What Academic and Other Risks Can Be Seen in a High Level of Dependence on State Funding?

Key words: higher education, finance, government, Great Britain.

Summary: It is widely accepted that individuals as well as society benefit from higher education, which is one of the most important elements in the UK Government policy. Higher education produces highly qualified people and as a result it increases the UK’s economic development and international competitiveness. Unfortunately, it has not always been reflected in the UK policy on funding higher education.

With the few exceptions the British higher education is mostly publicly funded and it has been heavily reliant on state funding for a long time. This paper examines the issue of the strong dependence on the state funds and potential risks it brings on higher education institutions. It is important to remember that the identified issues may vary from institution to institution and should be treated with caution.

Financing higher education is an „investment for the public good, to produce both an economic and a social return”.

(OECD, 2004, p. 6).

1. Foreword

It is widely accepted that individuals as well as society benefit from higher education (HE), which is one of the most important elements in the UK Government policy. HE produces highly qualified people and as a result it increases the UK’s
economic development and international competitiveness. Unfortunately, it has not always been reflected in the UK policy on funding HE.

With the exception of one private university and a few international campuses, the British HE is mostly publicly funded and it has been heavily reliant on state funding for a long time. As the proportion of funds calculated per registered student (Full Time Equivalent – FTE) decreases (Greeneway et al., 2003), it is more common for universities to turn towards alumni, businesses and charities to raise funds.

Let us therefore examine in this paper the issue of the strong dependence on the state funds and potential risks it brings on HE institutions (HEIs). In some cases those risks have already become real issues, which should be addressed and dealt with as soon as possible. It is important to remember that the identified issues may vary from institution to institution and should be treated with caution.

Before we move any further, I would like to mention problems with obtaining current and consistent HE financial statistics that I have experienced in my literature review. Additionally, this essay presents an analysis of papers done by other scholars on the topic and it would be incorrect to conclude that I undervalue British HE. Since this paper focuses on risks, the potential benefits of the UK HE funding system have been omitted.

2. UK Higher Education Context

We start with a quick look at what we know about the UK HE system. The Department for Education and Skills (DfES), responsible for HE, defines its priorities as:

- “to enable people to develop their capabilities and fulfil their potential […];
- to advance knowledge and understanding through scholarship and research;
- to contribute to an economically and culturally diverse nation” (OECD, 2004, 2).

The DfES does not deal directly with universities and instead it uses a buffer body – the Higher Education Funding Council for England (HEFCE). This arrangement is designed to protect HEIs from political manipulation and safeguard their independence. The main responsibilities of HEFCE are to:

- “administer the funds for education and the undertaking of research;
- provide advice to the Secretary of State on the financial needs of HE […];
- ensure that provision is made for assessing the quality of education in HEIs and further education colleges that receive HEFCE funding” (OECD, 2004, 7).

Despite that, various HEIs question HEFCE’s role seeing it either as a „funder, planner, policeman or adviser” (OECD, 2004, 40), which has lead to a tension between the sector and HEFCE. It has also caused a „growing debate about what is
proper level of accountability to protect the public investment in HE, the burden that this can impose on universities and colleges and the freedom of autonomous institutions to operate in free markets” (OECD, 2004, 8). Some institutions consider the guidance as interfering with the way they manage their affairs.

3. Reduced Independence

Following the introduction of a Further and Higher Education Act in 1992, the British Government changed the status of most of the UK polytechnics into universities. Despite growing student numbers the Government approved cuts in HE funding per FTE and it is estimated that the „real funding per student almost halved in the 20 years to 2000” (Barr, 2004, 265–266). Additionally, "a significant proportion of funding is now tied to specific initiatives, allocated on the basis of bids from institutions and not always directly relevant to teaching and learning" (Universities UK, 2001, 8). Therefore, Shattock argues „no university and particularly no research intensive university can maintain competitiveness by relying on state funding alone” (Shattock, 2003, 42). The current research funding method and providing funding for specific purposes has lead some institutions to developing short-term decisions in order to secure income. „These behaviours are understandable when HEIs are having to focus on what they see as short-term survival rather than long-term viability and sustainability” (OECD, 2004, 39).

As the Universities UK have concluded in their report, „current levels of funding for teaching and learning in HE, from all sources, (are) insufficient to enable universities and colleges to achieve society’s aspirations for maintaining and enhancing quality, to compete successfully in the global market place and to create a socially inclusive system in which a greater proportion of individuals from traditionally under-represented groups participate in HE” (Universities UK, 2001, 1).

4. Price Control

A body of literature suggests that on the one hand, UK HEIs are self-governing, independent and have substantial freedoms. On the other hand, Gombrich (2000) argues that they are so heavily dependent on state funding that they have lost their freedom. Even though UK HEIs are legally independent bodies, they are only free to set fees for non-EU undergraduates and for all postgraduates. In the case of EU and UK undergraduate students, HEIs were not allowed to charge fees until 1998. Since then the UK Government has allowed them to charge a limited capped fee, which is still controlled by the Government (OECD, 2007). It is quite surprising when we take under consideration how different the UK HEIs are in terms of size, student population, history and the variety of programmes offered. Therefore, Barr
As the OECD report notices, "it remains to be tested whether Government, or HEFCE, would allow a major HEI to go out of business. Whilst there have been no insolvencies, several institutions in financial difficulty have merged with stronger institutions (or closed academic departments) and as a result have lost their individual identity" (OECD, 2004, 43). Additionally Gombrich comments "in free markets some businesses fail and others succeed, (however the State does) not want any university to fail and go bankrupt, as this would waste the public money already invested" (Gombrich, 2000).

It is estimated that a high level of dependence on state funding combined with under-funding has caused serious problems to HEIs¹. The initial reduction of the Government funding per FTE in some cases at first increased efficiency, but this has also put pressure on the quality of the teaching and learning infrastructure, ability to pay staff adequately, and it increased levels of non-completion at universities with high numbers of students from disadvantaged backgrounds (Curtis, 2008).

5. Central Control

Since HEIs are independent entities, they are not regarded as part of the public sector. Despite that, as a big part of their income comes from public funds, in practice, the Government places significant expectations on the whole sector. Overall, it is estimated that 60 per cent of HEIs’ income comes from public sources (Universities UK, 2007a) but it varies between institutions.

In the recent years HEIs have been encouraged to become more entrepreneurial and to generate increasing income from non-public sources. Most HEIs have always had some sources of private income, only a few institutions have been very successful. These include research and consultancy carried out for industry, donations and sponsorship, income earned from trading activities, and fees charged to students. For most institutions, these private sources of income have increased as a proportion of the total in recent years “due to the financial pressures on government funding” (OECD, 2004, p. 15). Despite that the private funding is still not high enough and HEIs remain heavily reliant on the state funds. Therefore, it is not clear who their customers should be: the students or the taxpayers and HEIs can find it difficult to satisfy a wide range of stakeholders. As Barr notes, "universities are rightly held accountable for their receipt of public funds and rightly subject to quality control in the interests of consumer protection. However, the specific methods, notably the regime to assure teaching quality in the late 1990s have been

¹ For more details see: OECD IMHE-HEFCE, 2004); Barr, 2004; Universities UK, 2001.
roundly criticized” (Barr, 2004, p. 267). “It is also unclear what the product is: sometimes it appears to be student qualifications, at other times national wealth. (With so many unresolved issues) the universities are easy targets for criticism, which then is used to justify ever greater control” (Gombrich, 2000). A lot of HEIs may find it difficult to keep a balance between the independence and autonomy and the need for accountability for public funds (URN, 2006).

By controlling distribution of funds, the UK Government forces its policies on universities, which are not in a position to reject them. In reality all those plans require additional funds and “they cannot be achieved simply by diverting and reallocating money within a diminishing total” (Universities UK, 2001, p. 6–7).

The literature review suggests that one of the major risks in the high level of dependence on state funding for the UK HEIs is an increased bureaucracy and the oversubscribed Quality Control2. In England and Wales HEIs contract with HEFCE to teach a specific number of students. “Though those controls have varied, universities have been penalised for recruiting fewer students than their quota and for recruiting too many” (Barr, 2004, p. 267).

Increased bureaucracy inflates institutions’ costs in responding to the high demands of the Quality Assurance Agency and Research Assessment Exercise for „accountability, transparency and compliance that have accompanied democratisation, heightened risk-aversion and increased social complexity” (Universities UK, 2001, p. 8). Wide bureaucracy has also lead to an increase in the numbers of non-academic staff (URN, 2006).

6. Student – Staff Ratio

In the last decade the number of students at the UK HEIs has more than doubled and there are now over 1.8 million students registered (OECD, 2004). Simultaneously, the Government funding per FTE has been reduced (Greenaway et al., 2003). As a result universities receive less government funds while at the same time they have to deal with higher student numbers. Reduction of funding per FTE increased the ratio of students to staff, from an average of 9 to 1 in 1980 to 18 to 1 in 2007 (Tysome, 2007).

At the same time, the Association of University Teachers claims, salaries of British academics have fallen by 40 per cent over the last twenty years compared with the average earnings of other non-manual workers (BBC, 2006). Lack of funds is causing an increasing number of academic staff to be employed on short-term fixed or part-time contracts, which is cheaper for their institutions, but less convenient for the employees.

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2 For more see: Chiang L-C., 2004; Barr, 2004.
High student-staff ratio stops both academics and their students from getting to know each other. Since students are not any more taught individually and instead they attend large classes, they are unlikely to keep in touch with lecturers. As a consequence academic communities are losing their importance. Overall, as the OECD report concludes, HEIs „struggle to recruit and retain academic and other staff in increasingly competitive labour markets” (OECD, 2004, p. 46).

Due to increased bureaucracy and quality control lecturers are obliged to closely follow procedures, guidelines and course specifications. Members of staff willing to do more research or teaching are encouraged to search for sponsors and grants. Instead of focusing on their core role as teachers and researcher they spend hours on filling in paperwork and networking with potential donors (Ashley, 2006). Increased paperwork and lack of proper training prevents them from teaching or doing research. It has a negative impact on staff morale and their quality and productivity. One can argue that fundraising is not their responsibility as their home institutions should be capable to secure necessary funds for teaching and research.

In 2006 the University and College Union ran a poll, which found out that nearly two thirds of lecturers think about changing their jobs and moving abroad due to overwhelming bureaucracy and workload. Additionally, over half would not recommend their profession to their children (Ashley, 2006). It is especially worrying when we take under consideration that academics do on average longer unpaid overtime than any other profession (TUC, 2005).

7. Expenditure

University expenditure on books and journals has been falling (West, 2007) despite an increase in the academic libraries’ income (LISU, 2006). It decreased from an average 3.1 per cent in 2001–2002 to 2.9 per cent in 2005–2006 (West, 2007).

Even though an increasing number of students and academics refer to and use Internet in their research, „the very books (libraries are) missing are most unlikely ever to be recorded electronically. Once such gaps in acquisition have gone on for a couple of years the lost ground cannot be recovered and the collection will never again be satisfactory. This means that in certain fields British scholars will have to rely on libraries abroad” (Gombrich, 2000). Except in 2002 (West, 2007), the library staff and operating expenditure per FTE have been increasing. However, we should bear in mind that in 2005–2006 51 per cent of the total library expenditure was spent on staff (West, 2007) and approximately 30 per cent on information resources of all kinds (LISU, 2006).

The literature review suggests that despite a slow increase in the Government expenditure on Research and Development as a percentage of GDP (Universities UK, 2007b), the British HE remains under funded in comparison with other developed countries.
“If you want to do research, my advice to you is to emigrate” said Sir Keith Joseph, the Secretary of State for Education, while once visiting Oxford University (Gombrich, 2000). The 2004 OECD report comments that „it is clear from analyses by HEIs themselves, sector representative bodies and HEFCE that there is insufficient public funding to enable all HEIs to operate to international standards of excellence” (OECD, 2004, p. 38) and to reduce the „brain drain”.

In 2000 Gombrich blamed lack of top equipment and low salaries for the „steep fall in Britain’s share of Nobel prizes and other major international science prizes” (Gombrich, 2000) concluding that if not addressed, it may become irreversible.

Overall, it can be repeated after the OECD report that „when the full economic costs of activities are taken in to account, the (HE sector is) operating in substantial deficit (and therefore) HEIs (are) being encouraged to identify and recover the full economic costs of their activities” (OECD, 2004, p. 25).

In order to provide better accountability for the use of public funds, since 1999 all HEIs must use the Transparent Approach to Costing (TRAC) methodology, which is supposed to offer more transparent information on costs. Introduction of TRAC showed that all research was under-funded and it indicated major problems in investment in HE infrastructure. As much as it is useful, TRAC requires an additional administrative burden and an engagement of the senior staff. It also bears extra hidden “soft” costs related to management and academic time (URN, 2006).

Apart of under-funding in HEIs’ library resources and research, like in „other parts of the public sector, there has been a tendency to neglect investment in and maintenance of buildings when other financial pressures have increased” (OECD, 2004, p. 27). Two recent national studies on the investment required in the HE physical infrastructure showed a significant backlog of maintenance worth around £8 billion (OECD, 2004).

8. Competition

Public funding for research known as the „dual support system” comes from two main sources – HEFCE and the Research Councils. Generally speaking, HEFCE provides funding based on the outcomes of the Research Assessment Exercise while Research Councils provide funding for specific research projects (OECD, 2004).

Applying for limited funds increases competition between HEIs that can lead to good value for the taxpayer. On the other hand, HEIs see it as unnecessary and costly burden, which may never be recovered. It limits their willingness to co-operate, even though potentially „co-operation would be both pleasanter and far more efficient” (Gombrich, 2000). Barr agrees with it indicating that „red-in-tooth-and-claw competition is not the best for HE” (Barr, 2004, p. 272).
9. Conclusion

Giving the problems with consistency of the financial statistics mentioned at the beginning of this paper, formulating definitive conclusions about the State funding system of the British HE is difficult.

The earlier presented analysis paints a disturbing picture of the evolving relationship between HE and the State. HEIs have been heavily relying on the public funds, which can be a potentially risky move. As much as the Government funds are secure, they can decline as a result of a change in economy, policy, Government or new competitors. Equally, Universities UK argue, that there can be „no guarantee that the existing level of individual contributions to fees will not be matched by erosion of public funding at some time in the future” (Universities UK, 2001, p. 21), while Barr adds that „if the tax funding falls so does the university income” (Barr, 2004, p. 273).

Through high reliance on the State funding, the Government controls the “funding envelope” (Barr, 2004). The initial reduction of funds allocated by the Government per FTE encouraged at first increased efficiency. Unfortunately, “it has reached a level where it represents underinvestment in both the physical infrastructure and human capital” (OECD, 2004, p. 45) and it will take a while to remove this backlog.

Introduction of variable fees and use of external independent funding sources may give universities more autonomy over their income stream and should reduce their level of dependence on state funding. Therefore, by diversifying and reducing their reliance on a particular source of funding, HEIs can reduce their risks (OECD, 2004). Such a diversification must be professionally managed focusing on the market needs.

„There is an inappropriate balance between what HEIs are expected to deliver, the funding provided to do so and the extent of accountability that is required by founders” (OECD, 2004, p. 46). Hence, „the challenge for governments is to ensure that increasingly autonomous and market-driven institutions respond to public interest agendas, [...] while taking a greater responsibility for their own financial sustainability. The challenge for institutions is to manage a more complex portfolio of aims and funding; to differentiate themselves in an increasingly competitive environment; and to protect and maintain academic quality and their ability to deliver over the long term” (OECD, 2007, p. 5).

Summing up, the next few years will show how successfully HEIs have limited their dependence on state funding which will bring a significant management and cultural change to the whole sector.
Bibliography


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Analiza ryzyka związanego z wysokim uzależnieniem
państwowego szkolnictwa wyższego od finansów publicznych
na przykładzie Wielkiej Brytanii

Streszczenie: Szkolnictwo wyższe przynosi korzyści nie tylko osobom indywidualnym,
ale i szeroko pojętemu społeczeństwu. Uczelnie wypuszczają wysoko wykwalifikowanych ab-
solwentów, którzy zasilają rynek pracy, wspomagając tym rozwój ekonomiczny i rentowność
kraju. Pomimo, że to przekonanie stanowi jeden z ważniejszych elementów polityki rządu
Wielkiej Brytanii, nie do końca jest to odzwierciedlone w brytyjskim systemie finansowania
szkolnictwa wyższego. Ten artykuł ma na celu analizę wysokiego uzależnienia brytyjskich
uczelnii od funduszy publicznych i potencjalnego ryzyka z tym związanego.

Słowa kluczowe: szkolnictwo wyższe, finanse, państwo, Wielka Brytania