



Promoting value for money in higher education

Issue

1. This paper sets out our developing approach to defining and promoting value for money for current and future higher education students, taxpayers and the economy.

Recommendations

2. The OfS board is invited to:
- a. **Consider** whether an appropriate balance has been proposed between a focus on inputs and outcomes in order to promote value for money
 - b. **Note** the key performance measures (KPMs) that are under development to monitor progress; and
 - c. **Agree** the proposed actions the OfS can take to underpin a set of market conditions that will drive value for money at the sector level (Annex B refers), **advising** on priorities.

Timing for decisions

3. The board's guidance will inform the OfS value for money strategy, to be developed by the end of 2018-19.

Further information

4. Available from Yvonne Hawkins (yvonne.hawkins@officeforstudents.org.uk, 0117 9317214) or Steve Hall (steve.hall@officeforstudents.org.uk, 0117 931 7140).

Members' Interests

5. None identified.

Background

6. To ensure that the higher education sector – and individual providers – deliver positive outcomes for all students from all backgrounds, the OfS’s strategy focuses on four primary objectives:

1. Participation	2. Experience	3. Outcomes
All students, from all backgrounds, with the ability and desire to undertake higher education, are supported to access, succeed in, and progress from higher education.	All students, from all backgrounds, receive a high quality academic experience, and their interests are protected while they study or in the event of provider, campus or course closure.	All students, from all backgrounds, are able to progress into employment, further study, and fulfilling lives, and their qualifications hold their value over time.
4. Value for money		
All students, from all backgrounds, receive value for money.		

7. Our work on value for money (VfM) is underpinned by the general duty for the OfS to have regard to the need to promote value for money in the provision of higher education. As shown diagrammatically above, OfS’s strategy has broadly conceived of value for money for students being secured by delivering Key Performance Measures (KPMs) in relation to: improved participation; a high quality student experience; and successful student outcomes.

8. As value for money is a primary objective, we committed in the OfS’s business plan to build on this approach by developing a value for money strategy by the end of 2018-19 that would promote value for money for students and taxpayers, and by extension the economy.

9. This paper sets out an evolving framework for how the OfS can consider value for money, the levers we have to influence it when performing our functions and how we will measure our progress.

Discussion

What do we mean by value for money?

10. Value for money is a complex and contested concept in higher education; the House of Commons Select Committee’s *Value for Money in Higher Education* report published in November 2018 notes: ‘Value for money in higher education has been defined in a variety of ways..... These can be broadly divided into value to the economy, and value to the individual both in a non-monetary and monetary sense. Clearly there is no one definition of value for money.’

11. In terms of the **money element of VfM**, students’ participation in higher education is funded through a variety of different means. Where students are eligible for loan funding, the taxpayer covers the cost of these upfront and students repay

through deductions from salary after graduating. This means that in practice students contribute a variable amount to the cost of their course depending on their future earnings, but the level of contribution they will make can be unclear for decades after graduation. Where there is still outstanding debt after 30 years this is written off, effectively becoming government subsidy.

12. Some students pay directly for some or all of their studies – either where loans do not cover the full costs of courses (for example, for undergraduates at some providers in the Approved category) or where students are not eligible for loan funding (such as non-EU international students). In addition, providers eligible for OfS funding get additional direct grants to reflect particular government priorities – such as supporting high cost provision or widening participation. Employers may also contribute in some cases, such as for degree apprenticeships through the levy or by sponsoring employees through postgraduate courses.

13. The independent review of post-18 education and funding, led by Philip Augar, could lead to some changes in the balance of private and public investment in higher education but our general duty to have regard to the need to promote value for money will not alter, nor will our outcome-based regulatory focus. At a provider level the Regulatory Framework cites providing ‘sufficient information on a regular basis to demonstrate it operates in an open and accountable way, and provides and publishes information about how it ensures value for money’ as a behaviour that may indicate compliance with condition E2. Whilst our VfM strategy cannot be finalised before the government’s response to the Augar report is known, not least because it could shift debate about how value is understood, the requirement for transparency and accountability will be undiminished in the Regulatory Framework.

14. The **value element** is also complex: providers use the funding that they get from these different sources to produce a range of outcomes for students, employers and taxpayers. This is captured in the Regulatory Framework as objectives around two different concepts of value for money: value for money for students and value for money for taxpayers (with taxpayer interests aligning broadly to those of the economy). While the two concepts overlap they are distinct and at times can be in tension. The diagram in Annex A provides an illustration of how these concepts interact.

15. **Value for money for students** focuses on the individual consumer perspective – in effect, whether the student feels that their personal investment in higher education is justified by the experience and outcomes they get from it, regardless of how this is funded. Evidence from students, and engagement with the student panel, suggests that this is different for every student and is not influenced only by financial (salary) outcomes. The evidence suggests a range of factors including the following:

Table 1: Factors Affecting Students' Perceptions of Value for Money

Information	Clarity around expectations and costs Financial understanding and information
Experience	Quality and amount of academic support and teaching Access to opportunities Engagement with learning (and support to engage) Quality and availability of learning resources and facilities
Outcomes	Employment and salary outcomes Skills and personal development Wider benefits
Accountability	Confidence in how fees are spent Sense of fairness around how resources are allocated

16. The reform to the fees system in 2012 has also clearly had an impact on perceptions of value for money by making the cost of provision more transparent; a significant proportion of students report that their higher education course represents value for the higher fee, suggesting that where students do not there are likely to be other underlying issues about experience and/or outcomes. The impact of the fee level can be exacerbated by a lack of understanding of how the repayment system works and the fact that students may not be aware that fees for some courses are 'topped up' by direct government grant funding, meaning some students are in effect getting more in return for their personal investment. As noted in Table 1 above, a **lack of transparency for students** about living and study costs, how their fees are spent by providers to support teaching and learning and other services, or a mismatch in expectations about the academic experience are all barriers to informed student choice and accountability that will affect VfM.

17. **Value for money for taxpayers**, on the other hand, focuses on the aggregate returns delivered from the investment the government makes in higher education – upfront funding for the loan system, write-off of unpaid loans, and direct grants to providers.

18. The **central expected return on public investment in higher education is the development of advanced skills to improve productivity, deliver economic growth** and support key public service professions. Governments also aim to **improve social mobility** through widening participation to higher education. Beyond this, evidence suggests that higher education has wider positive impacts on individuals which could benefit society as a whole – for example, graduates having better health outcomes or higher levels of civic engagement.

19. More direct financial returns for the taxpayer include: sufficient levels of repayment of loans once graduates are in work (most often measured through the RAB charge); and increased tax revenues as a result of graduates earning more.

20. Related to this but separate, the Regulatory Framework also identifies a third concept of value for money, around efficient and effective use of public funding (referred to as **cost-effectiveness** in the diagram at Annex A) – in effect, whether

providers are using their funding in the optimal way to deliver the best possible outcomes. The National Audit Office puts a framework around this based on economy, efficiency and effectiveness:

- Economy: minimising the cost of resources used or required ('spending less')
- Efficiency: the relationship between the output from goods and services and the resources to produce them ('spending well')
- Effectiveness: the relationship between the intended and actual results of public spending ('spending wisely').

21. Where value for money for students and taxpayers are focused largely on the outcomes providers deliver against the overall investment made, the NAO framework also aims to consider the detail of how providers operate. Historically, HEFCE's work in the sector on value for money focused particularly on the economy ('spending less') element of this framework – looking at how providers could control costs in areas such as payroll, procurement and estates.

22. A provider run in a cost-effective and sustainable manner is most likely to instil confidence and be well-placed to deliver better outcomes (we have seen for example how governance arrangements and a lack of transparency around senior staff remuneration have not instilled confidence). The fact that providers have a diverse range of business models serving different student populations makes it hard to determine which operations are optimally cost-effective.

23. In summary, it is proposed that OfS adopt a broad definition of VfM, recognising it needs to promote value for current and future students, taxpayers and the economy, in terms of both monetary and non-monetary inputs and outcomes. As an outcomes-focused regulator, it is proposed OfS should measure its success in promoting VfM significantly, but not exclusively, through outcomes focused KPMs.

How does value for money relate to the OfS's strategic objectives and outcomes?

24. The sum of the first three of our primary objectives all underpin the delivery of VfM for students and taxpayers (see paragraphs 6 and 7). In developing an OfS strategy for VfM we have honed this down to focus on objectives which are most closely related to delivering value for money for students, in terms of their experience and outcomes, and for taxpayers, in the form of positive student outcomes.

25. The first primary objective, on participation, is a key element of value for money for students and taxpayers, given the government's aim of **increasing social mobility**. This paper does not address the proposed new approach to regulating access and participation nor reproduce the KPMs that measure this (as this is the subject of a separate agenda item at this board meeting) but our success in this area **is critical to promoting VfM**.

26. For primary objectives 2 and 3, concerning the student experience and outcomes, a number of the board's desired strategic outcomes cover **factors that will help drive value for money for students and taxpayers, including a high quality academic experience, a positive wider student experience, skills development, and graduate level employment outcomes**. These are set out in the table below (including the associated KPMs, some of which are under development).

27. Also in the table below is the fourth primary objective that all students receive value for money. The desired outcome is articulated as 'higher education delivers value for money for students, graduates, taxpayers and employers, especially in the form of positive student outcomes'. Seven of our suite of KPMs will help us to monitor progress against the VfM objective. Additionally, given the variety of ways that wider value for money can be interpreted, we will measure progress against objective 4 by **tracking student and stakeholder perceptions**. We are considering a number of options for capturing perceptions in a robust and regular way, including the possibility of a question in the Graduate Outcomes Survey.

Table 2: Outcome elements of OfS's strategic objectives that will promote VfM for students and the taxpayer

OfS strategic objectives	OfS strategic outcomes	OfS performance measures
All students, from all backgrounds, receive a high quality academic experience, and their interests are protected while they study or in the event of provider, campus or course closure. (no. 2)	Students have a positive experience of higher education and are highly satisfied with the quality of teaching, learning, wider experience and outcomes.	Students responding positively to the NSS question on overall satisfaction (KPM 10) Postgraduate measure of student satisfaction (KPM11 – to be specified in 2019)
	Students' knowledge and skills are improved during their higher education experience.	Proxy measure for learning gain (KPM 12 – in development) The extent to which students' experience falls below OfS quality baselines (KPM13 – to be specified in 2019)

OfS strategic objectives	OfS strategic outcomes	OfS performance measures
All students, from all backgrounds, are able to progress into employment, further study, and fulfilling lives, and their qualifications hold their value over time. (no. 3)	Graduates and postgraduates leave with the knowledge and skills that will contribute to their national and local economies and communities, and drive productivity.	Graduates in highly skilled or professional roles (<u>KPM 15</u> – to be specified in 2019) Employers think graduates are equipped with the right skills and knowledge (<u>KPM 16</u> – to be specified in 2019)
	Students' lives are improved and enriched by their time in higher education.	Graduate wellbeing (<u>KPM 17</u> – to be specified in 2019)
All students, from all backgrounds, receive value for money. (no. 4)	Higher education delivers value for money for students, graduates, taxpayers and employers, especially in the form of positive student outcomes.	Student and key stakeholder perceptions of value for money (<u>KPM 19</u> – to be specified in 2019)

These outcome-focused KPMs and those being developed to drive access and participation provide a good fit with many of the recommendations of the House of Commons Select Committee's *Value for Money in Higher Education* report that called for a sharper focus on: graduate outcomes; skills development (including through degree apprenticeships); improved access for students from disadvantaged backgrounds; and a response to the problems surrounding part-time and flexible study. But as explained below, as a package of measures they are not sufficient alone to promote VfM.

What are the other issues around value for money that we need to address?

28. In a perfectly functioning market, value for money would be delivered by competitive pressure driving improvements in quality and reductions in price, leading to better outcomes for students and taxpayers and more cost-effective delivery by providers. However, there are a number of areas in which the higher education market does not currently function in this way.

29. Despite being able to choose between a wide range of different providers, evidence suggests that **only around a third of students believe that they are getting value for money** from their higher education experience¹.

30. As set out above, there are a range of reasons underpinning these perceptions, which differ between individual students but key themes include teaching quality, levels of contact time and costs of tuition and additional expenses. This suggests that **to improve VfM we need to support more informed student choice, including their ability to meaningfully differentiate between the offer at different providers (and providers must be both accountable and transparent)**. For example, students are unlikely to identify contact time as a central reason for feeling they have not received value for money if they understand in advance how they will be taught and factor this into their decision-making.

31. **Student choice currently does not always deliver desired outcomes for the taxpayer and wider economy.** As the system is built around individual students having the freedom to choose their provider and course, there is no way of guaranteeing that the system as a whole delivers the skills needed for the labour market. Equally, providers respond in large part to market demand in terms of what they offer – meaning that the commercial incentives are to offer courses which are popular with prospective students rather than those which potentially serve the highest economic and social priorities.

32. **Students can be ‘locked in’ after their initial choice.** Higher education is generally a one-off purchase, and very few students switch courses or providers after they have made their initial choices. This is despite the evidence from the HEPI Academic Experience Survey showing that only 65% of students would make the same choice of provider and course if making their decision again.

33. There are a number of reasons why it is challenging to enable switching, but the rarity of this may reduce the incentives on providers to address issues and improve their offer – although there is an in-built incentive to improve non-continuation rates in terms of lost tuition fee income where students do not complete their course and the need to meet baseline conditions around student outcomes.

34. The higher education market is highly competitive but **there is currently little meaningful price competition** at undergraduate level between providers or differentiation based on the cost of provision. In part this is because the structure of the loan system means that students may not respond to differences in price when choosing – as students pay the same monthly rate regardless of the total debt and largely do not repay in full before the debt is written off – and partly because a lower price may be seen as an indication of lower quality.

¹ The 2018 HEPI/Advance HE Student Academic Experience Survey reported that 35% of students domiciled in England perceive ‘good or very good’ value from their course. Research commissioned by the OfS found that 38% of students believe their course offers good value for money.

35. This lack of price competition means that students may not have confidence in how fee levels are set or their fees spent, and that there is less incentive on providers to drive down costs – although there are other incentives as a result of inflationary cost pressures such as pay and pensions and the need to fund capital investment.

36. The House of Commons Select Committee's *Value for Money in Higher Education* report has recommended that all providers: 'should publish a breakdown of how tuition fees are spent on their websites. This should be in place by the end of 2018 and we recommend that the OfS intervenes if this deadline is not met.'

Achieving more transparency about how student fees are spent to support each student's teaching and learning and other services is important and as a result of the registration process we have started to inform providers that **we will publish further guidance on VfM transparency next year**. We are therefore well placed to respond positively to the recommendation in HEPI's *Where do student fees really go? Follow the pound* report (published 22 November 2018) that OfS consider commissioning a detailed report on what financial information students want and how it should be presented. This is a prime example of **our VfM strategy needing to find a balance between focusing on inputs as well as outcomes**.

So what levers does the OfS have to address these issues?

37. As in other areas, the OfS has levers to address these issues falling broadly into two categories. Firstly, by **assessing providers' compliance against baseline conditions** we can identify and regulate providers that are not transparent about value for money, have inadequate arrangements for securing value for public funding, or are not delivering sufficiently strong outcomes for students or taxpayers. Work is underway within the OfS to develop a monitoring framework with appropriate interventions that will allow early identification of risk in relation to breaches of baseline conditions. This will draw on the emerging findings from the registration process and the board will be invited to consider the proposed framework at its January meeting.

38. The regulatory framework also allows for the OfS to carry out 'efficiency studies' in particular providers to look at their effectiveness or efficiency. This could most directly be used to help understand whether the provider was providing transparency on VfM for students and providing VfM with public money.

39. More broadly, efficiency studies at provider level could in principle be used as part of an intervention in response to risk against other conditions, for instance if we considered poor efficiency or effectiveness was contributing to a provider being financially unsustainable or being at risk of breaching quality conditions. In this context, the efficiency study could raise the provider's awareness and acceptance of the problems and potential solutions, and potentially our decisions about what specific conditions to apply. However, we would need to think carefully about taking this approach: our regulatory philosophy as set out in the framework suggests that

considering how to meet conditions should be a matter for the governing body rather than the OfS and so this sort of intervention would probably only be justified as part of a package of interventions with a provider at particular high risk of a breach that had significant negative implications for students.

40. In relation to cost-effectiveness (paragraph 20 refers), a provider could be operating with less than maximum economy and efficiency yet still be providing excellent outcomes for all students and be at low risk of breaching conditions of registration (for instance if it heavily subsidised teaching from funds gained through investments and endowments). The regulatory framework states 'OfS will regulate at provider level to ensure a baseline of protection for all students and the taxpayer'. The protection of the taxpayer interest gives us scope to intervene at provider level if there are significant concerns about VfM in the use of public money in an Approved (fee cap) provider.

41. Secondly, by **intervening at a sector level** we can ensure that students have the necessary information to make informed choices, which in turn should drive providers to improve in order to compete. Other tools that support our 'consumer champion' role include the promotion of effective and innovative practice in areas where this does not unbalance the market or undermine competitive advantages. For example, based on evidence from sources that range widely from horizon scanning to collective student feedback (including from the OIA), we can instigate VfM studies at a sector level.

42. The table in Annex B sets out the levers and actions we have to promote value for money at a provider and sector level.

Next steps for sector-level interventions

43. This paper sets out an initial framework for considering value for money for students and taxpayers, and how this relates to cost-effectiveness at individual providers. It seeks to strike a balance between significantly focusing on outcomes (in relation to student participation, experience and outcomes), whilst identifying that achieving transparency around inputs is also important (paragraphs 36-39 refer).

44. Many of the proposed actions, as set out in the table in Annex B, are not exclusively about value for money for students or taxpayers but they can help deliver a positive impact on VfM. For example, we suggest in Annex B that we can help create the market conditions that will ensure students are able to discern differences in service and quality through: subject-level TEF; better student information, advice and guidance (including financial understanding); and consumer information.

45. Annex B also proposes specific sector level interventions to drive VfM that include: highlighting effective and innovative practice around transparency and accountability whilst identifying and publicising poor practice; monitoring and promoting transfer arrangements; and undertaking thematic VfM studies (an example

might be to explore the variable fees charged to sandwich year students vis-à-vis the support provided to them, their experience and its value).

46. The board is invited to consider the proposed actions and direction of travel that is represented in Annex B. This, together with its feedback on the framework presented in this paper will facilitate further action planning and delivery.

Resource implications for Office for Students

47. Not applicable at this stage

Risk implications

48. Not applicable at this stage

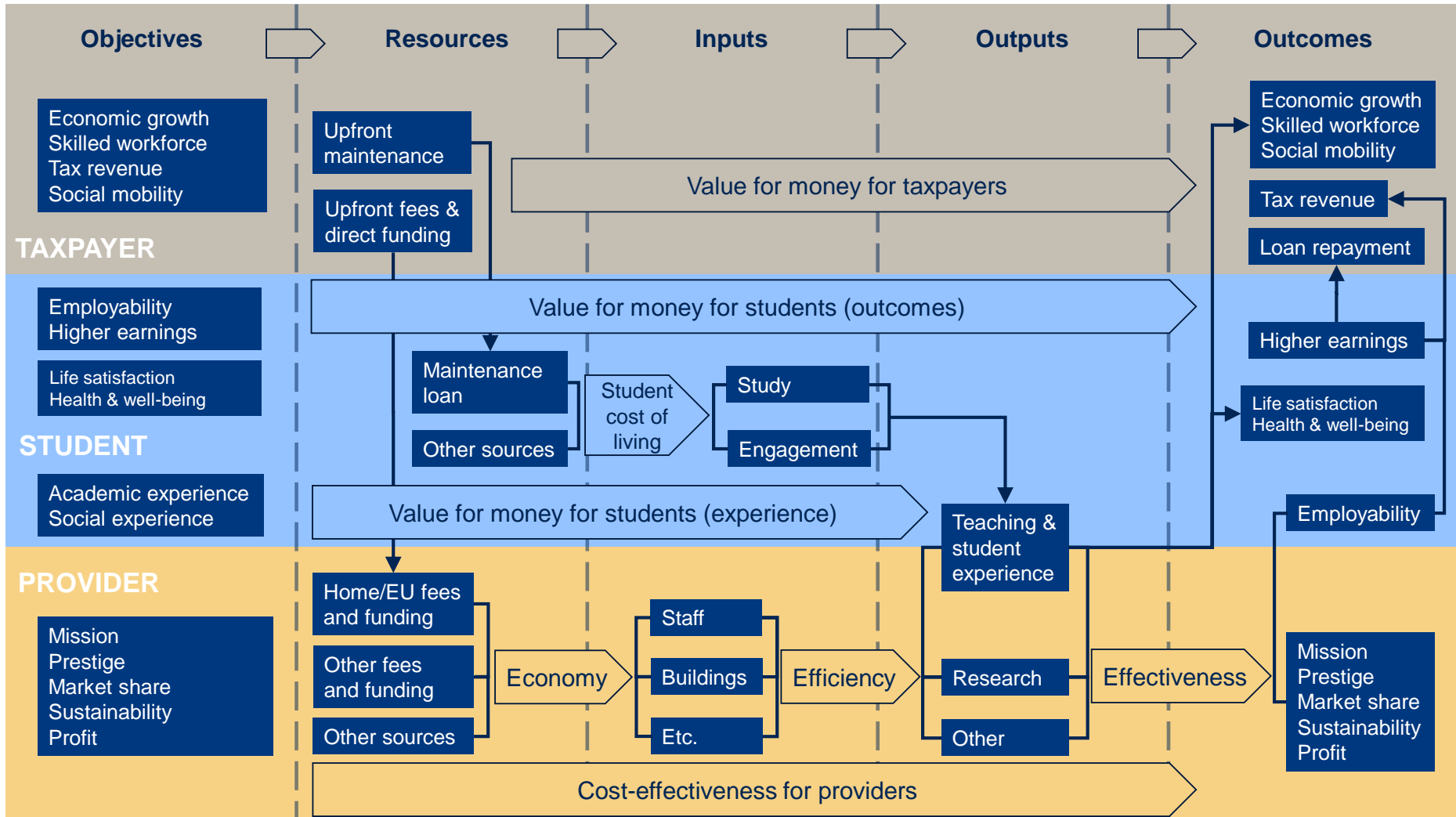
Communications and engagement

49. Not applicable at this stage as this is policy in development.

Regulation and sector impact assessment

50. Not applicable at this stage.

Annex A



Annex B

	TAXPAYERS	STUDENTS	PROVIDERS
Strategic objectives	All students, from all backgrounds, are able to progress into employment, further study, and fulfilling lives	All students, from all backgrounds, receive value for money All students, from all backgrounds, receive a high quality academic experience	No specific objective around cost-effectiveness
Underlying aims	More graduates enter highly-skilled roles; employer perceptions of graduate skills improve; graduate wellbeing improves, with wider benefits for society	More students have positive experiences of higher education and achieve positive outcomes; perceptions of value for money improve	Providers deliver value for money for students and taxpayers in a cost-effective manner, while managing money appropriately
Baseline conditions	Ensure poor quality provision is identified and addressed, by monitoring baseline conditions and intervening where necessary around: <ul style="list-style-type: none"> - Quality and student outcomes, including employment outcomes - Standards - Consumer protection - Management and governance - Public interest governance principle for transparency of value for money for students - Requiring providers to publish information about arrangements for student transfer 		Public interest governance principle in VfM for public funding Transparency for senior staff remuneration Power to carry out efficiency studies where concerns that a provider is not delivering value for money
Sector-level intervention	Ensure students can discern differences in service and quality through: <ul style="list-style-type: none"> - Subject-level TEF - Student information, including financial understanding - Consumer information 		Improved student and consumer information incentivises providers to deliver more cost-effectively in order to be able to improve their offer and compete in the market
Sector-level intervention	Champion issues on behalf of taxpayers Undertake thematic VfM studies and sector-wide analyses relating to value for money Strategic use of funding to support priority areas Encourage collaboration between providers and employers	Champion issues on behalf of students Undertake thematic VfM studies and sector-wide analyses relating to value for money Monitoring and promoting transfer arrangements Promote more flexible provision and differential costs of study	Highlight effective and innovative practice around transparency and accountability Identify and publicise poor practice