994-95. The bids from universities for student numbers in teaching were requested by 22 June 1990 along with an institution's planning statement and financial forecasts for the same period.

The Government's strategic approach to university funding, and the UFC's funding mechanisms to deliver this strategy, are described in circular letter 39/89. Through this letter (UFC 1989d), the UFC informed the sector of the guide price for each student in each academic subject area. Each guide price represented the maximum level of public funding taking account of the combination of UFC funds and the tuition fee element provided separately by the local authority. Not all subjects could be included in the bidding process as the student numbers for Medicine, Dentistry, and Veterinary Science, were determined centrally by the Government. The UFC would assess the bids in the context of an institutions' planning statement and financial forecasts. Issues of quality would also be taken into account as would advice from the UFC's academic subject advisers.

In reaching a judgement on the bidding process, the individual institution had to first work out what made economic common sense, and then come to a considered view on what other institutions were likely to do in their bid. Such was the complexity of the bidding process for the universities. The rules of the exercise explained that only in very exceptional circumstances would the UFC be prepared to consider bids above the guide price. The confusion that reigned within the sector as a result of circular letter 39/89 is best exemplified by the fact that between mid-December 1989 and 1 May 1990 the UFC had sent out eleven separate notes of clarification.
to the original bidding letter. The higher education institutions submitted their tender bids for
student numbers by the June 1990 deadline and then waited in anticipation of the UGC decision.

The next communication from the UFC to the universities on the funding and planning exercise
came on 23 October 1990 in the form of Circular Letter 29/90, and was signed by the Secretary to
the UFC, Mr F Scott. It is worth quoting this relatively short letter in full as it provides the UFC
response to the tender bids.

The letter from the UFC reads as follows:

'Dear Vice-Chancellor and Principal,

Funding and Planning Exercise

I am writing to let you know the position reached on the Funding and Planning Exercise.

The total number of student places offered by universities is consistent with DES projections and
the Council’s own planning assumptions. However, although universities bid for expansion, the
Council was disappointed by the scale of economy offered by universities' bids over the 4-year
period. The Council is unable to accept this position. The Council is committed to increasingly
effective and efficient use of resources and wishes to consider the options further.

The Council is mindful that universities would not welcome delay in the announcement of grant
for 1991-92 and has concluded that, as a first priority, it should take all practical steps, following
the public expenditure announcement in November, to secure the despatch of grant letters in
February. The Council has therefore decided to concentrate at this stage on 1991-92 and the
February letter will be confined to that year. Decisions about the Council’s approach to the
remainder of the planning period will be taken later' (UFC 1990).

This was a considerable setback for the UFC as the higher education institutions had decided not
to co-operate with the bidding process. In its first battle with the universities, the UFC had been
spectacularly unsuccessful.

Sir Peter Swinnerton-Dyer wrote to the universities on 25 February 1991 to inform them of their
grant for 1991-92 and to let them know that the Government had decided to impose an efficiency
gain of 1.5% on the unit of teaching resource for 1991-92 (UFC 1991b). What could not be
achieved through the competitive bidding process was to be achieved in part by a straight cut in funding imposed by Government and implemented by the UFC.

The UFC had still to deal with the long-term issue of the allocation of student numbers beyond 1991-92 and it established a working group of UFC Council members chaired by one of the UFC Council members, Professor John Barron, Master of St Peter's College, University of Oxford. In the light of this review, the UFC published on 28 March 1991 its plans for the three academic years 1992-93 to 1994-95 (UFC 1991c). The UFC decided to abandon the strategy of seeking competitive bidding for all student numbers and instead restricted the bidding competition to the margin of growth in numbers. Therefore, the competition was restricted to the annual added growth. This represented some 7,000 student places in 1992/93 against a baseline of 311,000 student places. The main determining factor in the future competition for additional student places would be the success of universities in attracting fees-only students. Hence, the UFC was able to meet in part the wishes of the Government to make a direct link between expansion and efficiency.

So the battle between the universities and the UFC ended with lessons learnt on both sides. The universities realised that if they stuck together they had the power to thwart the wishes of the UFC. But they took this action knowing surely that the competitive bidding strategy was not supported within the UFC Council by Sir Peter Swinnerton-Dyer (Swinnerton-Dyer 1991). The lesson the Government took from this episode was that if it wanted to increase student numbers at a reduced unit cost then it needed to impose 'efficiency gains' each year and instruct the UFC to implement the saving thereby reducing the unit of resource per student.

Conclusion

The work of the UFC really falls into three periods of activity. Initially, the business of the Council had a focus on trying to create a new organisation in the shadow of the UGC. It had a mixture of
former DES staff on secondment mixed with incoming new staff from outside Whitehall. In the
light of the UCC funding crisis (Shattock 1994) the senior management at the UFC had to create
the core of staff needed to analyse and audit the financial returns from the universities. But most
critically the UFC had to perform its central function of allocating grants to universities.

The story of the UFC can be viewed as an attempt by the Government and the funding body to
make a swift break away from the stability and rationality of the UGC. The UGC had striven
throughout its lifetime to bring order to the funding of higher education. The inflation of the 1970s
ripped through the UGC policy of rational and stable planning. Critically, the new approach to
funding for teaching, introduced by the UFC, was a bold attempt to make a clean and radical
break with the UGC's planning mode of operation. The higher education sector managed on this
occasion to thwart the wishes of the Government and the funding body. The short life of the UFC
is significant for a number of reasons: it established the culture of a new relationship between the
state and higher education in that the state was no longer exclusively a provider of funds but in
parallel an investor in higher education. Investors makes choices and within the complexity of the
public investment in higher education the Government wanted both a funding and regulatory body
to deliver national priorities, principally a mass higher education system, but not at elite system
prices.

The latter period of the UFC between June 1991 and 1993 had a focus on: the merger of the staff
of the UFC and PCFC to create a single funding body for higher education in England; the
creation of a common system of funding for teaching and research for the range of institutions
funded previously by the UFC and PCFC; and the combined sector RAE in 1992. Reading
through all the circular letters of the UFC for its period of office one is struck by how routinely it
carried out most of its business. The competitive bidding fiasco hangs like a shroud over the rest
of the UFC business. On 24 July 1991 the Secretary of State for Education and Science
appointed Sir (now Lord) Dearing as Chairman of both the UFC and PCFC. He succeeded Lord
Chilver as Chairman of the UFC on 1 November 1991.
The next chapter reviews the role of the HEFCE in the period between 1993 and 2003 as the
Government used the Further and Higher Education Act 1992 to bring together the two principal
funding strands of higher education (UFC and PCFC) into a single funding structure for higher
education with the creation of the HEFCE.
Chapter Five


Introduction

This chapter reviews the role of the HEFCE and reflects on the relationship between the Government and the funding council over the period 1992-2003. It also describes the way the HEFCE has operated increasingly as a regulatory body for higher education as a means of delivering Government objectives for higher education. The key issue that will be explored in this chapter is the significant change that has occurred in the relationship between the state and higher education in the past decade. The last chapter concluded with a victory for the higher education sector as it saw off the UFC’s attempt to introduce market forces into the funding for teaching. And yet a decade later the evidence set out in this chapter is that the regulatory powers of the HEFCE have created a compliancy culture within higher education. How this transformation has taken place is discussed and analysed in this chapter.

The relationship between the HEFCE and the Department for Education and Skills

The Government published in May 1991 a White Paper ‘Higher Education: A New Framework’ (HMSO 1991b) which proposed a single funding structure for universities, polytechnics, and colleges of higher education, and the creation of separate funding councils for higher education in England, Scotland and Wales. Both the UFC and PCFC were dissolved on 31 March 1993 by the 1992 Further and Higher Education Act. The HEFCE was established on 6 May 1992 and assumed its full responsibilities for distributing grants to universities and colleges in England on 1 April 1993.
In a plenary session at the HEFCE annual conference on 14 April 2003 at the University of Warwick, the question was posed by a Vice-Chancellor whether in its relationship with the DfES the HEFCE had like Icarus flown too close to the sun and was in danger of losing its independence and buffer role between the Government and the higher education institutions. In part the question was sparked by the flurry of activity on the strategic development of higher education in the early months of 2003 preceding the HEFCE conference, and the perception that the HEFCE/DfES relationship was a great deal closer than had previously been the case. As in other spheres of life perception is often everything. But in this case did it reflect reality?

The 2003 conference followed fast on the heels of a number of strategic developments: the White Paper ‘The Future of Higher Education’ published in January 2003 (DfES 2003b); the publication of the HEFCE draft Strategic Plan in March 2003 (HEFCE 2003a); and, the publication in the week prior to the conference of the DfES consultation document on the remit of the proposed new ‘Office for Fair Access’ (OFFA)(DfES 2003d).

The cumulative force of these three key documents had prompted the question in the minds of some at the HEFCE conference whether a new stage had been reached in the relationship between the Government and universities and colleges within which the traditional role of the funding council as a mediator of Government policies, and buffer organisation, was less obvious than had been the case in previous years.

The draft HEFCE strategic plan (HEFCE 2003a) followed the publication of the Government’s strategic vision for higher education and to a number of observers at the HEFCE conference the close symmetry between both documents indicated a measure of collusion between the DfES and the HEFCE. The publication of the HEFCE document had been delayed since Autumn 2002 to ensure that it chimed with the overarching framework for the future of higher education described in the White Paper (DfES 2003b and HEFCE 2002c). While it was accepted that the HEFCE had a statutory responsibility to provide advice to the Government on the needs of the
higher education sector, there was some concern at the HEFCE conference that the Council was increasingly part of the machinery of Government and this new role would inevitably reduce the ability of the HEFCE to operate at arms-length from Government policies. On the other hand, some argued that it made sense for the funding council to be seen to shape and influence Government policy as it was well placed to do on behalf of the higher education institutions.

The content of the White Paper (DfES 2003b) was at a level of specificity that had not been seen previously in statements by the Government. For example, the Government stated its intention to create 20 new Knowledge Exchanges to support links between higher education and business, and in the section on learning and teaching the Government referred to the creation of 70 Centres of Teaching Excellence and 50 National Teaching Fellowships.

What lay behind the question at the HEFCE conference was the perception that the higher education institutions had lost their champion in the state and higher education relationship. Other voices at the conference posed a different set of propositions. The Further and Higher Education Act 1992 guaranteed the constitutional independence of the HEFCE in its relationship with the Government. It was accepted that the HEFCE developed polices and funding mechanisms in the context of the national priorities articulated by the Government. The HEFCE had to operate within the overarching strategic and funding framework articulated by the Government but it was the funding council that ultimately had responsibility for managing the higher education system through its regulatory and funding mechanisms. And crucially, the funding council had a duty to consult the higher education sector as it developed and implemented its policies. Therefore, far from becoming the Government’s poodle, the HEFCE was in fact a guide dog for the Government, and the higher education sector. The point was also made at the conference by the HEFCE Executive that a great deal of advice to the DfES is provided by the HEFCE in confidence and therefore not visible to the higher education sector.
Within the longueurs of the HEFCE annual conference some delegates wondered whether or not the latest White Paper represented the 'apotheosis of the dilettante' (Balogh 1968) with the officials and their Ministers at the DfES gaining the commanding heights in the battle for the future shape and direction of higher education. It was the subtlety of the relationship between the Government and the HEFCE that delegates to the conference were searching for in seeking to understand the contemporary role of the HEFCE. Letters of guidance would provide a clue to the way the HEFCE and DfES operated at the public level but in reality the heart of the relationship lay behind the hidden curtain of policy making. Perhaps it would be best, some argued, for the HEFCE to be more open about the nature of its relationship with both its parent department the DfES in particular, and Whitehall in general. The wider Whitehall relationship is important given the role of a number of Government departments in the funding and delivery of higher education.

The relationship between the DfES and the HEFCE operates in many respects within a framework of legislation and negotiated influence that will vary on the nature of the topic under discussion. Although the Secretary of State for Education and Skills does have the statutory power to state the terms and conditions under which funds will be allocated to the HEFCE, in reality this statutory duty is discharged through a range of mechanisms that reach the HEFCE as 'letters of guidance' rather than as 'letters of direction'. The power of the annual 'letter of guidance' (grant letter) from the DfES to the HEFCE has never been tested in court but has traditionally operated as the key public document underpinning the relationship between the DfES and the HEFCE in respect of strategic development of, and related funding for, higher education.

The HEFCE/DfES relationship is also regulated by a financial memorandum which describes the arrangements under which the Department for Education and Skills will provide funding to the HEFCE. This document is paralleled by a financial memorandum between the HEFCE and each higher education institution setting out the terms and conditions for HEFCE grants. The DfES also has an assessor present at each HEFCE Board of Council meeting. This is a role undertaken by
a senior official (usually a Deputy Secretary) and the assessor has the right to participate in the
discussions of the HEFCE Council but has no formal vote.

The HEFCE Board of Council is a blend of voices from the higher education sector, public sector,
and business community. All members of Council are appointed by the Secretary of State for
Education and Skills, usually for a period of three years. The 1992 Further and Higher Education
Act provides for the appointment of up to 15 members to the HEFCE Council of which one shall
be the Chairman (FHE Act 1992, section 62). The Act requires the Secretary of State for
Education to appoint between 8 and 12 members of the HEFCE Board of Council with some
experience of higher education (FHE Act 1992 section 62). Within the composition of the HEFCE
Board of Council for 2001-02 nine of the fourteen members have a direct link with higher
education either as a senior academic or senior manager in higher education, or as a member of
the Governing Board of a higher education institution. The other five members have links with
other public service professions or the world of business and commerce. The HEFCE Board
membership for 2001-02 includes three women and eleven men (HEFCE 2002b). Candidates for
HEFCE Board membership are identified by the DfES, partly by public advertisement in the
national press.

There is only one example since 1992 of what could be described as a ‘letter of direction’ from
the DfES to the HEFCE. Such a letter was requested by the HEFCE and sent by the Secretary of
State for Education and Skills to the HEFCE Chairman, David Young, on 25 February 2003. The
purpose of the letter was to confirm the Government’s intention to provide additional funding from
2003-04 onwards to the very best 5* research rated departments. The letter indicated that the
Secretary of State ‘had in mind some £20 million to be distributed among the departments you
[HEFCE] will identify...’ (DfES 2003c and Appendix D). In his oral evidence to the House of
Commons Education and Skills Select Committee in March 2003, the HEFCE Chief Executive,
Sir Howard Newby, made the point that the original advice from his Board of Council on the
allocation of funding for research in 2003-04 had been varied by Ministers (Newby 2003).
The letter of guidance of 22 January 2003 had asked the HEFCE to ‘submit its proposals [on support for research] to Ministers before implementation’ (DfES 2003a, paragraph 15). The HEFCE interpretation of the letter of guidance was such that the Board of Council had decided not to allocate additional funding for the very best 5* departments in 2003-04 but to delay the process until 2004-05. The subsequent letter from the DfES confirmed the intent of Ministers to allocate funding to the strongest research departments from 2003-04. On this solitary occasion, the DfES indicated its intent through a letter of direction. Therefore, the HEFCE Board had proposed a different funding strategy, which it submitted to the DfES, and the DfES then indicated formally that it wished the HEFCE to adopt a different funding approach.

How much should we make of all this? An allocation of £20 million in any academic year to institutions does not in absolute or relative terms represent a great shift of resources. In fact £20 million is a relatively insignificant sum of money within a research budget of just over £1 billion and an overall HEFCE budget of nearly £5.5 billion. That the HEFCE should ask the DfES for a letter of direction on this occasion could indicate that it anticipated a backlash from the higher education sector on a research funding policy that was already highly selective at the top range of research excellence.

A former Minister for higher education, Robert Jackson MP, has described the DfES/HEFCE relationship as operating within an ‘informal constitution’ with ‘nods and winks’ as the code of operation (Jackson 2003). Pushing the imagery a little further the Secretary of State for Education and Skills, the Rt. Hon Charles Clarke MP, stated in his oral evidence to the House of Commons Education and Skills Select Committee in March 2003, that ‘there are different classes of nods and winks. I think HEFCE is an Athenaeum type nods and winks operation…with other bodies it is different’ (Clarke 2003).

It is interesting that the rhetoric of ministers past and present is to support the image that the funding body operates independent of Government. What are we to understand by Charles
Clarke's reference to 'an Athenaeum type of nod and wink' (Clarke 2003) arrangement between the Government and the HEFCE? The Athenaeum the Secretary of State had in mind is the exclusive club in London which is a gathering place for the 'good and the great' of the British establishment. In a sense Charles Clarke may have been reflecting the clubbish and cosy relationship between his Department and the HEFCE.

**Establishing the HEFCE (1992-1997)**

Constitutionally, the HEFCE is a non-departmental public body established by the Further and Higher Education Act 1992. The creation of the HEFCE continued the tradition of establishing an intermediary body between the Government and the higher education sector. Under the Further and Higher Education Act 1992, the Secretary of State for Education is debarred from making terms and conditions of grant which refer to specific institutions; particular courses of study or programmes of research, including the way they are taught, supervised or assessed; student admissions; or the selection and appointment of academic staff (FHE Act 1992 section 68). In the context of the legislative framework it is worth noting that in the DfES review of the HEFCE in March 1999 the Department concluded that:

‘The option of abolishing the HEFCE and arranging for its functions to be exercised by the Secretary of State through his officials within the Department for Education and Employment or an agency of that Department was ruled out on the grounds that the original case for a buffer body still stands, namely the need to avoid political involvement in decisions on allocations to autonomous institutions which might involve issues of academic autonomy’ (DfEE 1999a, paragraph 1.3c).

It is worth spending a moment on the White Paper which preceded the Further and Higher Education Act 1992 and hence the creation of the new funding framework for higher education in England. The White Paper, 'Higher Education – A New Framework' was published on 20 May 1991 (HMSO 1991b). This document abolished the binary line (the distinction between universities and polytechnics) and established a single funding framework for higher education in England. Similar unitary funding bodies were created for Scotland and Wales. When the White
Paper was received by the distinguished American commentator on higher education, Professor Martin Trow, he imagined he had only received an executive summary such was the paucity of argument and analysis in the 42 pages of the document (Trow 1992). The driving force and rationale behind the Government policy was given away in paragraph 17 of the document:

'The Government believes that the real key to achieving cost-effective expansion lies in greater competition for funds and students. That can best be achieved by breaking down the increasingly artificial and unhelpful barriers between the universities, and the polytechnics and colleges' (HMSO 1991b, page 12 paragraph 17; see also paragraph 105)

By 1991 one in five young people had some experience of higher education. The Government confirmed in the White Paper (HMSO 1991b) its intention to raise participation rates to one in three by the year 2000. The document stated that the Government would continue to set the strategic direction for the development of higher education while the funding council would continue to have autonomy and freedom to determine the allocations to individual institutions.

On the day of inauguration of the HEFCE, the Secretary of State for Education, The Rt. Hon John Patten MP wrote to the HEFCE Chairman, Sir Ron Dearing, to:

'provide broad guidance on the functions of the Council; on Government policies which are relevant to the exercise of those functions; and on particular matters to which I shall expect the Council to have regard' (DfE 1992a).

The letter from John Patten encouraged the HEFCE to develop a methodology to link funding to the Council's assessment of teaching quality. It is worth noting that the HEFCE has never in its 11 years of existence explicitly made a direct connection between the quality assessment of teaching and funding. The closest connection would be a commitment to withdraw funding from a university or college where quality had been demonstrated to be unsatisfactory. The general guidance from John Patten to the HEFCE in respect of the quality assessment of teaching is noteworthy. This was always going to be a contentious issue for the HEFCE. Teaching quality assessment had been within the purview of Her Majesty's Inspectorate (HMI) for the polytechnic sector while the university sector managed its own teaching quality predominantly through the
peer review process of internal and external examiners. Patten acknowledged that the HEFCE should determine its own methodology for the assessment of teaching but suggested that the Council could make use of the former HMI who were no longer gainfully employed within his Department following the abolition of the binary line.

The Chief Executive of the HEFCE, Sir Graeme Davies, had no desire to employ lock stock and barrel the former HMI and duly informed the Department. Subsequently he came under pressure to recruit the former HMIs but he resisted on the grounds that the university sector would be unlikely to accept the former HMIs as peer reviewers and he needed only a few former HMI to manage the peer review process. The Department was subsequently unwilling to direct the HEFCE to employ the former HMI (Kogan and Hanney 2000, page 172).

Overall, the tone and content of the inaugural letter from John Patten to the HEFCE (DfE 1992a) is relatively benign. It continued and confirmed existing arrangements in respect of the financial memorandum between the Department and the HEFCE and between the HEFCE and each higher education institution. The inaugural letter paved the way for the annual letter of guidance from the department to the HEFCE. The purpose of the letter of guidance was to set out the funding settlement for the next three years. Therefore, the first letter of guidance to the HEFCE Chief Executive, Professor Graeme Davies on 12 November 1992 (DfE 1992a and Appendix B) stated that the number of students in higher education had been growing faster than projected in the recent White Paper (HMSO 1991b) and therefore the Government had decided that there would be a period of funding consolidation for the three year period 1993-94 to 1995-96 (DfE 1992b). The Government expected the sector to make ‘efficiency gains’ while maintaining financial viability.

The first annual report of the HEFCE (HEFCE 1993) reflects the complexity of the merger between the UFC and PCFC to create a unified funding structure for the new integrated sector of higher education in England from 1 April 1993. To bring together both sectors was no mean
achievement and we should not lose sight of the role of the funding council in managing the higher education system both in times of complexity and stability. There was no blueprint offered by the Government to the HEFCE as it took responsibility for merging the UFC and PCFC sectors.

The HEFCE funding methodology for teaching continued the UFC and PCFC 'core-plus' arrangements through which institutions were guaranteed a very high percentage of their previous year’s funding as long as they maintained their student numbers. The plus element was subject to competitive bidding for additional student numbers. The attraction of this funding approach was that it provided a high measure of stability in the higher education system with institutions better able to manage their budgetary planning. Any perturbations in the system were managed in the short-term by the provision of safety net funding for some institutions.

The first HEFCE annual report (HEFCE 1993) was cautious about the prospective link between high quality teaching as evinced through the quality assessment process and funding for teaching, and indicated that it would be easier for the Council and the sector to accept withdrawing funds for unsatisfactory provision than to provide additional funding as a premium for teaching assessed through the TQA as excellent. Funding for research was based on the 1992 RAE judgements and continued the policy of selective funding by reference to quality judgements.

The second ‘letter of guidance’ received by the HEFCE on 30 November 1993 (DfE 1993) once again focused on student numbers. The steady increase towards the Government’s one in three participation target by the year 2000 was a major concern for the Treasury and the language changes in the correspondence between the Department for Education and the HEFCE. The grant letter included the statement:

‘...there is a limit to the burden of funding for higher education which the taxpayer can bear...It is absolutely essential that student numbers are now kept in line with the levels assumed in the
Government’s plans... The planned efficiency gain has increased from an annual 3% in last year’s plans to some 4% in 1994-95 and 1995-96 as a direct result of institutions’ decisions to recruit above the planned levels in last year’s settlement. No additional grant will be paid in respect of numbers in excess of the planned levels for the next three years’ (DfE 1993, paragraphs 4, 7 and 11).

The message in the grant letter (DfE 1993) is that times are hard and getting harder for higher education in the Whitehall battle for departmental budgets and higher education will need to take its share of the pain. We do not see in this letter or its predecessor a Government seeking to micro-manage a higher education system. The management and regulatory role is left exclusively to the HEFCE. In hard times, the role of the HEFCE is to keep the higher education show on the road with the Government setting the overarching funding levels and then it is up to the HEFCE to devise, in partnership with the sector, policies to allocate the funding.

It is interesting that in his statement in the HEFCE annual report for 1993-94 (HEFCE 1994), the Chief Executive, Professor Graeme Davies (now Sir Graeme Davies), took the view that the period of consolidation (a euphemism for no growth) led the Council inexorably into a planning role for higher education. He made this observation in the context of a planned cut of 10% in real terms for the period 1993-94 to 1995-96. The cut would have serious implications for the sector as whole, and for some institutions in particular, and what was in his mind was the need for the HEFCE to manage the financial perturbations that would flow from such a severe budgetary cut. But in reality what Graeme Davies meant by planning was the role of the HEFCE in taking tough decisions within formula funding. Some institutions would then need to have safety net funding to ensure financial viability and structural stability. It was the responsibility of the funding council to monitor institutions’ finances to ensure they remained viable in the context of an effective return on the annual public investment by the state through the grant provided by the HEFCE. In part this was to ensure the protection of the public investment but it was also a reflection of the trauma that would result from an institution falling over. The public fallout would inevitably backlash on the Government and the fear of a domino effect throughout the sector was always a possibility.
If the HEFCE was planning it was really a very benign form of planning. It did not technically have any planning powers under the Further and Higher Education Act 1992. For example, the HEFCE has no power to shift student numbers around the country to fill cold spots of higher education.

The thrust of the HEFCE funding methodology was based fundamentally on historical allocations plus a competitive bidding process whether for teaching (at the margin) or research. And the rewards went to the bids that best matched the published criteria. There was for example no planning on a regional basis, a position that still exists for the HEFCE in 2003.

Graeme Davies described the HEFCE as enlarging its role as a ‘steering body’ for higher education in the early 1990s (HEFCE 1994). It was able to steer through its regulatory powers, and in part through the promotion of good practice. HEFCE has never had the power to plan the activities of the higher education institutions because they are autonomous organisations only partly funded by the HEFCE. The figures for 1992-93 show that HEFCE grants accounted for 37% of the total recurrent income of universities and colleges in England ranging from 57% at Rose Bruford College to 14% at the London Business School (HEFCE 1994). The Council can use its policies and funding to regulate and influence the behaviour and activities of universities and colleges. The latest available data from the HEFCE for 2001-02 show that public funding ranges from 20%-90% of overall income for some higher education institutions in England. Data for public funding for 2000-01 which includes HEFCE grants, and funding from the Teacher Training Agency (TTA) and the Learning and Skills Council (LSC) shows that 39% of the total income of universities and colleges of higher education in England derives from public funding (HEFCE 2002a and HEFCE 2002b).

There is only one higher education institution in England that receives no funding at all from the HEFCE – the University of Buckingham. All of the other universities and colleges of higher education receive some measure of state funding through the HEFCE. Notwithstanding the conditions of grants from the HEFCE, which act as a form of regulation on the higher education
sector, there is no evidence that any higher education institution in England is intending to break away completely from state funding.

If the HEFCE is not strictly a planning body but fundamentally a funding body how do we reconcile this interpretation of its role with the introduction of the Maximum Aggregate Student Number (MASN) from 1994-95? The introduction of the MASN was a consequence of the Government's policy of consolidation and was introduced by the Government, and implemented by the HEFCE, as a mechanism for controlling public expenditure. The Government wished to cap the recruitment of students and the MASN was the mechanism through which this policy was achieved. Any institution recruiting more than 1% above their MASN would receive a financial penalty. This was a policy applied across the sector and never intended to target specific institutions. So it was not planning in the sense of targeting regions or institutions or subject areas. It was a mechanism to retain a hold on the number of students receiving publicly funded tuition fees. But the MASN operation reflects the growing regulatory role of the HEFCE. Once the demand and supply for higher education had reached an equilibrium the MASN regulator was no longer needed and therefore the HEFCE Board of Council decided on 23 January 2002, after consultation with the higher education sector, to end the MASN restriction on student numbers (HEFCE 2002d).

The letter of guidance (grant letter) to the HEFCE of 29 November 1994 covered higher education funding for the three-year period 1995-96 to 1997-98 (DfE 1994). The headlines from this letter are that the Government had decided to extend the period of consolidation by a further year to 1997-98 and the efficiency gain would continue to be imposed on the sector at a level of 3%. This represented a cumulative reduction in resources of 9% over the three-year funding period. It is worth noting that this grant letter, while acknowledging the iterative development of the HEFCE methodology for assessing the quality of teaching, no longer encouraged the Council to link quality judgements to funding. Perhaps an indication that in a hostile financial climate it would have been unwise to push this policy in the face of opposition from the sector. Clearly, the
HEFCE was in no rush to make the funding link, partly because not all parts of the sector had full confidence in the assessment methodology, and partly the unwillingness of the sector to accept such a link. But this is a good example of the HEFCE simply ignoring the earlier exhortations of Ministers and steering away from what could have led to a major row with the higher education sector.

What is interesting from reading the HEFCE annual reports over the first half of the 1990s (HEFCE 1994 and HEFCE 1995) is the way the Council accepts the Government policy of consolidation and efficiency savings. It recognises the difficulties faced by the sector but never criticises Government policy. The Council can be viewed as being very much in the role as the Government’s agent in the allocation of funds. It is hard to discern from these HEFCE annual reports any sense of angst at the developing financial crisis, rather an acceptance that the sector can simply keep on surviving in the face of year on year cuts.

The 1994-95 annual report (HEFCE 1995) was the last for Graeme Davies in his role as Chief Executive and his statement in the report was notable for his comments on the relationship between the Council and the institutions of higher education. He stated:

'Some may feel that universities and colleges as independent bodies should be left to run their own affairs without external involvement. The past year has shown that such an attitude can no longer be seriously entertained. Higher education institutions are indeed independent, but they also receive large amounts of public money and, rightly, are increasingly accountable for their actions' (HEFCE 1995, page 4).

What lay behind these comments in a rather strange valedictory message to the sector? Greame Davies had successfully merged the UFC and PCFC but presided over a period of cutbacks. The fundamental reason for his bullish statement was his irritation over the way the Council felt it had been treated over the introduction of the TQA exercise. The assessment of the quality of teaching was a requirement placed on the HEFCE under the Further and Higher Education Act 1992. To make swift progress HEFCE decided from the start to manage the assessment process within the
HEFCE and the Council established a Quality Assessment Division (QAD) for this purpose.

Graeme Davies could have taken the option of commissioning this work from an agency outside of the HEFCE but he went for an in-house operation. Some parts of the sector were consistently opposed to the TQA process (principally on grounds of cost, interference, and bureaucracy) and in a time of financial stringency it used the TQA process to focus its angst on the Council.

Graeme Davies was by temperament and disposition a conciliator. He found the teaching quality battles wearing and arguably at times he felt buffered more by the sector than the Government.

The bite in the grant letter of 28 November 1995 was the prospective cut in capital provision for the sector. Capital funding for the financial year 1996-97 was reduced by 31% from the 1995-96 allocation and a 52% cut was projected over the next three years. Institutions were now expected to finance capital projects through private sector schemes in line with the Government’s private finance initiative (DfEE 1995). The period of consolidation continued and in many respects this grant letter was a holding letter for higher education as the Department for Education and Employment had in 1995 already begun a review of higher education, a review which eventually went beyond the boundaries of the Department to result in the Government establishing the National Committee of Inquiry into Higher Education under the Chairmanship of Lord Dearing (NCIHE 1997).

The HEFCE annual report for 1995-96 reflected the parlous state of the finances of the higher education sector. The culmination of under-funding was highlighted by the Chairman, Brandon Gough. In his opening statement he wrote:

"While many were expecting a tight settlement for 1996-97, few could have forecast the large reduction in capital grant. The resulting cut in total funding added considerably to the financial pressure on institutions. The latest returns to the Council indicate that, unless urgent offsetting action is taken, the sector as a whole will move from a wafer-thin surplus into deficit in 1996-97" (HEFCE 1996, page1).

These were strong words for an HEFCE Chairman but Brandon Gough was an accountant of international reputation and he knew a looming crisis when he saw one. The institutional returns
were judge and jury and higher education had reached breaking point. The Dearing Inquiry was
the cross-party pressure valve set up to explore the options for the future funding of higher
education and to come up with a solution after the general election in 1997.

Sir Brian Fender had watched, as a Vice-Chancellor at the University of Keele, with some interest
the battle fought by his predecessor over teaching quality assessment and soon after joining the
HEFCE as Chief Executive he moved swiftly to support the establishment of a new single quality
assurance agency that combined audit and subject assessment. Therefore, the TQA would move
out of the HEFCE to an independent agency – The Quality Assurance Agency for Higher
Education (QAA) - which was established in 1997. This was a tactical move by the HEFCE as
there was never any sympathy for the TQA system in the higher education sector and its close
association with the work of the HEFCE had the potential to sour the relationship between the
funding council and one of its key stakeholders, the higher education institutions.

The grant letter of 26 November 1996 (DfEE 1996) was a holding letter pending the
recommendations from the Dearing Committee. In the short-term however, the Government, in
recognition of the financial crisis, provided an additional £100 million in 1997-98 and 1998-99 to
maintain financial health and quality across the sector. The efficiency gains continued at a rate of
0.5 % in 1997-98, 2.5% in 1998-99, and 4.5% in 1999-2000. In reality the only figure of concern
to the Council and institutions was the 0.5% cut for 1997-98 as the funding for future years would
be influenced by the Dearing recommendations. Strangely, the grant letter returned once again to
the issue of the Government expecting the Council to link funding for teaching to the teaching
quality assessments. No doubt the Government felt it was timely to remind the Council of this
option given the creation of the new single agency for quality assurance on 1 April 1997. History
would show that a change of management for quality assurance had little effect on the desire of
the HEFCE to link funding to teaching quality judgements beyond the threshold withdrawal of
funds for unsatisfactory provision.
The HEFCE annual report for 1996-97 was infused with the spirit of the Dearing Inquiry and indeed its title ‘Promoting the Learning Society’ (HEFCE 1997) chimed neatly with the Dearing Report. The mood of the report is very much in tune with Dearing in the emphasis on promoting the status of learning and teaching, working through the policy implications of widening participation, and meeting the demand in the community for lifelong learning.

The new Chairman of the HEFCE, Sir Michael Checkland, welcomed publicly the additional funding of £165 million announced by the Government for 1998-99 in the wake of the Dearing Report published in July 1997 (HEFCE 1997). The severity of the financial position was underlined by the annual report’s reference to institutions’ financial forecasts which showed that over half of them expected to be in deficit by the end of 1999-2000. And only a few institutions would have an operating surplus of higher than 3% in 1996-97. The 3% figure was the minimum level the HEFCE believed institutions would require to cope with the management of change effectively (HEFCE 1997).

Mindful of the UCC financial debacle in the 1980s when the UGC failed to see the crisis coming (Shattock 1994), the HEFCE and its predecessor funding councils, the UFC and PCFC, had strong finance and audit departments in place to monitor the financial health of institutions, with a role for the Council to mitigate the difficulty faced by the higher education sector through a range of measures including safety net or moderation funding, as well as external financial advice to support restructuring in some institutions.

What can be concluded about the overall shape of higher education, its funding, and the role and relationship of the Government and HEFCE in the period before the Dearing Report in 1997? In the five-year period 1992-1997, higher education limped along financially towards the impending crisis which was acknowledged by Dearing and used by the incoming Labour Government in 1997 as the benchmark from which things could only get better (NCIHE 1997). Professor Peter Scott has written about Conservative Governments stumbling through and creating higher
education policy in the 1980s in a fit of absent-mindedness (Scott 1995). The period of the early 1990s was by any absolute and relative measure a period of neglect. The period 1992-1997 was one of no growth through a consolidation of student numbers.

The role of the HEFCE in the five-year period 1992-97 should be seen in the context of the way it managed both the unification of the binary divide and ensured that through its good management and monitoring the system actually remained cohesive and did not fall apart through chronic underfunding. And this is part of the role of the HEFCE that has gone unnoticed for the obvious reason that institutions that are in financial difficulty are unlikely to seek publicity not least because of the damage to their commercial and academic reputations, and the HEFCE must maintain the confidentiality of its relationship with individual institutions. It is the confidential work behind the scenes with institutions to ensure financial viability and sustainability that is an important part of the work of the HEFCE. In this period the Government had no success in trying to persuade the HEFCE to impose a link between the teaching quality assessment judgements and funding for teaching. There were repeated attempts in the annual grant letter to the HEFCE but the Council resisted the pressure from the Government.

HEFCE 1997-2003

The Labour Party won the election in June 1997 and the Dearing Report was published in July 1997 (NCIHE 1997). In terms of manifesto commitments, Labour had at its 1997 annual conference announced the target of an additional 500,000 student places in further and higher education by the year 2010.

The grant letter received from the DfEE on 26 November 1997 (DfEE 1997) covered only one year of funding for higher education - 1998-99. The Government decided to postpone any announcement of forward budgetary planning until the completion of the Comprehensive Spending Review (CSR) by summer 1998 which provided an opportunity for the new
administration to review public expenditure. The grant letter confirmed the Government's intention, subject to legislation, to introduce the £1,000 student contribution up front for the fee for full-time students. The letter confirmed the earlier commitment by the Government on 23 September 1997 (DfEE 1997) to provide an additional £165 million for higher education in 1998-99. This additional funding had the effect of reducing the real term reduction in funding per student to just under 1%. On the back of the Dearing recommendations, the Government adopted a short-term financial fix to avert a crisis in funding.

This first grant letter from the new Labour Government (DfEE 1997) started to pick up some of the themes from Dearing including asking the Council to encourage higher education institutions to develop learning and teaching strategies. The language of the letter from the Department for Education is important. The Council was merely 'asked to encourage' higher education institutions. The Secretary of State for Education also welcomed the intention of the HEFCE to work with the representative bodies (CVCP and SCOP) to establish the Institute for Learning and Teaching in Higher Education (ILTHE). On widening participation, the DfEE expressed concern about the levels of participation from the lower socio-economic groups and encouraged the HEFCE 'to give priority in additional student places to those institutions with a commitment to widening access' (DfEE 1997, paragraph 27). The grant letter also returned to the desire of the Government to see the Council finding ways of linking funding to the teaching quality judgements. In many respects this letter, from a Labour Government, was not different in tone from those received in the previous five years from the Conservative Governments. But that can be explained by the desire of the Government to review public expenditure through the CSR by summer 1998, and the imperative of introducing a relatively small addition of public funding (£165 million) to shore up higher education funding. Over the eight years prior to 1998-99 the unit of public funding for higher education had fallen by 35% in real terms (HEFCE 1998 page 22). And the Government had still to resolve where it intended the growth to take place to meet the target of the additional 500,000 students.
The HEFCE annual report for 1997-98 (HEFCE 1998) is particularly upbeat in tone in its support for Dearing and recognition of the additional funding from the Government. Enhancement funding for learning and teaching is provided by the HEFCE through: the Teaching and Learning Technology Programme (TLTP); Fund for the Development of Teaching and Learning (FDTL); the research programme with the Economic and Social Research Council (ESRC); funding for the QAA; and, support for the ILTHE to promote effective teaching and learning. Prompted by the Dearing Report (NCIHE 1997), we see the Council developing new policies to promote the status and quality of learning and teaching.

The grant letter received by the HEFCE on 8 December 1998 (DfEE 1998) announced the outcome of the CSR. The Secretary of State for Education, David Blunkett, believed he had delivered a favourable settlement for higher education in the CSR but he also expected a great deal in return for the additional investment. He expected the sector to deliver on widening access, and improve quality and standards. It was a definition of the ‘something for something’ approach to increased public funding that was being applied to higher education. The grant letter committed an additional £280 million in 1999-2000 and an extra £496 million in 2000-2001. The tap on student growth had been turned back on and the extra funding would provide an additional 36,000 students in 1999-2000 and 61,000 extra in 2000-2001 compared to planned numbers in 1998-99.

In many respects the grant letter (DfEE 1998) represents a stock check of Government priorities including references to the employability of students, quality and standards, increasing participation and widening access. New areas of interest slip in with a reference to the promotion of knowledge transfer and the need to develop the commercial exploitation of university research. The thrust of the grant letter was that ‘the outcome of the [CSR] means that for 1999-2000 and 2000-2001, the sector would retain all the income from student contributions to fees and receive extra public funding on top’ (DfEE 1998, paragraph 50). But there was a sting in the tail on the student contribution to fee income. The grant letter stated:

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The Secretary of State has made it clear that he does not expect institutions to charge 'top-up' fees. Under the Teaching and Higher Education Act 1998 the Secretary of State has the power to impose a condition on the Council’s grant for 1999-2000, requiring it in turn to place a condition on the funding it allocates for 1999-2000 to institutions providing higher education that they should not charge 'top-up' fees. The Secretary of State is considering whether to attach a condition of grant for 1999-2000' (DfEE 1998, paragraph 52).

The statutory authority of the Teaching and Higher Education Act 1998 supported the role of the HEFCE as a regulatory body and in turn restricted the autonomy of individual universities and colleges to set their own fee levels.

If one reviews the annual grant letters from the DfEE in comparison with the policies of the HEFCE as set out in the Council’s annual reports, there is a strong relationship between both documents. And this is not really surprising for a number of reasons. The only funding that the HEFCE has available to it is the Government funding. Therefore, the HEFCE has relatively little room for creating separate policy opportunities because the funding is not available. The HEFCE has always accepted that it had to work within an overarching policy framework established by Government. But what the HEFCE has uniquely is the special relationship that exists between the Council and the higher education sector. In developing its policies the HEFCE works in partnership with the sector. Every HEFCE policy has a peer-review input either through the advice of the HEFCE strategic committees and through sector wide consultation. And the sector’s representative bodies – UUK and SCOP – are also consulted as policies are developed by the funding council.

It is a complex set of relationships that that the HEFCE has to juggle. It has to work in partnership with the higher education sector, and a range of other stakeholders, while simultaneously satisfying its political masters. It has to develop policies to implement Government strategy while at the same time not being seen as the poodle of Government. It needs the confidence of the sector and the Government to be able to maintain its credibility.
There are areas where the HEFCE has effectively developed its own policies without any obvious impetus from Government. Such examples include the decision of the HEFCE to fund a permanent funding stream for 'reach-out to business and the community' which operates alongside funding for teaching and research. The 'reach-out' funding is designed to support knowledge transfer. Another example is the Council's 'Teaching Quality Enhancement Fund (TQEF) to enhance the quality of learning and teaching. And the RAE is a scheme created and managed by the four UK funding bodies and the higher education sector through peer review. The HEFCE also has the responsibility for linking RAE judgements to funding.

To help the sector to respond to change and to manage change, particularly in the era of lifelong learning, the Council established the e-university project. Although there had never been any mention of this initiative in the grant letters from the Department for Education it featured as a key driver for higher education, along with a new qualification, foundation degrees, in David Blunkett's speech on the future of higher education at the University of Greenwich in February 2000 (Blunkett 2000). The purpose of the e-university project was to enable the UK higher education sector to compete globally in the field of e-learning with any major virtual or corporate university.

The opportunity for the HEFCE to create and deliver its own policy agenda is defined by the overall pot of funding available to HEFCE. It is difficult for the HEFCE to top-slice the teaching or research budgets at times of financial stringency. And the sector does not want the HEFCE to top-slice from the teaching and research budgets. Vice-Chancellors would much prefer to receive the block grant to give them as much freedom as possible in the allocation of funds within their institutions.

The grant letter covering funding for 2000-2001 and 2001-2002 was received by the HEFCE on 23 November 1999 (DfEE 1999). A further £295 million was made available in 2001-2002 compared with 2000-01 which represented a cash increase of 5.4%. Expansion of student numbers would continue through an additional 52,000 places but the Government now expected
much of the growth to come through part-time and sub-degree courses with a strong vocational
focus with half of the sub-degree expansion to take place in further education colleges.

The personal statement from Sir Brian Fender in the 1999-2000 HEFCE annual report (HEFCE
2001) in many ways sums up his approach as Chief Executive. It was not good enough for the
HEFCE ‘to keep a steady hand on the tiller’, the Council and its staff needed to add value to the
rest of the higher education sector. Sir Brian Fender’s vision was that the HEFCE Executive
should be a knowledge-based organisation. It would add value by using its unique overall control
and knowledge base to manage the system, and to identify and disseminate good practice
(HEFCE 2001).

The grant letter received by HEFCE on 29 November 2000 (DfES 2000) announced, for the first
time in a decade, a real term increase in funding per student in 2001-02. The increase in funding
(£978 million between 2001-02 to 2003-04) was designed to deliver the vision for higher
education set out in the Greenwich speech by David Blunkett (Blunkett 2000) with a particular
focus on: research; widening participation; the e-university; foundation degrees; and, rewarding
and developing staff in higher education. This grant letter confirms the Government’s commitment
‘...that 50% of those between the ages of 18 and 30 should have the opportunity to benefit from
higher education by the end of the decade’ (DfES 2000, paragraph 17). The particular worry for
the Government in the grant letter was the spectre of non-completion. Widening participation was
a key element of Government policy for higher education but it would not bear fruit if it led to an
increase in the number of students failing to complete their courses. Blunkett wrote:

'I therefore expect to see the Council bear down on the rate of drop out...and bringing pressure to
bear on those institutions whose performance falls significantly below their benchmark'
(DfES 2000 paragraph 11).

The relationship between the annual grant letter from the Department for Education and the
Council’s subsequent actions are not necessarily a direct relationship of cause and effect. The
grant letter travels through many drafts within the iterative policy making process in the
Department and in that process the HEFCE is consulted and invariably sees and has an 
opportunity to comment on a final draft version.

Sir Brian Fender finished his period of office as Chief Executive of the HEFCE in 2001. In his 
latter years he had presided over a sustained period of growth after many years of under-funding. 
It is impossible to measure the significance of his stewardship to the growth in public funding for 
higher education over his period of office as there are simply too many factors intertwined to 
isolate one sphere of influence. Sir Brian Fender had the benefit of coinciding with the post-
Dearing funding settlement. It is arguable any Chief Executive would have seen the same upturn 
in funding. What was the alternative? A higher education system reaching a point of financial 
crisis. Sir Brian Fender reduced the temperature of the teaching quality battles to some extent by 
moving TQA out of the HEFCE Executive to an independent agency, the QAA. He developed a 
permanent third stream of funding which further linked the sector with the world of business 
through the medium of knowledge transfer. And he helped to create the e-university. He also took 
the Council beyond the shores of the UK by promoting higher education in a global context, 
making alliances with overseas Governments, sharing good practice, and starting the journey 
through which universities and colleges would start to measure their effectiveness against global 
standards of excellence. Sir Brian Fender left a strong legacy for his successor Sir Howard 
Newby.

The first grant letter dated 29 November 2001 (DfES 2001 and Appendix C) from the new 
Secretary of State, The Rt. Hon Estelle Morris MP, had as its opening sentence:

‘The Government has said that by the end of the decade, 50% of young people should have the 
opportunity to benefit from higher education by the time they reach 30 years of age. This is both a 
historic commitment and a challenging target’ (DfES 2001, paragraph 1).

In paragraph four of the same letter the Secretary of State for Education emphasised that she 
would ‘judge the Council’s performance by the extent to which the targets are met’ (DfES 2001, 
paragraph four). The grant letter was infused with requests from the Secretary of State for
Education for progress reports from the Council on a range of issues including: increasing and widening participation; fair access; non-completion rates; and, increasing the number of students from non-traditional backgrounds. The Council had never received a grant letter dealing with accountability at such a fine level of specificity. Here was a Secretary of State for Education intent on examining the detail of progress as well as the strategy. In a sense the Government was giving the impression that it no longer trusted the HEFCE or indeed the higher education sector to manage the execution of Government strategy without recourse to constant checking and measuring.

So what was driving this level of detailed control of the HEFCE? To some extent contemporary history can help us form an assessment. Estelle Morris resigned as Secretary of State for Education and Skills, in part as a consequence of a detailed operational decision made by an independent agency – the Qualifications and Curriculum Authority (QCA) - with responsibility for maintaining the quality and standard of the A-level qualification (Sunday Observer 2003). It is arguable that Estelle Morris felt she was under pressure to deliver from the Downing Street Delivery Unit led by Professor Michael Barber and her performance was inextricably linked to the performance of the HEFCE and other non-departmental Government bodies. The danger with an obsession with detail and micro-management is that if things start to go wrong you can very easily become a target of guilt by association. The advantage of the hitherto relatively general grant letters (letters of guidance) to the HEFCE was that Ministers could distance themselves from detailed operational issues while focusing on the bigger funding picture.

The 2003 White Paper and HEFCE Strategic Plan 2003-2008

With Sir Howard Newby as the new HEFCE Chief Executive from Autumn 2001, the Council had throughout 2002 been working on its draft strategic plan for 2003-08 (HEFCE 2003a). The key elements of the draft document had been unveiled and discussed at the HEFCE annual conference in Manchester in April 2002. However, the DfES was at the same time working on its
policy statement on student support which had over 2002 broadened into a strategic policy
document on the future of higher education. Indeed, the catalyst for the White Paper (DfES
2003b) had been the constant press for additional funding for higher education allied to an ever
increasing demand from some parts of the sector for top-up fees.

The HEFCE Board of Council had effectively signed off on its Strategic Plan 2003-2008 at its
meeting on 19 September 2002 (HEFCE 2002c) and the draft plan was ready to go out to the
higher education sector for consultation in October 2002. However, the Council decided to hold
fire on publication until the DfES had published its strategic document on the future of higher
education. The argument for delay centred on the need to ensure that the HEFCE document took
into account the broader strategic imperatives within the White Paper (DfES 2003b), and the
funding implications. From the Council’s perspective it made little sense to go out to consultation
without full knowledge of the Government’s position. It was a pragmatic as well as a political
decision to wait until the Government had published the White Paper. But of course the
Government had the advantage of knowing the mind of the HEFCE before it published so it had
every opportunity to meld its own proposals to the thinking of the HEFCE document. The key
themes covered in the draft HEFCE strategic plan (HEFCE 2003a) were:

- Widening and increasing participation
- Enhancing excellence in learning and teaching
- Enhancing excellence in research
- Enhancing the contribution of higher education to the economy and society.

When the White Paper was published in January 2003 (DfES 2003b) there was a remarkable
measure of symmetry between the Autumn 2002 draft HEFCE strategic plan (HEFCE 2002c) and
the chapter headings in the White Paper. All of the key themes from the HEFCE draft paper were
included in the White Paper. It is hardly surprising that there is symmetry between the two
documents. Indeed it would look odd if there had been clear blue water between the thinking of
the DfES and the HEFCE. And of course the Department was able to take advice from the HEFCE, and in particular its Chief Executive, Sir Howard Newby, as the drafting progressed throughout the autumn and final weeks, days and hours of January 2003. Policy consultation within the DfES is not isolated from the world outside of the Department. Apart from the Whitehall influences – notably the role of the Treasury – the White Paper touches on the work of a number of other Whitehall departments, as well as the activities of the research councils, regional development agencies, and many other agencies and organisations. Government departments consult widely in preparing policy documents not least to ensure that policy can be implemented that bit quicker if you have already consulted the key players.

The 2003 White Paper 'The Future of Higher Education' (DfES 2003b) could hardly be described as an executive summary at 105 pages. The White Paper deals head on with the key issue of top-up fees. Subject to legislation, the Government announced in the White Paper that from 2006 higher education institutions would be allowed to seek an annual fee contribution from each student of up to £3,000 per year for each course. However, institutions would be required to draw up an access agreement to improve access for students before they could charge the differential fee. The access agreement would be overseen by the appointment of an independent access regulator who would take advice from the HEFCE but would operate independent of the Council (DfES 2003b and DfES 2003d).

In many respects the White Paper (DfES 2003b) provides an enviable agenda of activity for the HEFCE as the majority of actions in this document flow in the direction of the Council. This may indicate that the DfES has a high measure of trust in the ability of the Council to deliver on a demanding and complex agenda for higher education over the rest of the decade. It would appear that the Government views the HEFCE as a safe, trusted, and professional pair of hands. Indeed, if one contrasts the 2001 and 2003 grant letters to the HEFCE we can see that the former has a distinct emphasis on HEFCE accountability compared to the latter (DfES 2001 and DfES 2003a).
The White Paper (DfES 2003b) is far more detailed than a strategic plan and reads more like an operating plan. The way forward on a whole range of issues is set at a very fine level of specificity. For example, in the section on delivering excellence in learning and teaching the document specifies that there will be 70 centres of teaching excellence created and there will be up to 50 teaching fellowships allocated annually. This is very fine grained and in many respects the sort of detail that has previously been within the purview of the HEFCE. Does it matter? Well it does in the sense that traditionally the Government has set the overarching framework, strategy, and funding for higher education and then left the policy development and implementation to the HEFCE. The sector was then clear that it had to work with the HEFCE and vice versa to turn ideas in workable propositions. This left a measure of discretion in policy formation and implementation to the HEFCE and the sector. If the DfES continues its strategy of setting the fine grained policy for higher education as well as the national areas of priority then this has implications for the future role of the HEFCE. Does the HEFCE want a role that has more of a focus on regulation than on policy creation and policy development? If policy gravitates increasingly towards the DfES then this will have implications for the way the HEFCE is viewed by the higher education sector: the HEFCE will be viewed less as a buffer and increasingly as a delivery unit and regulator for the Government’s policies.

The DfES married the annual grant letter for 2003-04 (DfES 2003a) with the publication of the White Paper on 22 January 2003 (DfES 2003b). In effect the grant letter was delayed by two months, not an insignificant matter given that the HEFCE had to publish the funding allocations to institutions for 2003-04 by March 2003 (HEFCE 2003b). As one would expect, the grant letter mirrors those aspects of the White Paper that would come into effect in the three-year funding period from 2003-4 to 2005-06. What is particularly interesting about the grant letter is the way the Government’s thinking has moved on in just one year. In the November 2001 grant letter (DfES 2001) the HEFCE was to be judged by the Secretary of State for Education and Skills on the success of the Council in meeting targets in relation to increasing participation in respect of the 50% target. The White Paper takes a different approach in describing the objective of the
Government 'to continue to increase participation towards 50% of those aged 18-30...' (DfES 2003b, page 7). So we are moving towards the 50% target which is a different proposition than the policy of the Government only twelve months previously and arguably indicative of the changing priorities of the new Secretary of State for Education and Skills, Charles Clarke. It would appear that the 50% target is no longer the primary policy objective for the new Secretary of State for Education and Skills, or indeed the Government.

The 2003 grant letter (DfES 2003a) is surprisingly silent on the 50% target and indicates that even within Whitehall a year in policy making is very long time. It would appear that the Government is less committed to the target of 50% and has moved on in its thinking to focus on the achievement of excellence across the full range of higher education activities in the context of global competition. Indeed, the impact of globalisation on higher education was a constant theme in the writings and speeches of Sir Howard Newby in his time as President of UUK, and Vice-Chancellor of the University of Southampton, in the period before he took office as Chief Executive of the HEFCE.

The 2003 grant letter (DfES 2003a) carried forward the funding settlement described in the White Paper (DfES 2003b). The impact on sector and institutional funding for 2003-04 is described in detail in the HEFCE recurrent grant publication published in March 2003 (HEFCE 2003b). The headlines are a 10.9% increase for research and 3.4% for teaching (including funding for rewarding and developing staff) and represents a favourable settlement for the sector as whole relative to previous settlements over the past decade.

The 2003 grant letter (DfES 2003a) provides a high level of specificity in terms of what the HEFCE is required to do, and the funding implications. The HEFCE is in some respects in new waters in its relationship with the DfES. In a sense the Department is continuing the pattern of taking a much closer interest in the delivery of higher education policies. Following the general
election in 2001, and the re-election of the Labour Party, the Government had a focus on the delivery of public services, particularly education, health and transport.

**The regulatory role of the HEFCE**

The literature review in chapter two indicated that the role of the funding body had moved from being exclusively a provider of funds for higher education to a role which has seen the Council move along a continuum from provider to regulator. If the Council has a key role in regulating the activities of our higher education institutions how does it undertake this role?

The definition of Government regulation as used by Neave and Van Vught (1994) has a focus on the ability of one organisation to influence the behaviour of another organisation. They state that ‘Government regulation can be described as the efforts of Government to steer the decisions and actions of specific societal actors according to the objectives the Government has set and by using instruments Government has at its disposal’ (Neave and Van Vught 1994, page 4).

The primary mechanisms for regulation of the higher education sector by the HEFCE are the financial memorandum between each institution and the HEFCE, and the conditions of grant imposed by the HEFCE. The financial memorandum brings together a range of financial and other regulations that effect the funding and operation of the activities of universities and colleges of higher education. For example, if an institution in receipt of funds from the HEFCE wishes to engage in either short or long-term borrowing then it has to seek permission from the HEFCE. The Council also requires institutions to have as part of their mission and objectives a strategy for widening participation. Institutions are also required as a condition of grant to make an annual subscription to support the Quality Assurance Agency for Higher Education (HEFCE 2003d).

The HEFCE also requires, through the annual monitoring statements provided by institutions, statements from each university or college on the following areas of activity:
The Council also regulates the higher education system through the setting of the fee levels for full-time undergraduate courses. In this context, Professor Steven Schwartz, the Vice-Chancellor of Brunel University, has argued that as the HEFCE effectively controls the supply of full-time undergraduate funded students in England as well as the price it will pay to higher education institutions, then there is no prospect of any meaningful market competition for teaching undergraduates in higher education (Schwartz 2003).

The impact of regulation comes through the financial power of the HEFCE. If an institution seeks to disregard the conditions of HEFCE grant then it stands to lose funding. Therefore, the HEFCE is able to regulate the higher education system through financial levers. And the financial levers are buttressed in some instances by legal authority. For example the power of the Teaching and Higher Education Act 1998 provides the authority for the HEFCE to place a condition of grant on institutions to prevent them charging top-up fees. Even if this situation changes as a result of the 2003 White Paper on Higher Education (2003b), the Government and HEFCE will still be regulating the amount of the top-up fee with an upper limit of £3000. In the context of the prospective expansion of top-up fees, regulation will also take place through the new access
regulator (OFFA) which will ensure that institutions have in place access agreements before they can charge top-up fees (DfES 2003d).

The financial levers of the HEFCE are arguably seen at their most extreme in the case of earmarked funding for special funding initiatives. The funds for special initiatives are earmarked within the grant allocations to higher education institutions and are provided in return for activities that will deliver specific policy objectives. In a review of the impact of regulation in higher education, the Government’s ‘Better Regulation Task Force (BRTF) made the point that the HEFCE was increasing the proportion of its overall funding through the more closely monitored and regulated special initiatives. The figures quoted for the three year period 1999-2002 state that the block grant had fallen from 89% to 83% over this period (BRTF 2002, page 18). The data published by the HEFCE for the academic year 2003-2004 show that special funding represents 18% of the total HEFCE budget (HEFCE 2003b).

In the light of the Government’s review of regulation, the Department for Education and Skills established in March 2003 a ‘Better Regulation Review Group’ (BRRG) with Professor David Vandelinde, Vice-Chancellor of the University of Warwick, as Chairman of the Group. The main purpose of the BRRG is to reduce unnecessary bureaucracy in higher education.

The ability of the HEFCE to audit the use of the funds provided by the Council for teaching, research and other activities also represents a powerful tool of regulation. It is the combined impact of the accountability of the universities and colleges of higher education for funding from the HEFCE that represents an overarching form of regulation on the higher education sector. Higher education is highly regulated. There is a tension in the rhetoric of the White Paper (DfES 2003b) which speaks of ‘freedoms and funding’ opportunities for higher education institutions while at the same time restricting the ability of institutions to charge any level of fee for the full-time undergraduate courses.
Conclusion

This chapter has described the role of the HEFCE in the period 1992 to 2003. The HEFCE is a non departmental public body enshrined in legislation and established by the Government. The Government does not have the power to allocate funds to any particular institution or subject area. However, the Government does have the power to set the overall funding levels and an overarching framework for policy development in higher education. This is achieved through White Papers, Ministerial statements, and principally through the letters of guidance or what is more commonly known as the annual grant letter to the HEFCE.

So where does this leave the HEFCE in the context of the relationship between the Government and higher education? The funding council has legal independence under the Further and Higher Education Act 1992 but receives all of its funding from its parent Government department, the DfES. The HEFCE strategic planning process operates quite openly in the context of the Government’s strategy for the funding of higher education.

The HEFCE has a statutory duty to advise the Government on the needs of the higher education sector. This advice is given in confidence to the Government within the comprehensive spending review. The HEFCE is uniquely placed within the higher education sector to give this advice as it alone knows the financial position of each institution and therefore the overall financial state of the sector. And it is the knowledge base of the HEFCE that in part provides its power base within the higher education system. The HEFCE is a funding and regulatory body which provides grant for teaching and research on the basis of policies developed in partnership with the sector. This dissertation has argued that the HEFCE is also a regulatory body because it regulates the public investment that the Government is willing to provide for higher education. The HEFCE regulates through its power to attach conditions of grant to funding, and through its power of accountability.
It is the key role in the implementation of Government policy that falls to the HEFCE. But should the HEFCE be viewed as purely the administrative arm or agent of the DfES? Although the most recent White Paper (DfES 2003b) is at a level of specificity unseen before in higher education policy-making, it stills leaves a huge amount of work for the Council and the sector in the development and implementation of policy. The policy creation process that unfolds through the iterations between the HEFCE and the sector unfold within the context of the expectations of the Government. But where the funding is ultimately allocated throughout the higher education system is purely the responsibility of the HEFCE. For example, the Government will provide the funding for additional student places or for research but it will be the HEFCE that has to devise the policy to allocate the additional funding.

The one role that the HEFCE clearly does not have is that of a planner of the higher education sector. The Council has no planning powers within existing legislation. For example, the HEFCE does not have the power to target certain areas of the country in an attempt to influence the supply of, and demand for, higher education.

And what of the role of the HEFCE as a mediator between the DfES and higher education institutions? What is it supposed to mediate? The DfES sets the overall funding levels for higher education. Increasingly, the DfES sets the levels of funding for activities within the overall funding for teaching and research. There is little evidence that the HEFCE seeks to openly oppose the wishes of Government. The one example of where the HEFCE consistently ignored the wishes of Government was on the linking of TQA judgements to funding allocations. Increasingly, the HEFCE can be perceived as the policy development and policy implementation body for the Government strategy in support of national areas of priority. The symmetry may of course reflect a common approach to meeting the challenges associated with globalisation, and the key role of the higher education sector in the knowledge economy and knowledge society.
In terms of power relationships, the Government has power over the HEFCE in two respects: firstly, the DfES sets the overall funding levels for higher education; secondly, the DfES sets the HEFCE running costs which affect its ability to grow as an organisation to set and deliver on its own agenda. That relationship of power is translated by the HEFCE over the higher education institutions. Universities and colleges of higher education may well be independent autonomous institutions but they are dependent significantly on public funding for their economic survival. There is a compact between the Government and higher education institutions through which the Government provides funding as an investment in return for teaching and research. And the regulator and manager in this relationship is the HEFCE. The HEFCE also acts as the honest broker in the funding and management of the higher education system. It can only remain in this role as long as it has the confidence of both sides of the equation, with the Government on one side and the higher education institutions on the other. When that trust is removed by either side the HEFCE could no longer operate in its broker role. The HEFCE needs to be viewed by all parties as effective, efficient and transparent in the delivery of its policies through its funding levers.

The HEFCE was created by Government but in the historical context of the roles previously played out by the UGC and UFC. Increasingly, it has had to operate within a strategic framework that is more defined than has hitherto been the case. The challenge for the Council lies in its ability to add value to the aims and objectives of the Government as set out in the 2003 White Paper (DfES 2003b). The devil is always in the detail and the HEFCE needs to ensure that its own policies for the implementation of the White Paper touch all parts of the higher education sector in a way that recognises the diversity of the sector but ensures that the funding allocations build a strong system within which the whole is far greater than a sum of the parts.

The next and final chapter of this thesis brings together the key issues raised through the case histories of the roles of the UGC, UFC and HEFCE in relation to the research questions in chapter one. A discussion of the role of the funding body in the changing relationship between the
state and higher education will be reflected in the context of the research questions, aim of the thesis, and the framework for research as set out in chapter one.
Chapter Six
Discussion and conclusion

Introduction

The purpose of the final chapter of this dissertation is to: draw together some of the key themes explored in the case histories of the UGC, UFC and HEFCE; relate the evidence to the research questions; review Berdahl's (1959) five tests for university autonomy; and, finally to suggest areas for further research.

There is a single aphorism that aptly describes the fundamental shift in the relationship between the state and higher education in England in the past quarter of a century: it was once the role of the state to provide for the purposes of universities; it is now the role of universities to provide for the purposes of the state. Why this has occurred and the mechanisms that support this conceptual inversion have been explored in this dissertation.

This dissertation has examined the relationship between the state and higher education in the context of the changing role of the funding body for higher education. Through an historical approach, the direction of movement from provider to regulator has been reviewed in the context of the developing role of the state from facilitator to interventionist.

In a global knowledge economy driven by the knowledge society, the contribution of universities and colleges of higher education has become critical to the development and survival of UK PLC. The language of higher education has changed in the past quarter of a century. Higher education has become less of a public good and more of a public investment. Governments and students have become investors in higher education and the funding body has become the guardian and regulator of the public interest and public investment in higher education. The management of £5.5 billion of public investment in 2003-04 has taken the primary role of the HEFCE as a provider of funds along a continuum to a point at which it regulates the activities of individual...
universities and colleges of higher education in the overall management of the higher education system. Funds are provided increasingly by the HEFCE on a 'something for something' basis. Greater regulation has created a compliancy culture within higher education as universities and colleges of higher education have become dependent to varying degrees on the funds from the state.

This dissertation has explored the concept of the changing role of the funding body from provider to regulator, an area indicated in, but not covered substantively by, the literature. There is no detailed analysis in the literature on the role of the UFC and the HEFCE and this dissertation seeks to go some way towards filling that deficit. As the dissertation has stated earlier, an objective of the research was to fill a gap in the academic literature by providing new insights to the changing role of the funding body.

The Changing role of the funding body

Shattock (1994) argues that until the mid 1970s in England there was clarity and transparency about the roles of the Government, funding body, and the universities. The roles were separate and distinct to ensure institutional autonomy and academic freedom. Government provided for an expanding higher education system. The universities made their case to the UGC which as the honest broker made the case to the Government for the necessary funds to meet the needs of the higher education sector. The unit of resource was sacrosanct in this arrangement. There was little point in increasing student numbers unless there was a corresponding increase in funding for teaching and research.

The UGC represented for most of its life an age in which the Main Committee of the UGC understood the relationship with the Government to be one in which there were three powerful forces in higher education: the Government; the UGC; and, the universities and colleges of higher education. The UGC did manage the university sector and did take hard decisions to rationalize
funding, particularly in the early 1980s. In many respects the UGC was a rational planner in its approach to the management of the university sector. Rationality for the UGC meant a stable planning environment through which growth could be achieved to support enhanced quality in higher education. The rational planning model of the UGC was not compatible with the ravages of inflation in the 1970s and the policies of the Conservative Government of the early 1980s. The UGC looked unlikely to provide the appropriate administrative vehicle for the great leap forward in student numbers for higher education from the 1980s onwards.

The UGC lived most of its life in an atmosphere within which the Government of the day was prepared to foot the bill for higher education but did not try to manage higher education. The UGC and the higher education sector accepted the right of Government to set national policy but it was then clearly within the ambit of the UGC to construct policies and funding mechanisms, in collaboration with the higher education sector, to deliver Government policy. The dominant ethos of the UGC until the 1970s was that of an organisation that sought to ‘encourage and guide’ universities and colleges to accept policies that would serve not only their own development but also the needs of Government. From a Government perspective, the UGC did not present an image of a funding body that could manage a higher education system as it moved swiftly to an age of mass higher education. The ethos of the UGC was to maintain elite traditions and parallel funding levels and this approach was always going to create a tension with a Conservative Government determined to reduce levels of public expenditure, and determined to reduce the unit of resource for higher education on both sides of the binary divide.

The failure of the UGC in 1986 to spot the financial debacle at University College Cardiff (UCC) should not be underplayed in any assessment of the downfall of the UGC. If it failed to anticipate a financial crisis at one university then there would be doubts in Whitehall whether the UGC had the staff and mechanisms in place to identify other potential problems. The Government wanted an active manager of the higher education sector and the UGC was unlikely to achieve this objective.
The decision of the Government to create a single funding body for the polytechnic side of the binary divide made it inevitable that a similar body would be created through legislation for the university sector. The UFC is the link between the UGC and the HEFCE. While the independence of the UFC was enshrined in legislation, it was more accountable to Government than its predecessor the UGC. It may have had legal independence but it was by no means independent.

The UFC was established by the Government as an organization that had legal independence through the Education Reform Act 1988 but was arguably less independent in respect of the overarching policies for higher education. The needs of the Government were prescribed in the annual letters of guidance from the Department for Education. The UFC’s funding exercise for teaching in the period 1991-92 to 1994-95 demonstrates the willingness of the UFC Council to move at a stroke from the stable planning mechanism of the UGC to a radical funding scheme designed to accelerate mass higher education through a decline in the unit of resource. The UFC was not established as a funding body that would cause difficulties for the Government. On the contrary, it was established by the Government to manage and control the higher education sector and to exercise control over the public investment in higher education. The abortive attempt of the UFC to introduce the market into the teaching aspect of the UFC grant was indicative of the desire of the Government to stir up the waters of higher education and demonstrate that the state was now firmly in charge of the strategic development of higher education.

The failure of the UFC to implement a bidding system for teaching from 1991-92 was a watershed for higher education. This represents arguably the last instance of the higher education sector standing collectively to successfully thwart the wishes of the funding body and the Government. However, the knowledge in the sector that the Chief Executive of the UFC, Sir Peter Swinnerton-Dyer, had little confidence in the UFC’s experimental teaching funding policy must surely have been a significant factor in the approach adopted by the university sector (Swinnerton-Dyer 116).
The backlash on the higher education sector was a series of cuts in public expenditure for higher education in the 1990s all imposed by the UFC and the HEFCE without any public criticism of the Government by the funding council.

With the end of the binary system in 1992 came the unified higher education sector in England under the funding control of the HEFCE. Although the Council's independence from Government is also enshrined in legislation in the Further and Higher Education Act 1992, the HEFCE is more accountable to the DfES than any of its predecessor bodies. Throughout the past decade (1993-2003) we have witnessed a ratcheting up of the influence of the DfES over the strategic development of higher education. The letters of guidance to the HEFCE have become increasingly prescriptive, and the recent White Paper (DfES 2003b) is at a level of specificity never seen before in higher education. Where once the Government was content to set the overarching agenda and leave the policy development and implementation to the HEFCE, there is now a new scenario in which the DfES seems intent on sharing responsibility with the HEFCE for policy implementation.

By the time the HEFCE was established in 1992, there was already in place a firm tradition through which the funding council understood that it was an agent of the Government and clearly operating within the overarching framework of Government funding and strategy for higher education. For the first five years of its life the HEFCE was occupied predominantly with holding together a higher education sector facing a financial crisis.

The letters of guidance from the Government have served as the letters of instruction for the HEFCE since 1993. It has traditionally been the role of the HEFCE to take the funding provided by Government, absorb the national priorities of the Government for higher education, and then in consultation with the higher education sector, create policies to underpin the allocation of funds to individual institutions. And this still serves as the primary role of the HEFCE. However, the evidence suggests that there has been an accumulation of regulatory powers by the HEFCE.
through which it has gained control over the affairs of the universities and colleges of higher education. Higher education institutions have become compliant to the demands of the funding council.

The HEFCE has always had a key role in creating and implementing policies for higher education. But the evidence suggests a change in the role of the Government in the formulation of higher education policy. The Department for Education and Skills has given notice through the White Paper on The Future of Higher Education (DfES 2003b) that it intends not only to set the funding levels and areas of national priority for higher education but it is now drilling down to specify the policies the HEFCE will adopt to deliver national priorities. This is a distinct change in the relationship between the Department and the HEFCE. Is this an aberration or a sign of things to come?

With the arrival of Estelle Morris as Secretary of State for Education and Skills, the letters of guidance to the HEFCE become infused with the imperative of progress reports on a range of the HEFCE's activities. It is a micro-management obsession with progress chasing. It is arguable that the drive within Whitehall to ensure the delivery of the key public services is behind the new approach from the DfES. Ministers wish to know exactly what is happening so that they can report on progress to the Downing Street delivery unit. It is the level of accountability that has changed dramatically in the past few years.

The fact that the key advice to Ministers from the HEFCE on the Comprehensive Spending Review is confidential prevents the Council divulging publicly the arguments it places before Government in support of a healthy, vibrant and financially sustainable sector. What is also not public is the advice provided by the HEFCE to Government in advance of the publication of the White Paper (DfES 2003b). It is surely not a co-incidence that in many respects the White Paper published in January 2003 mirrored the policies agreed by the HEFCE the previous Autumn 2002 (HEFCE 2002c) in the development of its draft strategic plan.
The traditional mediating role of the Council is played out in two parts: initially behind the scenes in the discussions with Government; and then in the period of consultation with the academic sector. Notwithstanding the granularity of the recent White Paper, account needs to be taken of the need to translate White Papers and Ministerial statements into effective, efficient and transparent policies that will stand the test of judicial review. This requires a tremendous amount of creativity by the HEFCE in partnership with the academic community.

How will the HEFCE respond to the new approach by the DfES? The HEFCE Executive has been in place for just over a decade. If it has ambitions, then those ambitions will focus on a measure of independence from Government but also on its ability to grow and prosper as an organization. It will not serve the ambitions of the HEFCE if it is seen as exclusively an agent of the Government and therefore it needs to demonstrate to the higher education sector that it can represent the needs of the sector to Government, and gain extra funding as a result. However, the White Paper has demonstrated an enviable agenda for the HEFCE, and operating as the willing agent of Government may serve the Council well in its ambitions to provide a secure environment for HEFCE careers.

As his evidence to the House of Commons Select Committee Inquiry into Higher Education demonstrates, the current Chief Executive of the HEFCE, Sir Howard Newby, does not feel constrained by the policies of the Government to the extent that he cannot speak out publicly about what his Council believes to be the best approach to ensuring a sustainable higher education sector (Newby 2003). In many respects, the HEFCE would be of little value to the Government or higher education sector if it failed to operate effectively as an independent organisation. And this is a real issue for the Government. If it continues to take a micro-management approach to the strategic development of higher education then it may lose the benefit of what it and the sector value the most – a funding council that is owned by neither side of the equation but is willing to speak truth unto power, and take decisions that may displease its
political masters from time to time but are transparent and subject to debate and mediation in the light of an open and mutually beneficial dialogue with the higher education sector.

The HEFCE is a willing regulator. It has absorbed the demands of the Government over the past decade and used the power of financial regulation to exercise control and influence over the higher education sector. If an institution is in financial difficulties it knows it can turn to the HEFCE for assistance. Notwithstanding the principle of the block grant, funds are provided increasingly by the HEFCE on a 'something for something' basis. Control through financial regulation is absolute and accountability is mandatory.

The sole responsibility that lies beyond the legal and funding authority of the HEFCE is the ability to effect systemic change in higher education by operating in planning mode. For example, the HEFCE does not have the legislative power to direct funding to specific regions of the country to alleviate cold spots in the provision of higher education. If the HEFCE has ambitions to increase its sphere of influence in higher education then it will need what it does not have at the moment – planning powers enshrined in legislation. One of England’s senior Vice-Chancellors has remarked in private that 'higher education in England is over-regulated but under-planned'. The implication is that there is far too much attention spent on a range of issues such as teaching quality assessment and far too little time on addressing the fundamental issue of planning a diverse and sustainable higher education system in a globally competitive environment.

What is crucially important is the ability of the HEFCE to take long-term decisions to ensure the sustainability of the higher education system in England. Governments do engage with strategies beyond the medium-term but politicians come and go while funding bodies, universities and colleges have a wider span of existence. The role of the HEFCE is to look beyond tomorrow to ensure that each part of the higher education jigsaw is well placed to deliver beyond the sum of the parts. This is a considerable duty placed on the HEFCE and a duty of care that it has undertaken remarkably well in the past decade. Given the severity of the financial crisis that has
swept over the higher education sector in the past quarter of a century it is a tribute to the sector and the funding council that the financial crisis at UCC in the mid-1980s (Shattock 1994) stands out as the single public example of a major financial crisis in a higher education institution.

Mediating role of the HEFCE in the period 1992-2003

Almost by definition the HEFCE has a mediating influence on higher education. It is legally independent and has exclusively the power to make the state funding allocations to individual higher education institutions. In that important sense it keeps the politics out of higher education. Notwithstanding the increasing tendency of Government to micro-manage higher education policies, the HEFCE still has a substantive role in advising the Government and the higher education sector. Sometimes regulators undertake their work in the shadows and there is evidence that the HEFCE played a significant role in the development of the thinking behind the higher education White Paper (DfES 2003b). The White Paper replicates the key areas set out by the HEFCE in its draft strategic plan which was ready for publication in October 2002 but delayed tactically by the HEFCE to ensure symmetry between the Government and the HEFCE strategic vision for higher education (HEFCE 2002c). The world of higher education cannot see the role the HEFCE plays in speaking truth unto power, or indeed its confidential advice to the Government on the Comprehensive Spending Review. The world cannot also see the confidential role of the HEFCE in supporting those institutions that need financial support, advice and guidance.

Traditionally, the mediating role of the HEFCE has been in the implementation of policy, no inconsiderable task given the myriad of polices that have had to be created to meet the increasing state pressure on the higher education sector in respect of the Government's national priorities. The mediating role of the HEFCE takes place in consultation with the higher education sector.
The changing relationship between the DfES and the HEFCE could be influential in the role of the contemporary and future role of the Council. This dissertation has indicated that the HEFCE was involved in the preparation of the DfES White Paper on Higher Education (DfES 2003b). A number of the key themes in the HEFCE Board paper on the strategic vision of the Council (HEFCE 2002c) turned up subsequently in the White Paper. If the DfES and the HEFCE are forming a much closer relationship then this will have implications for the Council’s perception of its own role as a buffer body between the Government and the higher education sector. Buffer bodies challenge the views of both sides of the buffer. But that would not appear to be happening in the HEFCE relationship with Government.

The Council is growing ever closer to the DfES in policy creation, policy development, and policy implementation. Within this new arrangement can the Council realistically argue that it has the independence to represent the needs of the higher education sector to the Government? Mediation can still take place between the DfES and the HEFCE, and between the HEFCE and the higher education sector, but the framework within which any mediation takes places has changed in recent years. The DfES and the HEFCE look increasingly like one united voice in the policy making machinery of the state, and micro-management and regulation of the higher education sector.

The danger for the HEFCE is that if the Government continues to define policy at the level of specificity in the White Paper (DfES 2003b) then the higher education sector will begin to doubt the independence of the HEFCE to create its own strategy and policies for higher education. Should this happen then the sector will look increasingly to Government and less to the HEFCE for strategic leadership. The HEFCE would then be perceived increasingly as the regulator of the public investment and less of an innovator or strategist.
Berdahl's tests for university autonomy

When Berdahl published in 1959 his analysis of the relationship between British universities and the state, he argued that against his five tests for university autonomy, the state had not sought to control or influence the universities. In a sense Berdahl's tests set a benchmark for the state and higher education relationship. If, as this dissertation has argued, the role of the state (Government and funding body) has changed considerably over the past decade in respect of the pressure exerted on the higher education sector for the purpose of delivering Government objectives, then arguably it should be possible to map Berdahl's tests against policies proposed by the Government and implemented by the HEFCE.

Berdahl's five tests are:

- 'The admission and examination of students
- The curricula for course of study
- The appointment and tenure of office of the academic staff
- The allocation of income among different categories of expenditure
- The final authority in determining the proper subjects of research' (Berdahl 1959, page 162).

It is not possible within the scope of this dissertation to provide a detailed analysis for each of Berdahl's (1959) five tests. However, it is possible to draw attention to the key areas where there is evidence that the state has sought to influence or control the activities of higher education institutions in England.

Under the Further and Higher Education Act 1992, the Secretary of State for Education is debarred from making terms and conditions which refer to: specific institutions; particular courses of study or programmes of research, including the way they are taught, supervised or assessed;
student admissions; or the selection and appointment of academic staff (FHE Act 1992, section 68).

On the admission and examination of students, each higher education institution is required by the HEFCE, as a condition of grant, to have a widening participation strategy in which the higher education institution sets out its strategy for increasing and widening participation, and its access arrangements. While the HEFCE does not seek to approve an institution’s targets in these areas the very act of asking for the information from institutions could influence the behaviour and policies of an institution (HEFCE 2001b). Additionally, the HEFCE publishes benchmark data for access indicators which cover the percentage of full-time undergraduate entrants to universities or colleges of higher education from the state or private sector. Given the Government’s key policy objectives in widening and increasing participation, and equitable access to all higher education institutions (DfES 2003b and DfES 2003d), the process of publishing benchmark data could influence the admissions policies of universities and colleges of higher education.

The Government’s plans for the appointment of an access regulator for higher education could also impact on the admissions policies of institutions. Within the Government’s proposals for new fee arrangements (DfES 2003b) institutions will not be able to set their own tuition fees (between £0 and £3,000) without an access agreement approved by the Government’s access regulator (DfES 2003d). However, the Government has stated publicly that an institution’s admission policies will be outside of the remit of the access regulator (DfES 2003d).

The performance indicator data published by the HEFCE also covers the non-completion rates at individual institutions (HEFCE 2002e). It is arguable that institutions may be reluctant to admit particular students if they are concerned that some groups of students, particularly those without prior qualifications, may be less likely to complete the course of study. There is insufficient evidence to judge whether there is any potential for state influence over the examination of
students arising from the Government's plans for a review of the honours classification system (DfES 2003a).

The curricula for courses of study could be influenced by the HEFCE performance indicators on employment outcomes (HEFCE 2002e). Institutions may feel under pressure to adjust the curricula, in the context of the skills agenda, to ensure that students have a better chance of gainful employment after graduation. The HEFCE and Government drive to increase and widen participation through the promotion of foundation degrees could also influence institutions if they are seeking to pursue growth in undergraduate student numbers. Both the HEFCE and DfES have made it clear that growth in student numbers from 2003-04 will focus on the development of foundation degrees (DfES 2003a). Foundation degrees are a new two year higher education qualification designed to '…give people the intermediate technical and professional skills that are in demand by employers, and to provide a more flexible and accessible way of studying' (HEFCE 2003g, page 7).

The 2003 grant letter from the DfES to the HEFCE is infused with proposals that could influence the curricula including: foundation degrees; higher education in further education colleges; innovative and flexible programmes of study; two year honours degree courses; the skills agenda; and, credit systems in higher education (DfES 2003a).

The appointment and tenure of office of the academic staff in part relates to academic freedom. Under the 1988 Education Reform Act, ‘…academic staff have freedom within the law to question and test received wisdom, and to put forward new ideas and controversial or unpopular opinions, without placing themselves in jeopardy of losing their jobs or privileges they may have at institutions’ (ERA 1988, section 202 (2a), page 194). This provision is carried forward within the Further and Higher Education Act 1992.
The DfES letter of guidance to the HEFCE in January 2003 invites the Council to consider relating extra funding to market supplements for rewarding staff performance (DfES 2003a). The White Paper proposals for new professional standards for teaching could also impact on the appointment of academic staff. Although the state is using funding levers to enhance the quality of teaching, and status of teachers in higher education, there is no evidence that the state has interfered with an institution’s internal procedures and policies for the employment of staff.

Although the HEFCE allocates funding by means of the block grant principle, the annual funding allocations from the HEFCE are increasingly identified as discrete areas of funding in respect of teaching and research (HEFCE 2003b). The allocation of income among different categories of expenditure will be influenced by the earmarked grants allocated by the HEFCE for a range of activities including: widening access and improving retention; teaching quality enhancement; higher education reach out to the business and the community; rewarding and developing staff; and, the restructuring and collaboration fund (HEFCE 2003b).

Berdahl’s (1959) final test is in relation to the determination of the proper subjects for research. It is arguable that the timing, process and procedures of the RAE could have had an impact on the conduct of research. The research record of staff has the potential to affect the employment prospects of individuals. However, given the support for academic freedom within the legislation (ERA 1988 and FHE Act 1992) there is arguably less state influence in this area of activity than in the other four of Berdahl’s tests reviewed above.

The above analysis has demonstrated that in each of Berdahl’s five tests there is both the potential and actuality of influence and control by the state over the autonomy of higher education institutions. Berdahl’s conclusion that the state had not sought to control or influence the universities has been effectively turned on its head by the policies of the Government and the HEFCE, and through the public information provided in the institutional performance indicators (HEFCE 2002e).
So we come full circle to a final reflection on why the Chief Executive of the HEFCE, Sir Howard Newby, argues publicly that the funding council is still effectively a buffer and mediating body between the Government and the higher education sector (Guardian 2003). The evidence in this dissertation would suggest that the role of the HEFCE could be better described as a funding and regulatory body for higher education that is part of the state apparatus for the funding, management and regulation of higher education. In a sense, Sir Howard Newby is seeking to defend the independence and professional integrity of the HEFCE. He is a key part of the relationship between the HEFCE and the Government, and a key part of the traffic of confidential advice from the HEFCE to the Government. This dissertation has acknowledged the independence of the HEFCE in the context of the confidential advice the HEFCE provides for the Government, and the key role of the HEFCE in the creation and implementation of policies that lead to the institutional funding allocations. This dissertation has also acknowledged the importance of perception. What does the sector perceive to be the relationship between the funding council and the Government? The MORI survey indicates that the sector views the HEFCE as a regulatory body that is an agent of the Government. The challenge for the HEFCE is twofold: it needs to find a way to make more transparent its independence from Government; and, it needs to make more transparent the added value it provides to higher education for the benefit of the higher education sector, and the Government.

Further research

It has not been possible within the scope of this dissertation to cover both sides of the binary divide and as the dissertation has acknowledged, the important role of the PCFC in the development and funding of higher education has not been covered. This is an area for further research through which one could examine the comparative approaches of the PCFC and the UFC to funding and planning in the period 1989-93. Did the two Councils adopt different funding policies for the universities and polytechnics, and if so why? The author would welcome the opportunity to develop his research interests in the state and higher education relationship by
broadening his research methodology to include the views of colleagues from the higher education sector to gain their perception of the changing role of the funding body, in particular the developing role of the HEFCE in its relationship with Government, in particular the Department for Education and Skills.

Reflections on the research process

The author has emphasized in the research methodology section in chapter one that the empirical authority for this dissertation is based exclusively on primary research documentation that is available to all other researchers. He has not sought to write a personal account of his time within the Department for Education, and the funding body (UGC, UFC and the HEFCE). However, the author acknowledges the relationship between his knowledge of higher education evinced through his career experiences and his ability to locate, analyse and interpret the documentation. The author believes that the research methodology used in this dissertation has enabled him to answer the research questions and make an original and substantive contribution to the research literature on the role of the funding body in the relationship between the state and higher education.

Throughout the research process, the author has been supported and encouraged by his employer – the HEFCE. Indeed, his line manager, the Chief Executive of the HEFCE has taken a direct interest in, and been strongly supportive of, the author’s desire to undertake and complete the research. There has never been any attempt by the HEFCE to interfere with any aspect of the research process. In fact there has been a genuine interest within the HEFCE, and more widely within the higher education community, that this research should be undertaken to inform the author’s professional practice, and to inform the literature on change in higher education.

The author has not attempted to write an ‘insider’ account in the style, for example, of Carswell (1985). The narrative and evidence is derived from the documentation and the interpretation is
the subjective judgement of the author. The author has not used information available to him from the confidential papers he has seen and private meetings he has attended. However, the author accepts that it could be argued that his extensive knowledge of the policies and personalities in higher education have helped him to undertake the research, particularly in his knowledge of and ease of access to key documentation. Therefore, it is the judgement of the author that he has written an 'inside' account of the changing role of the funding body: an account written by someone within the funding body but scrupulous in ensuring that his interpretation is based on the publicly available documentary evidence.
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Universities Funding Council (UFC)


**University Grants Committee (UGC)**


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Appendices A-D

Appendix A – Chronological history of the UGC/UFC/HEFCE.

Appendix B – Grant letter from R. J. Dawe (DfES) to Professor Graeme Davies, HEFCE Chief Executive on 12 November 1992 (DfES 1992b).

Appendix C - Letter of 29 November 2001 from Rt. Hon Estelle Morris MP to Mr David Young, Chairman of the HEFCE, (DfES 2001)

Appendix D – Letter of 25 February 2003 from Rt. Hon Charles Clarke MP to Mr David Young, Chairman of the HEFCE, (DfES 2003a)
Appendix A

Chronological history of the intermediary funding body between the Government and higher education institutions

1. The University Grant Committee was established on 14 July 1919.

2. The University Grant Committee (UGC) was dissolved on 21 June 1989.

3. The Universities Funding Council (UFC) was established on 1 November 1988 under section 131 of the Education Reform Act 1988. The Council assumed its full responsibilities, in succession to the University Grant Committee, on 1 April 1989. Accordingly, the terms of office of the last members of the UGC expired on 31 March 1989 but, to provide for the orderly winding up of the Committee's affairs, the secretariat of the UGC continued in existence until 14 July 1989.

4. The Polytechnics and Colleges Funding Council (PCFC) was established on 1 November 1988 under section 132 of the Education Reform Act 1988.

5. Both the UFC and the PCFC were dissolved on 31 March 1992 under the provisions of the Further and Higher Education Act 1992.

6. The Higher Education Funding Council for Education (HEFCE) was established on 6 May 1992 under Section 62 of the Further and Higher Education Act 1992. The HEFCE assumed its full responsibilities for distributing grants to higher education institutions on 1 April 1993.
Appendix B

Grant letter from R. J. Dawe (DfES) to Professor Graeme Davies, HEFCE Chief Executive, on 12 November 1992 (DfES 1992b)
Following the Secretary of State's announcement today, I am writing to give you further information on the planned funding for higher education. Detailed figures are set out in the Annex to this letter. All the figures will be subject to Parliamentary approval in the usual way.

STUDENT NUMBERS

2. The number of students in higher education has risen faster than projected in the Higher Education White Paper last year. Our latest estimate is that the participation rate reached around 28% for Great Britain in 1992-93. In order to allow for the rising numbers of entrants enrolled in recent years, the figures for student numbers underlying the spending plans announced today provide for an increase in full-time equivalent students in 1993-94 of 66,000 or 8.5%. Given that we are already overshooting projections made as recently as May 1991 and that the Government is planning a significant increase in the number of places in further education, the Government has based its future funding provision on the assumption that there will be a period of consolidation over the next three years. This will be followed by renewed growth in participation rates to reach our published projection of one third by the year 2000. Government funding for the Funding Council will be based on this assumption about student numbers for the next three years irrespective of actual enrolments.
RECURRENT FUNDING

3. The figures in the Annex are for total resources, including both publicly-funded tuition fees and grant. We will announce the fee rates for 1993-94, and the consequent distribution of resources between fee and grant, in due course. We will wish to discuss with the Council the implications of the assumed student numbers and the revised fee levels for its funding methodology.

4. The Secretary of State looks to institutions to make further efficiency gains while maintaining financial viability. In the light of the Government's policy on public sector pay, the funding assumes that pay settlements will provide for increases of no more than 1½% in 1993-94.

5. Against this background, and subject to what is said below, it is for the Council to determine what priority to give to specific needs in the light of the total provision available and to determine the balance of funding between institutions.

BASELINE ADJUSTMENTS

6. The recurrent and capital baselines reflect the fact that the Council is responsible for universities and colleges in England only, as well as the transfer of responsibility from the Department for funding the Open University, the Royal College of Art and Cranfield Institute of Technology. The recurrent baseline takes account of the HEFCE's share of the transfer to the Research Councils announced last year in respect of the new dual support boundary.

PAY

7. As set out in the Secretary of State's announcement, £50m of grant will be held back against the delivery for staff employed in the HEFCE sector of pay settlements between zero and 1½%, in line with the policy announced by the Chancellor of the Exchequer today. This holdback will apply to all pay settlements in the sector, not just those for academic staff. It will not bear on instalments of grant payable during the months April to July 1993. Instead we shall invite the Council to ascertain from institutions in July whether they have made pay settlements for their staffs in line with the policy, in consequence of national negotiations or otherwise.

8. If the Council is able to report that institutions have made such settlements for all their staff, instalments of grant payable from August 1993 to March 1994 will include the £50m. Otherwise those instalments will be reduced in respect of those institutions which have not settled within the pay restraint policy.

9. The plans take account of assumptions about the impact of the 1992 DDRB award on the future baseline for clinical academic pay.
LENGTH OF COURSES

10. The Higher Education White Paper last year set out the Government's view that there is no case for an increase in the average length of courses. Recent indications are that average course length is increasing - partly because numbers on degree courses have been expanding faster than numbers on diploma courses in the former PCFC sector, and partly because of the introduction of longer degree courses.

11. The Secretary of State's initial guidance asked the Council to provide incentives for two-year full-time vocational diploma courses. We look to the Council to develop these as a matter of priority. The Secretary of State is also concerned about the trend towards longer degree courses, because such a trend reduces the number of people who can enter higher education within the resources available. He therefore seeks advice from the Council on funding measures which would remove any incentive to lengthen degree courses at the expense of student numbers. It would be helpful to know, in particular, if any such measures could be implemented in time for funding allocations in 1993-94.

PART-TIME STUDY

12. The funding provision allows for further growth in part-time student numbers. As the Secretary of State indicated in his initial guidance, we look to the Council to develop ways of stimulating part-time study through its funding.

ENGINEERING AND TECHNOLOGY

13. Many of the vocational diploma courses will be in engineering and technology. We plan to increase the differential between the fee levels for classroom-based and workshop-based courses so as to increase the relative incentive to develop the latter. In addition, the Secretary of State wishes the Council to consider other ways to encourage continuing expansion of engineering and technology at all levels through its funding. I would welcome your early advice on this.

INITIAL TEACHER TRAINING

14. The settlement allows for transitional funding to assist institutions and schools with the adaptation of secondary phase teacher training courses to meet the criteria in DFE Circular 9/92.

TEACHING AND LEARNING TECHNIQUES

15. The Secretary of State believes that significant improvements in productivity and in the quality of student learning can be achieved through innovative approaches using modern technologies. He wishes the Council to build on existing initiatives in this area, to promote more cost-effective approaches to teaching throughout higher education.
QUALITY ASSURANCE

16. Provision of almost £2 million has been made for subscriptions to the Higher Education Quality Council. This is on the basis that all institutions will subscribe to the HEQC, and that the total subscription income of the HEQC, including that from institutions funded through the other HE Funding Councils and DENI, will amount to £2.5 million.

17. The Government has also decided to adopt the proposal, on which it consulted earlier this year, to transfer responsibility for funding validation costs for qualifying courses in publicly funded non degree awarding institutions from the Awards Vote to the institutions. £6.4 million has been included for this purpose. We would expect this sum to be allocated as a special factor in 1993-94 and then absorbed into core funding for the institutions concerned.

RESEARCH

18. As indicated in the Secretary of State’s initial guidance, we will wish to consider the Council’s proposals on the split between funding for teaching and research in 1993-94. We would not expect the proportion of funds allocated for research to be changed significantly in 1993-94.

RUNNING COSTS

19. The Annex to this letter identifies the sum of £10.1 million for Council running costs in 1993-94. This sum will be earmarked in the grant paid to the Council. It will be for the Council to fund quality assessment and other activities within this total.

CAPITAL FUNDING

20. Government financing for capital spending for higher education will be £319.0 million, £322.3 million and £329.4 million over the next three years. I should be grateful if you would let me have by the end of this month the Council’s views on the distribution of this sum between equipment, major building projects and minor works, together with details of long-term major capital projects.

21. The Secretary of State has announced today that the Government intends to change the rules relating to borrowing and asset disposals by universities and colleges. It intends - in line with the recommendations of the Pearce Report - to allow institutions to borrow on the security of Exchequer-funded assets, subject to rules set by the Council to maintain financial viability; and to relax the conditions under which the proceeds of disposal of such assets may be reapplied. We will be in touch with you separately about details of the new arrangements.
ACCESS FUNDS

22. We will write to you about the provision for Access Funds for the 1993-94 academic year in due course.

CONCLUSION

23. I am also enclosing a copy of the charts which we shall be using in our briefing today. We look forward to discussing the various issues raised in this letter with you.

Sincerely,

R J DAWE
Appendix C

Letter of 29 November 2001 from Rt. Hon Estelle Morris MP to Mr David Young, Chairman of the HEFCE (DfES 2001)
HIGHER EDUCATION FUNDING AND DELIVERY TO 2003-04

Introduction

1. The Government has said that by the end of the decade, 50% of young people should have the opportunity to benefit from higher education by the time they reach thirty years of age. This is both a historic commitment and a challenging target. But it is a necessary target if Britain's productivity gap is to be narrowed, and its shortage of high-level skills is to be overcome. The aim to widen participation is an integral part of the strategy to promote economic prosperity and sustain international competitiveness. The steps towards the target will be set out in a delivery plan, which will also be used to monitor progress. More than ever before, I am looking to the Council to work in partnership to help turn the plan into reality.

2. Doing more of the same will neither increase nor widen participation. Less than one in five young people from lower socio-economic groups currently enter higher education compared with almost half of people from the middle classes. Therefore a broader range of young and mature people must see higher education as the next natural step in their lifelong learning. We must raise aspirations and improve achievement amongst those who have not hitherto seen higher education as an option for them, particularly the lower socio-economic groups. This is not about lowering standards in higher education but about widening opportunities for a broader range of students.

3. All of this needs an effective partnership between this Department, the Council, the Learning and Skills Council, the Teacher Training Agency and educational institutions from secondary schools through to universities and colleges. I am looking to the Council to:

- collaborate closely with the Learning and Skills Council in taking forward the activities that will help both the Government and the Council achieve their objectives and targets for higher education;
- develop new and more effective ways of working with all of its main partners to increase participation in higher education which will lead to a better skilled and more highly educated work-force, and a healthier and stronger society;
- help support increased diversity among higher education institutions; and
• encourage the participation in higher education of a wider range of students compared to the present.

4. Over the next twelve months, I expect to agree with the Council targets over the spending review period and beyond that will underpin the achievement of the Government's goal for increased and widened participation. The targets will focus on outcomes, including participation rates. The Council should demonstrate the policies it will introduce to ensure those targets are met year by year. The Council should arrange quarterly meetings with the Department regularly to review progress against these targets. I will judge the Council's performance by the extent to which the targets are met.

Higher Education Funding

5. Last year, the Government announced increases in publicly planned funding which provided the sector with the first real terms increase in the unit of funding per student for over a decade. Save for technical adjustments, the figures announced for 2002-03 stand. Funding for 2003-04 will be reconsidered in the Spending Review that is currently underway. I will let you know shortly of the split of total sector funding between the HEFCE and the TTA.

6. I do not expect institutions to charge additional tuition fees above the regulated level ("top-up" fees). Under the Teaching and Higher Education Act 1998, this has been a condition on the Council's grant for the past three financial years, requiring it in turn to place a condition on the funding it allocates to institutions providing higher education that they should not charge "top-up" fees. The same condition will be imposed on the Council's grant for 2002-03.

Student numbers

7. The plans for student numbers set out in the Grant Letter issued in November 2000 still apply. To put those plans into practice, I expect the Council to devise a mechanism of targets for the sector. In doing so, the Council will want to consider whether maximum student numbers for each institution are still useful. I should be grateful for advice from the Council once the consultation on the Council's discussion paper on supply and demand for student places is complete. I also expect the Council to consider its policy towards institutions that fail to recruit as many students as expected, and therefore lose block grant income. There may be merit in strategic partnerships or collaborations between institutions as a positive measure that will, among other objectives, strengthen their position in the recruitment of students.

8. The Council should also encourage higher education institutions to be more flexible in the ways higher education is offered to students. Some universities and colleges survey students and potential students to see whether courses might be offered part-time, out of normal hours, in the workplace, or in some other way. I should like to see this practice more widespread.

9. There has been an encouraging start to implementing foundation degrees. The Council should now build on this bearing in mind where foundation degrees might have greatest effect: part time courses have, for example, proved more popular than full time courses. This supports the Government's initial assumption that foundation degrees would be particularly attractive to people who need to continue to work while studying. Other courses reporting the highest levels of recruitment have clearly identified niche markets and successfully engaged employers from an early stage.

Taking Forward Priorities

Widening Participation

10. An important element of progressing towards the 50% participation target will be ensuring that all institutions have sound widening participation plans which include targets which are
monitored and with action taken quickly where necessary to ensure the targets are met.

11. As the Council's recent paper on supply and demand in higher education made clear, reaching the participation target means that students with no previous family background of higher education will need to be encouraged to consider entering higher education. That will require higher education institutions to collaborate closely with schools and colleges to raise both aspirations and standards of achievement. The necessary collaboration and joint strategic approach between the further and higher education sectors at a local level must be underpinned by cooperation between the LSC and the Funding Council nationally. I know HEFCE and the LSC have begun to establish effective working relationships. I encourage both bodies to pay attention over the coming year to developing joint ways of working both nationally and locally, and I ask the Council and the LSC to make sure their funding policies promote rather than obstruct widening participation.

12. We need to ensure fair access to higher education. That means reducing the wide variation in performance between institutions with respect to the Council's three access performance indicators. We have made available funds specifically to help certain institutions to address these issues on the understanding that, over time, they will meet an increasing proportion of the costs. I look to the Council to agree demanding targets with the institutions in receipt of this funding. I also look to the Council to propose to the Department, by January 2002, a target for fair access that applies to the sector as a whole.

13. Getting additional students to participate in higher education is only the first step in expanding participation. Last year, my predecessor asked the Council to bear down on the rate of non-completion. He acknowledged that, despite an impressive completion rate for the sector as a whole, there were unacceptable variations between institutions. We received an interim report on progress in this area from the Council in May 2001. Through this progress report, I know that proposed activities to support student retention are now an integral part of the Widening Participation Strategic Plans of each higher education institution and that these are further reinforced through the activities of the Action on Access team.

14. Institutional strategic plans present the Council with an invaluable opportunity to identify good practice in terms of student retention and I expect these examples of good practice to be disseminated across the sector. I expect the Council to work more closely with those institutions whose performance indicator for non-completion is significantly below their benchmark. I attach particular importance to student retention as an indicator of the successful implementation of the Government's policies. I therefore look forward to receiving a further report from the Council by January 2002, in the form of a longer-term strategic plan on retention, with clear annual milestones for the period 2002 to 2010. This plan will also contain a sector target for non-completion.

15. Maintaining a focus on retention will be important as institutions increase the number of students from non-traditional backgrounds and I will expect the Council to provide quarterly progress reports to this Department during the forthcoming year, addressing progress made both by individual institutions who are falling short of the benchmark, and by the sector as a whole.

16. The Funding Council should continue to work with institutions to help and support those students who may well find financial or other pressures adversely affecting their ability to continue in higher education. As you know, I am currently reviewing the student support system with one aim being to simplify the present arrangements for students with dependants, or facing hardship. Access and Hardship Funds will continue to play an important role in helping us to widen access as we expand numbers, and to provide support particularly for those students from low-income backgrounds. My officials have been discussing responsibility for the Access and Hardship Funds for higher education students in further education institutions with the Council and arrangements are almost concluded.
17. We need to maintain our policy of providing targeted support for vulnerable students, both to encourage more of them to apply for higher education and to retain them once there. An increased number of Opportunity Bursaries (8,000 new Bursaries) will be available for students entering higher education in 2002 and institutions should ensure that they are widely promoted as part of their Excellence Challenge activities. Institutions are asked to ensure that Opportunity Bursary students are given appropriate support to ease their transition into higher education.

18. Institutions are well placed to advise students on the support they are entitled to and to provide some of that support, through access bursaries as well as tuition fee waivers and general financial help. The role of student services staff in helping students manage their finances better and ensuring they receive the help they need at the right time is key to the success of our access and retention policies.

19. We have recognised that there is a need for improved welfare and pastoral services in higher education to support a more diverse student population. I am aware of the work you are currently sponsoring with Bradford University in the context of developing staff to support disadvantaged students. In a complementary exercise, the Department and the Funding Council have agreed terms of reference with the sector for a project to identify and disseminate best practice in providing welfare and pastoral services. I expect to see the outcomes of this work by July 2002. I am also aware that higher education institutions are reporting a growing number of students with mental health problems. I expect the review of welfare services to develop guidance to help institutions identify and support students with these difficulties.

20. The provision of high quality careers services attuned to the needs of the 21st century will support widening participation. The Funding Council will also recognise the link between the support that such services can provide and reducing non-completion rates, particularly amongst students from non-traditional backgrounds. The Council will want to consider how it can encourage institutions to improve their careers education, information and guidance so that high quality, accessible advice is available to all those who seek it, as recommended by Sir Martin Harris in his review of higher education Careers Services. Sir Martin set Autumn 2002 as the target for having his recommendations in place; I support that aim.

Quality and Standards

21. As we continue to promote our widening participation and access policies, academic standards and the quality of the student experience must be maintained and enhanced. The quality of teaching is the chief factor in determining whether students gain from higher education and I look to the Council to continue to invest in programmes designed to raise the quality of teaching in higher education.

22. I recognise the important contribution of the further education sector to the achievement of our widening participation and access aims, and I note the significant amount of higher education that is being delivered in further education colleges. I look to the Council, both through quality assessment and development funding, to continue to ensure that the experience of higher education students studying in further education settings is comparable to that available in our universities and colleges of higher education.

23. The Council should continue to work with the Quality Assurance Agency to develop quality assurance methods that are not unnecessarily burdensome, which ensure that high standards are maintained, which root out weaknesses wherever they occur and ensure that swift action is taken to address them. I ask the Funding Council to submit a strategic plan by July 2002 that will set out what needs to be done by the Council and the higher education sector to enhance teaching quality.
Support for Research

24. The Government is committed to strengthening research excellence and supporting world-class research. Research is a driver of productivity growth and international competitiveness and is critical in developing the highly skilled people the nation needs in the knowledge economy. I would like the Council to continue to work to encourage research excellence in English higher education institutions and to further improve the quality of research. To help achieve this, the Council should at least maintain its funding for research in real terms, based on 2001/02 spending, in 2002/03 and 2003/04. I know the Council is considering how to implement the outcome of the Research Assessment Exercise held earlier this year in distributing funding for research in 2002/03. I recognise the Council will want to continue to fund adequately the best research.

25. The Government aims further to develop excellence in arts and humanities research and postgraduate study, and I look to the Council to at least maintain in real terms the funding it provides to the Arts and Humanities Research Board. From next year, funding for arts and humanities research that used to come to the AHRB from the British Academy will be channelled through the Council. As you are aware, continuing from 2001/02, stipends for new postgraduate research students in the arts and humanities are to be raised in line with those for science, increasing to £9,000 by academic year 2003/04.

Links with Industry and the Community

26. Universities and colleges have close links with their communities. Often they are one of the larger employers. They provide highly trained people for businesses and they contribute to local and regional economic growth through making available the results of research, expertise and technical know-how in a variety of ways.

27. The Council should ensure that the knowledge and expertise of English HEIs is available and used beyond academia: in small and large businesses, in the public sector, and in the wider community. There needs to be a continuing increase in the number of external links and in the effectiveness of those links.

28. I welcome the Council's work, and its co-operation with the LSC, towards introducing New Technology Institutes (NTIs) from next autumn. £10m in the financial year 2002-03 and £15m in 2003-04 has been allocated from the Capital Modernisation Fund towards establishing NTIs, with the expectation that the private sector members of the NTI consortia contribute significant additional funding. These funds will be distributed between the HEFCE and LSC in accordance with the bids from the successful consortia to be announced in Spring 2002. This will enable both Funding Councils to move towards the target of training up to 10,000 full time students a year through the institutes by 2004-05. The higher education places in NTIs will be covered by the Council's additional student number allocation process.

29. This is a welcome enhancement of "third stream" funding which is increasing the responsiveness of higher education to the needs of business and the community. In my speech to the CBI earlier this month, I announced that we would be working with the Council to put in place arrangements that would enable us to embed vocational and transferable skills more widely across higher education provision. I am grateful to the Council for working with us to develop proposals for a Work-Related Skills Co-Ordination Team. I look forward to information on its progress and achievements, and how you intend to underpin its activities in the institutional planning process, particularly through institutions' Learning and Teaching and Human Resource strategies.

Universities and higher education capital

30. Over the past year the Government has provided £14m of the £62m allocated at the last
spending review for the start up and capital costs of the e-Universities project up to 2003-04. For the remaining two years of this funding I recognise that the Council's involvement in the project will be primarily through channelling funds through the e-Learning Holding Company to then pass on to the main vehicle for delivery, UK eUniversities Worldwide Ltd. The Council should ensure effective mechanisms are in place to secure value for money and fulfilment of the aims and objectives for which the project was originally set up. In particular:

- securing the viability of eUniversities as a self-financing business and
- ensuring that the social inclusion agenda remains a priority, primarily through the development of undergraduate courses to reach those in this country who find it difficult to access the more traditional campus-based university.

I ask the Council to provide me with a progress report on this innovative project by the end of July 2002.

31. The Disability Discrimination Act 1995 and the Special Educational Needs and Disability Act 2001 together give students and staff with disabilities the right to expect reasonable access to institutions' facilities and services. My predecessor announced last year funding totalling £56 million over the two years to 2003-04 for use on improving access and to help provide specialist equipment and support. The £56 million additional funding for improving access and specialist equipment and support will help higher education institutions meet their obligations to students and staff and to comply with the phased implementation dates set out in disability legislation. I will expect the Council to report on the first year's progress by March 2003.

32. The Resource Accounting regime under which we now operate means that all NDPBs' capital expenditure will, in future, be consolidated into Departmental accounts. This change has been discussed with HEFCE officials in the course of agreeing the new End Year Flexibility arrangements that are now in place. We will, however, need jointly to consider what further needs to be done to accommodate this change and in particular to facilitate more effective planning and forecasting. At this stage it seems likely it can be addressed by HEFCE sharing with us their capital expenditure plans at the start of the financial year, supplemented by updates as these plans inevitably evolve. However, the detail of that will need to be resolved between HEFCE and DfES officials.

33. For each of the capital streams, I continue to expect the Council to ensure that systems are in place to motivate higher education institutions to make effective use of capital investment in support of their objectives. In particular, the Council should encourage and support the use of sound investment appraisal and procurement processes, including public-private partnership and PFI where these seem likely to offer value for money. The Council should continue to provide recurrent funding to support the costs of PPP/PFI.

Pay and Personnel

34. Last year, this department allocated £50 million in 2001-02, £110 million in 2002-03 and £170 million in 2003-04 for both academic and support staff pay, in part to recruit and retain high quality academic staff in strategically important disciplines or areas and to help modernise the management processes in the sector. In return for an investment of this size, I will be looking for evidence of real improvements in recruitment, retention, human resource development and staff management. The Council is monitoring the impact of this investment through the human resource development plans that each institution has to submit to release funds. I look forward to a report on the Council's assessment of these plans by October 2002.

35. I also look to the Council to monitor and report progress on the timely and complete implementation of the recommendations of the Follett Review into the appraisal, disciplinary and reporting arrangements for senior NHS and university staff with academic and clinical

36. I am determined that equal opportunities for higher education staff must improve. The Equality Challenge Unit should ensure that institutions deliver the improvements in monitoring and performance that they have agreed to in their equal opportunities policy statements. I look forward to seeing evidence of rapid progress towards greater equality of opportunity for all groups of staff.

37. As in previous years it is a condition of grant that the Council enables institutions to meet any additional costs for medical and dental schools arising from the Government's award to NHS clinicians following the Doctors' and Dentists' Review Body recommendations.

Other Issues

Excellence Fellowships

38. At the beginning of November, Mrs Hodge announced the start of a consultation on a pilot scheme of awards for teachers in schools and further education colleges - the Excellence Fellowship Awards. There is much to be done, quickly, if first awards are to be made in September 2002/03. We have agreed a management fee of £30,000 for you to manage this programme on behalf of this department.

Dance and Drama

39. The department will continue to fund the dance and drama awards at the current level and will enhance the funding by an inflationary factor of 2.5% next year. As part of the forthcoming review of the scheme, we will review the level of provider funding jointly with the Council.

Council Administration Costs

40. The Council's administration costs are included in the recurrent provision shown in the annex. Figures for 2002-03 include provision for the additional costs associated with special initiatives to promote access to higher education and outreach to the community, and initiatives to improve recruitment of new lecturers. Provision for administration costs will be:

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<tr>
<th>Financial Year</th>
<th>2001-02</th>
<th>2002-03</th>
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<tbody>
<tr>
<td>HEFCE administration costs (£m)</td>
<td>14.6</td>
<td>14.9</td>
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I ask the Council to continue to improve the efficiency and economy of its administration and to seek increased value for money. As usual, the Department will discuss with Council officers the allocation of administration costs in the coming year. The Council will also need to submit a proposal for administration costs in 2003-04.
## PUBLICLY PLANNED FUNDING FOR HIGHER EDUCATION IN ENGLAND (£ million)

<table>
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<th>Financial year</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
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<tbody>
<tr>
<td>2000-2001 grants to HEFCE &amp; TTA</td>
<td>4,587</td>
<td>4,800</td>
<td>4,988</td>
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<tr>
<td>SR outcome grants to HEFCE &amp; TTA</td>
<td>489</td>
<td>491</td>
<td>502</td>
</tr>
<tr>
<td>Public contributions to fees</td>
<td>355</td>
<td>375</td>
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<tr>
<td>Student contributions to fees</td>
<td>20</td>
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<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>5,451</td>
<td>5,686</td>
<td>5,927</td>
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### Capital grants for:
- IT and other capital
- Research

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<tr>
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<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
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<tbody>
<tr>
<td>IT and other capital</td>
<td>106</td>
<td>154</td>
<td>206</td>
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<tr>
<td>Research</td>
<td>150</td>
<td>154</td>
<td>158</td>
</tr>
<tr>
<td>Access and Hardship Funding</td>
<td>103</td>
<td>108</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>5,810</td>
<td>6,102</td>
<td>6,406</td>
</tr>
</tbody>
</table>

| Student numbers (FTEs in thousands) | 1,087 | 1,101 | 1,115 |

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1. Includes transfer from British Academy to AHRB of £25.121m for 2002-03 and £27.401m for 2003-04.
2. The forecast income that universities and colleges will receive from student contributions to tuition fees, after means testing. The figures are net of an estimated 5% cost for collection and any default.
Appendix D

Letter of 25 February 2003 from Rt. Hon Charles Clarke MP to Mr David Young, Chairman of the HEFCE (DfES 2003a)
HIGHER EDUCATION FUNDING AND DELIVERY TO 2005-06

In my letter of 22 January, I set out the importance I attached to supporting the best research departments in English higher education institutions, against the background of the significant increases in research funding that I have made available in the period to 2005-06, and the extra funding that will be made available through the Research Councils as set out in 'Investing in Innovation' last July. I asked the Council to devise a method to identify the best of the research departments rated 5* in the Research Assessment Exercise, and to provide them with additional funding. I understand there was some uncertainty about when this additional funding should begin. I am happy to confirm what I set out in my letter: the funding should begin in 2003-04. As to the additional sum is concerned, I had in mind some £20 million to be distributed among the departments you will identify, with that being taken from the overall resources available to the Council.