

**Executive Summary**

**Government, Funding Council and Universities:  
How Should They Relate?**

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1. Higher education is increasingly regarded by the Governments as central to the achievement of its social and economic policies. At the same time, over the last decade or so market forces have been allowed to play an increasing role in determining the direction of higher education and more particularly the fortunes of individual institutions<sup>1</sup>; and with the increasing importance of student fees -- now to be differentiated -- in the funding of institutions, the importance of the market will increase further. The Government's views about how universities should develop are increasingly focused, yet its influence over them is indirect at best.
  
2. The question posed in this paper is to what extent the Government in pursuing its declared objectives would be both wise and justified in seeking a more direct role, through the funding and other bodies it appoints, in determining the direction of the higher education system and its component institutions. It looks at current arrangements, considers the advantages and disadvantages of these, and goes on to consider alternative arrangements for the relationship between government<sup>2</sup> and institutions. It concludes that government will need to establish better mechanisms than exist at present to enable it to intervene with universities to promote the national interest or to ensure that regional interests are met. However, this does not imply a detailed planning role in the affairs of individual universities, though it does imply developing the capability and mechanisms to make informed judgements and intervene as needed.

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<sup>1</sup> For example, as will be shown later in this paper, student choices determine not only the income of individual institutions, but also the very survival of individual subjects; and university managers, not the Government or its agents, determine things like whether a university will enter or withdraw from a discipline area.

<sup>2</sup> In this paper the term 'governemnt' refers generally to the Governemnt and its agents, whereas the term 'the Governemnt' refers to the Government proper.

## Present arrangements

3. The United Kingdom, and within the United Kingdom England in particular, is unusual in the relatively hands-off relationship that exists between government and higher education institutions (here referred to collectively as universities). And higher education is unique among publicly funded services in this country in the extent to which universities are free to decide how to spend the money provided by the Government, and to decide their own destinies more generally. They are, for example, subject to much fewer controls in this respect than hospitals or schools.

### Buffer body

4. There is a tradition in this country<sup>3</sup>, going back to 1919, of a body that comes between the Government and universities, which means that the Government does not in general deal directly with universities. In particular, the Government does not provide funding directly to individual universities, but provides grant to the intermediary, or buffer, body (the Higher Education Funding Council for England (HEFCE), in the case of England), and leaves it to the Funding Council to distribute the money between institutions. The purpose of the buffer body arrangement was originally to avoid any suggestion that the Government might use the power of the purse to interfere in academic judgements, but it has the additional advantage of ensuring that detailed decisions on higher education funding are not taken with an eye to short-term political considerations. It also means that decisions which would be difficult to take politically might nevertheless be taken, with ministers justifiably being able to say that responsibility for the decisions is not theirs.

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<sup>3</sup> This paper considers the situation in England in particular, though much of the analysis applies to a greater or lesser extent to other parts of the United Kingdom.

5. While there remains a good deal of truth in the suggestion that the buffer body arrangement protects universities from a degree of unhelpful and detailed interference by the Government, the extent of the arm's-length relationship between the Government, Funding Council and universities should not be exaggerated. First, in interpreting the national interest, it is properly the function of the Government to give a strategic direction for the university system, and most recently it has done this through the publication of the White Paper 'The future of Higher Education', some of which was very detailed, and through the legislation that has since been proposed.
  
6. More directly, the Government gives the Funding Council an indication of what it expects for its money each year when it publishes a letter of 'guidance' that accompanies the grant settlement. These letters have in some cases contained a great deal of detail. And increasingly, HEFCE staff and DfES staff work together to achieve the Government's objectives for higher education. One example of the changing relationship is provided by the fact that whereas once the Government would have been content to tell HEFCE that it wished to see a high degree of selectivity in the allocation of research funds, in recent years the Government has specified more or less precisely what that degree of selectivity should be and how it should be achieved. This led to the Chief Executive of HEFCE telling the Select Committee on Education and Skills in March 2003 that HEFCE had wanted a lower level of selectivity, but had been overruled by the Government.<sup>4</sup>
  
7. Whereas the buffer body concept originally relied upon a high degree of expertise among its members (the appointed members, rather than the permanent staff) to exercise funding judgements specific to individual

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<sup>4</sup> Sir Howard Newby, Wednesday 5 March 2003, The House of Commons Education and Skills Committee, Fifth Report of Session 2002-03, Volume ii, HC 425-ii, paras 410-412.

institutions, the transformation of the UGC to the Funding Councils in the late 1980s and early 1990s replaced the exercise of expert judgements<sup>5</sup> with funding by formula and a reliance on universities themselves to exercise those judgements in the provision that they made with the funds at their disposal. With this transformation came a greater reliance on the market (albeit a managed one) to optimise the provision that was made with the funding available, and consequently detailed knowledge of the institutions concerned was no longer necessary to exercise the function of the Funding Councils. The most important change was a move from funding inputs and processes – which is essentially how the University Grants Committee operated<sup>6</sup> – to something nearer to funding outputs and outcomes, which is broadly how the Funding Councils operate<sup>7</sup>. This is both the consequence of, and has resulted in, profound changes in the relationship between Funding Councils and institutions.

#### Relations between Funding Councils and institutions

8. In keeping with this general philosophy of absence of detailed control, and reliance on local decision making and the market to optimise investment, the heart of HEFCE's relationship with institutions is the provision of a

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<sup>5</sup> In fact, in its latter years the UGC also introduced a degree of formula funding, though this remained heavily moderated by its view of the needs, strengths and weaknesses of individual institutions.

<sup>6</sup> It is interesting that although it was the UGC that introduced the research assessment exercise, it is clear from UGC letters and circulars at the time that this was seen primarily as a means of improving the management of research in universities, not as the instrument of funding that it subsequently became in the hands of the Funding Councils.

<sup>7</sup> While this dichotomy may be an overstatement, it highlights the essential fact that the UGC had subject committees which enabled it to develop detailed knowledge at a subject level of the universities for which it was responsible; enabling it to negotiate with universities about their strengths and weaknesses and where they would grow and where they would contract; and to agree the funding that was required for this. By and large, grants were based on historic funding, modified by the agreed changes. And although the UGC did consider the progress that universities made, its funding was not strictly tied to outputs -- for example, it did not cut funding if a certain level of student numbers was not recruited.

HEFCE on the other hand essentially funds institutions according to the number of students recruited (outputs) and the quality of their research (outcomes). If the number of students falls below a certain level, or the quality of research falls relative to others, then funding is withdrawn.

block grant, calculated by formula. Although HEFCE calculates the grant of every university in some detail - separately for teaching and research, for example, and within research separately for each subject - what it gives each university is a single sum of money to be spent at the university's own discretion, without separating it between teaching and research, between subjects, or even between amounts to be spent on staff salaries, libraries, etc. This is in marked contrast to most other systems around the world, where line item budgeting is the norm. These funding arrangements require institutions to have mechanisms for deciding upon and implementing priorities for expenditure internally. But many report that the very transparency of HEFCE's funding makes it difficult for university management to exercise their discretion and allocate funds internally in a way that varies from the basis upon which the funding was received – this is one of the prices to be paid for a block-grant system of funding.

9. HEFCE's grant to universities is subject to a financial memorandum, which is effectively a contract between HEFCE and an institution, that governs the basis on which the funding is given. It previously specified a minimum number of students that the university was expected to provide for with the grant - thereby making the relationship very clearly a contract between a grant giving body and a grant recipient. However, because of a change in HEFCE's funding method, this stipulation has been varied, and the requirement is now not so precise about numbers, but requires institutions to maintain their funding per student at a certain level - effectively, but not precisely, specifying a range of student numbers that they have to provide. For research, HEFCE funds universities according to judgements about the quality of their research in different subjects.

10. Despite the differences in approach, HEFCE is not so bereft of means to intervene as might appear. First, HEFCE's financial memorandum with

institutions can range widely, and can be very detailed. It governs, for example, the extent to which universities may borrow money, and it requires them to consult with HEFCE if embarking on a merger; and recently HEFCE has used the conditions of grant contained in the Financial Memorandum as a means of exercising greater control over what institutions do. The Financial Memorandum now requires all institutions to develop a widening participation strategy; and for institutions that require safety net funding - those that would otherwise have suffered a particularly high reduction in their level of funding - HEFCE has used the conditions of grant mechanism to require institutions to develop a recovery plan that is acceptable to HEFCE. This has effectively given HEFCE an important role in determining the future shape and direction of the universities concerned.

11. Secondly, a proportion of the grant that it allocates each year is set aside to fund special programmes. Less than ten per cent<sup>8</sup> of its funds in 2003-04 are being allocated for special purposes such as, for example, the programmes to enhance teaching and learning and that to support Chinese studies. Although this is a relatively small amount of money, because it is money at the margins -- and given the tight margins under which universities operate -- HEFCE is able to exercise disproportionate influence with these programmes, and one of the complaints of institutions is that they put a disproportionate amount of effort into pursuing such funding.

12. Notwithstanding these means by which HEFCE can influence the development of universities, universities remain independent institutions -- they are not owned by the Government, and they are self-governing. This fact - despite the continuing reliance of most universities on the state for a

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<sup>8</sup> The amount not provided through the block grant is actually higher than this -- at nearly 20 per cent. However, about half of this is for capital programmes, and a significant proportion of the remainder is for expenditure over which HEFCE has no effective control.

significant amount of their funding – continues to determine the relationship between the Government and its agents on the one hand with universities on the other; and to limit the extent to which government can directly intervene to ensure the achievement of its vision for higher education.

13. This is manifested most particularly in the development of an institution's mission and corporate plan, where, although HEFCE requires that the planning be done and it requires to have a sight of the plans, these remain entirely the property of the institution, and are not subject to approval by HEFCE. There is no relationship between the funding of the institution and its corporate plan - except to the extent that it is required to have one as a condition of grant.

14. So, it is possible for an institution to have a plan to expand into a certain academic area but for HEFCE to decline to grant additional funded student numbers to enable it to expand in that direction. The corporate planning and funding functions are separate. The university would be wise not to base its plan on unrealistic assumptions, but HEFCE has no commitment to the plan, and is at pains to make this clear. On the other hand, given the block grant arrangements, it is possible for a university to have a plan to move out of one subject area and into another, and, regardless of any wishes of the Government or HEFCE, to do so within its block grant without any approval being required. This is, of course, easier for the growing majority of institutions with substantial income beyond that provided by government (the average university in England now secures around 60 per cent of its income from sources other than the Funding Council, though much will still be from government through research grants and contracts).

15. These arrangements are in marked contrast to that which obtains in many other systems. In the United States, for example, a university in the state system will typically need to obtain the approval of the state authority to introduce a new course - and in many of those jurisdictions it would be unheard of for the university to be able to borrow without the state's approval. And most regimes have line-item budgeting, with the funding body determining how much the university should spend on salaries, how much on teaching resources, etc.

16. The arrangements we have here have endured for good reasons, and have contributed to the dynamism, vibrancy and quality of our higher education system. By and large, universities that are well-managed are in a better position to make their own decisions based on their strengths and weaknesses and their perception of market conditions than a central bureaucracy, however much expertise is injected into it.

### **Consequences of the present arrangements**

#### **Blunt and burdensome instruments of control**

17. As is argued above, the present arrangements give universities a great deal of control over their own destinies - much more than is the case in many other higher education systems around the world. But ironically, given the increasing wish of government to influence the details of what goes on in the higher education sector, and because of the formal separation of responsibilities between government and universities, some of the instruments of control that have been developed are probably more burdensome to the universities than more direct forms of intervention might be. These include the special programmes that are awarded competitively through bidding processes, and both the teaching and the research quality assessment regimes (though the latter is a necessary

feature of a performance-based formula funding arrangement, and the former may be regarded more as a measure of accountability than of control).

#### Mission drift

18. One concern with the present arrangements is that the use of funding incentives as the main instrument of persuasion, particularly where this is exercised through funding formulae, has will tend to lead institutions to pursue those activities for which funding incentives are provided, and to neglect activities - for example civic and voluntary activities - where incentives are not available. This in turn is believed by many to have led to convergence in mission and behaviour.

19. It has to be said, though, whether or not it is true that there has been convergence of mission and activity, we retain an immensely diverse system. Research carried out by Professor Brian Ramsden for Universities UK<sup>9</sup> has shown, on many different measures of diversity, how very diverse the UK system is. The measures range from the proportion of postgraduate students, where in the upper decile of institutions postgraduates represent 41 per cent of the student population, whereas for the lowest decile they represent just 9 per cent; the proportion of part-time students, where the range is from 44 per cent to 6 per cent; dependence on Funding Council grant, where the range is from 59% to 30 per cent; the extent of non-first degree undergraduate provision, with a range from 33% to less than 10%; the extent of research activity, where 75% of the funds are concentrated in the hands of just 26 institutions; and so on. On almost all of these measures – and on many others – there is huge variation.

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<sup>9</sup> Professor Brian Ramsden: Patterns of Higher Education Institutions in the United Kingdom. July 2001.

20. Arguably our higher education system is as diverse as any public higher education system in the world. What may appear to make it less so is that most universities do similar things -- it is this that makes them universities after all -- but they do them to very different extents and in different proportions. They converge in their activities, but they diverge in their strategies.

#### Damage to vulnerable institutions

21. A number of weaker institutions find it difficult to flourish in any system that funds performance, especially when the performance for which rewards are available – most notably research – is in areas where they are least likely to succeed. And yet they feel obliged to put effort into these areas, thus damaging other activities, for little or no gain. Even student recruitment can be difficult, and they are vulnerable to the loss of Funding Council grant which is held back if students are not enrolled in sufficient numbers. The insistence on achieving outputs in return for funding has reinforced the weakness of some of those very institutions that are already weak and are catering for the most vulnerable students.

#### Sub-optimal decisions

22. Another problem is that the current arrangements have resulted in institutions taking decisions based on their own self-interest which collectively may often result in suboptimal outcomes for the country as a whole.

23. The reliance on the block grant and the market has led to subjects where demand is in decline - perhaps only temporarily so - coming under threat as universities realise that their funding is at risk as they fail to recruit in

those subjects. Although there are inevitable internal pressures to the contrary, there are strong incentives to downsize out of those subjects, or to switch into other subjects that are more in demand.

24. The way that HEFCE calculates its grant may itself lead some universities to conclude that they would be better off by pulling out of some subjects. The calculation of HEFCE's grant for teaching is at a very high level, with just four price categories for different subjects. This is consistent with the principle of the block grant – HEFCE does not after all fund the details of what universities do: that is left to universities themselves with the funds that they have available. However, as a result some subjects that are relatively expensive to provide are funded at the same level as others that are relatively cheap. From the institution's point of view some subjects do not raise as much as they cost, and others are 'profitable'.
25. In a difficult funding environment, where hard-pressed universities are taking decisions in a way that will optimise their financial positions, it is not surprising if some subjects are being abandoned which might be retained in a different regulatory or funding regime. In these situations it is actually HEFCE's funding method which contributes to the closure of the departments, with potential damage to the national interest. The introduction of variable fees may increase this tendency. Institutions will be faced with the dilemma of whether to reduce the price of hard to fill subjects – which are often among the most expensive to provide – thus reducing even further the income they bring in, relative to others, or to price them nearer the cost of provision, but run the risk of declining numbers. This is an issue that HEFCE will need to address as it reviews its funding method.
26. So, science departments are being closed, along with modern languages departments, because the market - as measured by student demand,

modified by HEFCE as a monopsonistic purchaser - does not favour them. This has led to concerns about loss of provision in key subjects nationally, but there are also concerns about regional provision. Universities are taking unilateral self-interested decisions, and this, combined with HEFCE's reliance on national funding formulae, can lead to outcomes that are difficult for the nation. This, in turn, raises the question whether government needs to change the way it funds, and the way that it relates more generally to, institutions.

27. HEFCE does make provision for 'minority subjects', but the definition of minority subjects - which requires that fewer than 100 students study them nationwide - means that they tend to be rather esoteric, and the process for deciding which should be funded, which relies on the judgement of a small number of distinguished academics following a bidding exercise, is not at all satisfactory. In the 1990s HEFCE also intervened when alerted by the Foreign Office and the Department of Trade and Industry to their concerns that we did not have the capability in our universities to meet the rapidly changing and anticipated needs arising from the breakup of the Soviet Union and the development of China as a superpower. In each case it did so by establishing a review and subsequently a special programme to provide funding to a limited number of centres, chosen by competition, to boost provision in the subjects concerned. However, it is instructive to note that after the special funding ceased, in many cases the provision that was funded by the special programme was closed down by the universities concerned.

28. Even when viewed from the perspective of individual institutions, there is a concern that when institutions are left to their own decisions and the centre has limited power, then difficult decisions are avoided, and that, too often, vested interests may intervene to prevent good decisions, leading to a sub-optimal use of resources. An example of this is when mergers are

being considered, which may often be in the best interest of both institutions – or in the regional or national interest, even if not in the interests, viewed narrowly, of the institutions concerned - but which fall through for reasons that are neither rational nor transparent.

### **Alternative arrangements**

29. Given the centrality of universities to the prosperity and well-being of the country, the means need to be found to enable government to influence more directly, and to an appropriate extent, the way that the university system as a whole develops, without doing damage to some of the many features of the system that has led to its success hitherto.

30. It needs to be emphasised that on many measures we have a world class university system - still - and it could be argued that one of the reasons for this is precisely the hands-off relationship between government and university. Moreover, the present arrangements have led to a sector that is arguably as diverse as any publicly funded higher education sector in the world.

31. However, there are problems, and these have been enumerated above: particularly the perceived pressures to conformity of activity, and the possibility that decisions taken by institutions in their own interest will lead to sub-optimal outcomes for the system as a whole. The question is whether the disadvantages outweigh the advantages and whether therefore an entirely new basis is required for the relationship between universities and government, or whether the disadvantages are an acceptable price to pay for an arrangement that has led to the present relatively strong higher education sector. Indeed, there are some who would argue that if government were to loosen even further the controls

that it has a developed over the universities then they would be able to develop even more vigorously.

32. Of the negative consequences of the present arrangements set out above, that of mission convergence is in part to do with academic ethos and values. Many academics are motivated to succeed by reference to the criteria for success that the academic profession holds in common, and that is largely to do with research. The funding system may reduce or even remove the funding it provides for research from some institutions, but this may only make things more difficult for those who find themselves in an under-funded environment: it will not remove their desire to do research. This was clearly seen in the former PCFC sector, where, as became evident in the 1992 Research Assessment Exercise, research was surprisingly vibrant considering that there was no funding provided for this. And selective research funding may make things worse, as institutions without research funds, and their academics, devote to research resources that are provided for teaching. From this perspective, it is not clear that concerns about mission convergence would be alleviated by, for example, designating a small number of universities as 'research universities' and the rest not, which is an approach that has been suggested by some<sup>10</sup>.

33. There is, though, another perspective, and that is that because of the output or outcome basis of the provision of funding, universities feel obliged to engage in the activities for which funding is available. If the funding were provided to them regardless - or for a different set of activities for which they were better suited – then there would be less incentive for them to pursue research.

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<sup>10</sup> For example, Sir Richard Sykes, Financial Times, 3<sup>rd</sup> June 2003

34. This has led some to argue<sup>11</sup> that formula funding based on results should be replaced by a system based on individual negotiations between HEFCE and institutions, mirroring the approach in many other countries, including many of the US states. HEFCE would become more closely engaged with institutions and would agree – institution by institution – the profile of activities that each would perform, and the funding that would be provided for this. This approach would have resonance with the proposal of the Dearing Report that the Government should enter into ‘Compacts’ with universities, committing the Government on the one hand to a level of funding, and the institutions on the other to delivering the Government’s agenda for higher education.
35. Some institutions would find this mission-based funding approach an advantage, since they find it difficult to thrive in an environment that provides funding by results in areas where they have difficulty in shining. On the other hand, in a zero sum situation, such an arrangement would be unlikely to lead to more funding for those institutions, and the best that they could hope for from this would be to receive a similar amount of money as before, but for a different profile of activities. This is a prize which some might find appealing, but others would be disappointed if it did not lead to more money.
36. Such an approach would require an unprecedented degree of involvement by HEFCE in the affairs of universities, most of which would see little or no benefit as a result. Moreover, unless the negotiations included agreement about outputs or outcomes (which would introduce an additional level of complexity and discretion for HEFCE), then one of the great benefits of the present arrangements – the incentive that they provide for improvement and achievement – would be lost.

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<sup>11</sup> For example, Dr Roger Brown, Perspectives No 1 2000. ‘Diversity in Higher Education: Do we really want it?’

37. There may, anyway, be other, purely formulaic, means of achieving the same ends. HEFCE has increased dramatically the amount that it provides as the 'widening participation' premium, and it has done this from within the funds provided for teaching. At the same time, it has increased considerably the selectivity – and the amount – of research funds. The effect of this has been to reduce even further the amount for research available to the less research-strong universities, while increasing considerably – often by more than they have lost – the amount provided to many of them through the 'widening participation premium'. The intention of this, presumably, is to provide even less incentive to institutions whose research is not strong to pursue research, while providing similar funds to them as before.

38. Other formulaic approaches could be sought – for example an institutional premium could be provided directly proportional to the percentage of total grant represented by teaching funds. While measures such as these help reduce the financial imperative to conduct research, they do not impact the cultural imperative, but it is difficult to see what would influence that, even if it were desirable to do so. These are also general inducements that cannot be used to impact specific institutions and their funding and activities.

39. For the majority of institutions concerns about mission drift and research are not, anyway, a problem. The hands-off, market-based, approach suits them, and allows them to exercise their entrepreneurial skills and to manage their institutions and the system to achieve the best outcomes. A neutral HEFCE that does not interfere will continue to enable them to thrive. Such an approach requires strong management and governance systems, to ensure confidence that optimal decisions are being taken. A key function of the Funding Council should be to ensure this. If the

Funding Council is to engage more with institutions, then this, perhaps, should be where it should do so. Although changes to the funding formula can be introduced that will generally affect institutions in a predictable way, there will be some institutions for which the funding formula and the accompanying incentives will not have the desired effect.

40. However, there is a very real problem to which the present relatively hands-off and market-based approach has given rise (even though it is a managed market). With such an approach, government finds it difficult to pursue what it regards as the national interest, when decisions are being taken by institutions in their individual interests. If the sum of the interests of individual institutions equated to the national interest, then this would not matter; but they do not. Nor is it only the national interest that is an issue. Increasingly, universities are seen as key players in their regions and are looked upon as essential to the economic, cultural and social lives of the regions where they are based. If they take decisions which may be in their own financial or academic interests, but which nevertheless damage their regions; or if the funding arrangements reduce the capacity of a region's universities in some key respect -- for example in their capacity to undertake research -- then some form of intervention may be expected to ensure that the wider interest is protected.

41. If, in addition to funding outputs and outcomes, HEFCE were in the business of funding inputs or processes to some extent, then it would be possible for it to agree to fund, say, a physics department or a department of French, even if the number of students at a particular university might not warrant it. HEFCE might wish to do this to maintain a basic level of provision in the country, or in a region, for strategic reasons. HEFCE would need to make a judgement about the need, and then it would need to decide where to locate such a facility and provide funding for it.

42. This is not, actually, so wholly at odds with HEFCE's traditional approach. The bulk of its funding could continue to be provided in a hands-off, formulaic way. However, HEFCE would need to establish mechanisms -- which might include standing arrangements that included regional authorities -- that identify subjects, or other sorts of provision, that are at risk or that it wishes to encourage, and then to assess whether intervention is required either at a national or a regional level in order to maintain them. It will then need to establish mechanisms for deciding which of the competing institutions should be invited to make this provision. It has done this in the past in an ad hoc way with Chinese and former Soviet studies, as well as with minority subjects. It would be a different order of activity, but it would be an extension of a process that it has already carried out.

## **Conclusion**

43. It is undoubtedly the case that the Government has a greater desire to intervene in the activities of universities than previously, in order to ensure that they play their part in its vision for the development of the economy and of society more widely. It is also undoubtedly the case that some institutions would prefer a closer relationship with HEFCE, with a move away from results-based funding and towards what might be termed a more benign, but a more directive relationship. Moreover, such an approach would enable the development of the 'Compact' approach advocated in the Dearing Report. It would indeed go further than the Dearing approach, which was couched in terms of agreements between higher education and society more generally, and not specifically as a negotiation for core funding between a funding body and individual institutions.

44. Most institutions, though, would not welcome this, nor would such an arrangement necessarily lead to an improvement in the performance of the sector. However, there are problems that have arisen over the last 15 years of arm's-length arrangements - where there has not been a central body taking a view about the adequacy of national or regional provision - and HEFCE will need to modify its approach and to adopt more of a guiding, and even a leading, role. Indeed, in some respects it will need to adopt a more overtly planning role than it has at present, to enable itself to take a view about market failure, and about regional and national interests where these are not served by the decisions of individual universities, and to establish permanent mechanisms to intervene in such cases.

45. But such activity would be at the margins. It would still be for institutions themselves to decide their missions and strategic directions, and funding would still be based on formulae that take account of outputs and outcomes. Even the limited changes described here would require significant changes of structure and approach. If the relationship between government and universities were to change more fundamentally, a very different funding body would be required, with different structures and skills, and it is doubtful whether such a body would lead to better outcomes for our higher education system.