

CUC Report on the Monitoring of Institutional Performance and the Use of Key Performance Indicators

November 2006



CUC in collaboration with J M Consulting Ltd

Foreword

Welcome to the CUC guide for governors on monitoring of institutional performance and the use of Key Performance Indicators – KPIs.

The CUC Code of Governance, issued in 2004, refers to the responsibility of the governing body to monitor institutional performance. This new and additional guidance should help institutions and their governing bodies in thinking about how they can best carry out this responsibility.

The guide has been developed by a small CUC group, supported by an external consultant, Jim Port of J M Consulting. The group included representation from Universities UK, the Leadership Foundation, and from the Higher Education Funding Council for England, who helped to fund the work. The membership of the group and terms of reference for the project are included as Annex A.

CUC research shows that some institutions and their governors are already using KPIs, and that others wish to do so and would welcome guidance in this area. The approach in the guide is deliberately a “top-down” one, offering a possible monitoring framework for governors in which institutional performance is summarised in ten high level KPIs which can be reported on a single page. The guide provides a range of additional materials to help institutions to think about how to build up these top-level KPIs.

The guide emphasises that governors work in a partnership with the executive officers of their institutions, but they need some different perspectives on institutional performance, with less operational detail, and without large volumes of paper. I believe this CUC guide offers a practical approach, in a flexible and non-prescriptive way which should help institutions and their governors to think through how they exercise these important duties.

I wish to express my appreciation to my colleagues for their hard work and careful reflection in making their contributions to the group.

The CUC are committed to evaluating the guidance after a suitable period and this will provide an opportunity for further comments and contributions.

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Chair-Elect of CUC

NOTE

Each governing body has to develop its own arrangements for performance monitoring of the institution, in the light of its circumstances and the preferred way of working of the governors. This guide offers illustrations and examples to help governors in thinking through their preferred approach, but it is not intended to be a template or an “off-the-shelf” solution. The CUC would expect institutions to consider for themselves how they wish to meet the requirements of effective oversight.

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1 Summary Report

Overview

- 1.1** This chapter summarises the background to the monitoring of institutional performance by governors, and introduces the monitoring framework proposed by the CUC to support the requirements in the Governance Code of Practice (see box). The CUC framework for monitoring of institutional performance is built around the concept of key performance indicators (KPIs). At the top level, for strategic review of performance, the CUC framework proposes the use of ten high-level KPIs which can be used to assess all the aspects of institutional performance which are of fundamental concern to governors. These ten can be reported on a single page using a “traffic-light” style of presentation (illustrated in Figure 1 on page 10).

The Code of Governance and Institutional Performance Monitoring

In 2004, partly in response to recommendations in the Lambert Review of Business-University Collaboration (December 2003), the CUC published the Code of Practice for Governance in Higher Education. Institutions are required to have regard to the Code in their governance activities and arrangements.

The Code includes a Statement of the Primary Responsibilities of the governing body which includes “monitoring institutional performance against plans and approved KPIs, which should be, where possible and appropriate, benchmarked against other institutions”.

- 1.2** This guide uses the term KPI in the sense of a high-level, or strategic, indicator of an aspect of institutional performance which is of importance to governors. The high-level KPIs have much in common with Critical Success Factors which will be familiar to some governors.
- 1.3** The ten high-level KPIs are built up using other monitoring tools proposed in the guide. These include a number of self-assessment questions in each of the ten performance areas covered by the high-level KPIs, and also a number of supporting (lower level) KPIs in each of the ten areas. The self-assessment questions and supporting KPIs will help institutions to make the aggregated assessments governors will need in each performance area. The combination of these three types of monitoring tools (high-level KPIs, self-assessment questions and supporting KPIs) creates a logical monitoring framework, and a menu of illustrative monitoring tools which institutions can use and adapt as they wish.
- 1.4** No part of this monitoring framework is intended to be prescriptive or mandatory for institutions. However, the CUC believe it represents an example of good practice and institutions may wish to draw upon this, or to develop their own alternative arrangements which achieve similar aims, in fulfilling their responsibilities to monitor institutional performance.
- 1.5** Governors will be conscious that they can only exercise their responsibilities by working in partnership with the executive officers of the institution. The CUC code emphasises that this partnership needs to be a mature and professional one, based on a clear understanding of the different roles (and mutual inter-dependence) of governors and executives.

Context: Why do Governors need KPIs?

- 1.6 HEIs are complex organisations. Many are amongst the largest businesses in the areas where they operate. If governors are to monitor institutional performance, they will have to look at a range of areas of institutional activity at a strategic level appropriate to the Council, Court, or Board of Governors (called the governing body in the rest of this report). Governors will be aware that institutions cannot be managed or assessed simply on commercial criteria because of the nature of academic work, and the public funding and public service role that HEIs fulfil.
- 1.7 The kinds of complexity involved, and the need for KPIs, can be illustrated by reference to the main areas where governors have responsibility as follows.

Academic Character

- 1.8 The academic character of an institution is determined by a combination of factors. It may take many years to establish. The sector tends to divide into a small number of broad families of institutions (research-led, regional, professional and vocational, specialist etc), and within these families, individual institutions position themselves to maximise their academic reputation and attractiveness to students, staff and funders.
- 1.9 This is a complex area. Students are not just customers; they also have to commit to the learning process in a partnership with their institution. Research is by its nature an uncertain and risky activity.
- 1.10 Governors have a clear responsibility for the mission and academic character of their institution, but at a strategic level. The details of academic planning and management are normally delegated to a Senate or Academic Board, but, nevertheless, governors need to understand the issues, and to know that all is well in this core area. If they do not, the whole future of the institution can be called into question.

Financial Health, Assets, Resources

- 1.11 This is more familiar territory for most external governors, and an area where they have a strong contribution to make. Institutions manage large portfolios of assets and also have to plan and manage their finances in a complex and demanding environment where they are subject to market forces and competition as well as to public accountability and government requirements. The financial and market environment is changing and becoming quite challenging for institutions.
- 1.12 Firstly, **the financial outlook** for HEIs is getting tougher, and it is likely that public funding for teaching and research will not keep pace with the demands of pay settlements, pensions, building cost inflation, utility costs. Most UK HEIs are already only marginally in surplus, and many are in deficit on a full economic cost basis .
- 1.13 Secondly, higher education is becoming more **competitive and marketised**. Variable student fees are only one aspect of this. Institutions also have to cope with the pressures of national and international league tables, the National Student Survey, the Research Assessment Exercise, more contract-based funding (such as for initial teacher training and health professions). All these are creating a more competitive and business-oriented culture in higher education.
- 1.14 The nature of this competition varies. Some HEIs face local and regional competition, while others also face international competition. This is not just for attracting students, it also extends to staff, research contracts, and sometimes to financing opportunities.

Staff, Management and Governance

- 1.15** Staff are the most important resource for any institution – and usually the largest element of cost. Academic staff work like other professionals in an environment where they have a fair degree of autonomy and, in some cases, no fixed working hours. Those engaged in research and enterprise activities may spend a lot of time in activities that are difficult to plan and manage, and often take place outside the institution. Yet as market and financial pressures increase, institutions need to be able to monitor and manage staff performance, and they also need to invest in their staff and to manage their portfolios of activity in a more strategic way. These issues create challenges for institutions, and Human Resources strategies are still relatively recent and weak in many HEIs.
- 1.16** Governing bodies have a direct responsibility for HR issues, as the legal employer of staff, and they also have direct responsibility for appointing and monitoring the performance of the Vice Chancellor or Principal (called the Head of Institution in this report) and (in many institutions) other senior managers.

Sustainability

- 1.17** Institutions are now explicitly required to **plan and take responsibility for their own sustainability**. This will be a huge challenge for some, and governing bodies will have to become much more engaged with a number of institutional strategies and their implications. For example, some institutions which are making surpluses in published accounts are nevertheless not generating enough cash to invest in their infrastructure. Others have academic strategies which imply a need to subsidise some activities long-term, but have not yet identified the secure sources of surpluses to enable them to do this.
- 1.18** These are tough challenges for any board of governors. No institution has “failed” in recent years, but a few have had to accept merger or restructuring as a price of survival (and some have merged for other reasons). This trend towards consolidation seems likely to continue.

Who is the Guide for?

- 1.19** The guidance is intended for governors. It will of course be used by Heads of Institution and other senior managers who work with governors, but they already have access to other sources of advice and are not the primary audience for this guide.
- 1.20** Governors comment that there is so much paper and reporting and measurement in higher education that they find it hard to distinguish the areas where they need to engage with these processes. They are naturally cautious about challenging the advice from the senior managers, and they find that even business-related issues like pay, pensions, financial accounts and strategic plans seem to come with a special higher education context, and to generate voluminous documents. Risk assessment is a good example of this. External governors are used to making risk-based judgements, and would take naturally to this approach in the governance of their institutions, but governing bodies often seem to be presented with a voluminous and detailed operational risk register, rather than a presentation on the “five things that could put us out of business”.
- 1.21** The aim of the guide is consciously to take the latter approach over the former. It is designed to provide high-level advice and support to governors who:
- may not have a detailed life-long knowledge of higher education;
 - can (understandably and properly) devote only a limited time to their institutions in between formal board and committee meetings;
 - wish to make a full strategic contribution to the success of the institution.

- 1.22** The guide does not intend to be fully comprehensive or to cover every aspect of performance monitoring. Its aim is to provide a starting point and to illustrate good practice in a way which institutions and their governors can build upon as best suits their individual circumstances and preferences.

Philosophy of the Guide

- 1.23** The design of the guide has been influenced by the following considerations:
- governors cannot and should not monitor large volumes of operational information. They need a small number of high-level KPIs which are about the most critical factors for the institution;
 - the KPIs which are most important and relevant for governors to monitor will differ between institutions, and between types of institution. To give one example, a university with a strong focus on access will be interested in monitoring KPIs related to its success in securing engagement, retention and progression by students without traditional academic entry qualifications. This will be very different from the “input competition” indicators such as A Level points scores or applications per place which are of interest to more “elite” institutions;
 - while it is a laudable aim to link the KPIs to other work and plans in the institution, it would be a mistake to see KPIs for governors as the pinnacle of a “bottom-up” process of operational monitoring within the institution. Rather, the KPIs for governors should be derived by a ‘first-principles’ consideration of what governors need to review;
 - some of the things governors need to review will be difficult to quantify, and may not be covered by existing institutional data or systems.
- 1.24** As a result, the guidance takes a deliberately “top-down” approach. This helps to ensure that important strategic issues can be covered in a balanced way, and reduces the risk that the availability of data, or ease of measurement, drives the agenda to the exclusion of more fundamental issues where quantitative measures are more difficult to define and apply. This could also be described as a risk-based approach – governors should spend more of their time monitoring things that really matter for the future of their institutions, and less time on oversight of operational compliance which can usually be left to the senior management.
- 1.25** The guidance is indicative rather than prescriptive, and it is “layered” so that at a high level it provides a set of simple indicators which can be shown on one page, but there is scope to expand on these (or to drill down) as is most relevant for each institution.

The Monitoring Framework

- 1.26** The core question addressed by the guide is “what do governors need to monitor in respect of institutional performance”?
- 1.27** To answer this question, the guide defines KPIs at three levels, and provides other materials to help institutions to construct and use these KPIs. This creates a monitoring framework, i.e. a flexible structure which combines the high-level presentation of essential performance review information on one page for governors, with the layered back-up material which underpins this.

The Top Ten High-Level KPIs

- 1.28** At the highest level, the guide defines two highly-aggregated performance indicators covering institutional sustainability, and academic profile. These could be considered the two most fundamental issues that concern governors, as any significant weakness or concern in either of these areas could threaten the future of the institution in its current configuration. Between them, these two indicators potentially cover much of the activity of the institution.
- 1.29** These two “super KPIs” are supported by eight other high-level KPIs covering all the main strategic aspects of institutional health. These are more focused (i.e. they each cover a narrower area) than the two super-KPIs, but they are nevertheless still high-level or aggregated indicators which will each be made up from consideration of a number of factors.
- 1.30** Together these two levels constitute the “top-ten” or “high-level” KPIs. They are shown in Table 1 below. The ordering of KPIs 3-10 is not intended to imply any hierarchy of importance.

Table 1: The Top-Ten High-Level KPIs

Top-level summary indicators (“super KPIs”)
1. Institutional sustainability
2. Academic profile and market position
Top-level indicators of institutional health
3. The student experience and teaching and learning
4. Research
5. Knowledge Transfer and relationships
6. Financial health
7. Estates and infrastructure
8. Staff and Human Resource Development
9. Governance, leadership and management
10. Institutional projects

- 1.31** The relationship between the two summary indicators and the other eight is a subtle and complex one, and it may differ for different types of institution (for example Research may be critical to sustainability for some institutions, but not for others). The “top-ten” indicators are therefore not necessarily completely mutually exclusive, but each one enables governors to focus on an aspect of institutional performance which is important. Some governing bodies might wish to add to or amend this set to create their own high-level KPIs, but for this top level of presentation to governors there should not be too many of these (a top-twelve or fifteen would be fine, but not a “top-forty” which would no longer be about strategic performance review).
- 1.32** The top ten in the guide have been chosen because they form a coherent set of KPIs which meet the criteria of being:
- a. critical to the success of the institution;
 - b. strategic – i.e. high-level and of interest to governors;
 - c. relevant to all types of institution;
 - d. able to cover all the main areas of strategic activity and risk which governors need to monitor on a continuing basis.

Supporting KPIs and Other Materials

1.33 Each of the ten high-level KPIs covers a broad range of institutional activity. Within each area, governors will need to call upon a variety of tools to help them reach an overall assessment of institutional performance. Some appropriate supporting materials are illustrated in chapter 3.

They include :

- contextual material;
- a set of key challenge questions for governors to ask about the performance of their institution;
- illustrative supporting KPIs and other sources of information.

The Context

1.34 A brief statement of the context for each top-level KPI will be important and helpful for governors (who may not be familiar with all the background that is taken for granted by senior managers). It will often fall into two parts:

- some national or generic contextual information;
- institution-specific context.

1.35 Each institution will wish to develop and adapt this material for itself, but the guide provides some illustrative contextual briefing to assist institutions who wish to use this. The context should be brief – not usually more than a page or so for each performance area.

The Challenge Questions

1.36 Chapter 3 suggests a set of challenge or self-assessment questions in each performance area. These are high-level strategic questions of the sort that governors might usefully ask themselves (and the senior managers of the institution) to help to reach an overall assessment of institutional performance. They often cover the more qualitative aspects of institutional performance where the governors' assessment will be informed by discussion and evidence, but is less likely to flow directly from numerical KPIs.

1.37 Each governing body could adapt these questions as it wishes. In doing so, governors might bear in mind that it is good practice to ask questions which require a specific answer with evidence rather than ones which may be simply answered "Yes" or "No", as the latter will add less value to the assessment.

1.38 There will often be some room for debate or disagreement about the details of the assessments in these complex areas of institutional performance. Some of the evidence may be subjective, and different governors may attach greater or lesser importance to particular aspects of the assessment. This ambiguity reflects the real difficulty of being precise about assessments in some of these areas (sustainability, for example, requires a medium-term forward forecast made in a changing environment and financial context). This is not a problem: on the contrary, the opportunity for debate and challenge which the self-assessment provides should be helpful to governors and senior managers in arriving at a shared understanding of the future sustainability and performance of their institution.

The Supporting KPIs

- 1.39** Some illustrative supporting KPIs are listed under each performance area. They are more specific and detailed than the high-level KPIs, but are nevertheless directly relevant to the strategic high-level KPIs. Some of them will be familiar; others do not necessarily come from any existing data source and may need to be devised by institutions which wish to use them. They are intended to illustrate the possibilities in each area – not to be adopted wholesale without further consideration.
- 1.40** Approximately 60 supporting KPIs are illustrated largely because around five or six seems a sensible number of independent pieces of evidence to support assessments in most of the high-level KPIs. However, there is no special significance in this number. 60 is too large a number of KPIs to present to governors on a routine basis, and that is not the intention of the guide. These KPIs are 'second-level' indicators which could be used to support assessments in the high-level KPIs, alongside other evidence including from the self-assessment questions. Institutions will choose how many and which KPIs to use to reflect their different missions and circumstances, and the way they have decided to aggregate these assessments for their governors.
- 1.41** Further details of each illustrated KPI with definitions and comments are provided in the Appendix. This is provided to assist planning officers or others who are involved in generating the KPIs for governors.

The Assessment Process

- 1.42** In all performance areas, the assessment will draw on the various sources of evidence and information, including both quantitative data (from some of the KPIs) and more qualitative and subjective evidence - from the self-assessment questions for example. Making these assessments will require an intelligent analysis and interpretation of a mixed body of evidence in the light of the particular mission and circumstances of the university.
- 1.43** Each assessment will therefore be a composite of both numerical data and of qualitative judgements. It may also include an evaluation of trends, comparisons with peers, and assessments of progress against the institution's own objectives and targets.
- 1.44** These aggregated assessments cannot be represented by a simple numerical indicator. One effective approach, which will be well known to many governors, is to use the traffic-light style of presentation, so that the top-level KPIs would show as Red, Amber, Amber-Green or Green, as illustrated below. Institutions could choose to simplify this to three categories Red, Amber, Green, but this may lose some useful detail, or they could extend it to five categories (by adding an Amber-Red category), at a cost of some greater complexity). The definitions of these colours (in a four-colour system) could be as shown in Table 2 below. (There is further discussion of traffic-lights in paragraph 2.26.)

Table 2: The Traffic Light Definitions

Green	Good: this is on track, low risk
Amber-Green	Satisfactory: this is broadly on track with some concerns which need to be addressed
Amber	Mixed: some significant concerns which could be damaging if not addressed, medium risk
Red	Problematic: serious concerns threaten this area, high risk to the institution's overall performance

The Report to Governors

- 1.45** Governors would periodically receive a one-page summary monitoring report which would show the status of each of the ten top-level KPIs as discussed above.
- 1.46** An example of what this presentation might look like is shown as Figure 1.
- 1.47** This one-page presentation would be supported by the back-up schedules, as illustrated in chapter 3, which give further detail so that governors who wished to could “drill down” in some or all of the “top ten” performance areas.
- 1.48** The full suggested performance monitoring pack for governors could therefore potentially be approximately 25-30 pages long (1-page summary, plus 2-3 pages for each of 10 top-level performance areas). This is probably too much material, and governors would not need to read all of this on each occasion. The one-page summary would show at a glance where any potential problems lie and individual governors could choose to refer to the particular back-up pages for the areas of interest.
- 1.49** Governing bodies will choose how to manage this, but a possible approach to reduce the volume of paper is to circulate to all governors only the institution’s top-level summary (equivalent of Figure 1) plus the relevant schedules for any “super KPIs” (equivalent to KPIs 1 and 2 in the guide). This would imply a total of only about 6-8 pages for all governors to read.
- 1.50** Governors with special interests in particular performance areas (for example, governors involved in finance, personnel or estates committees, or in student liaison) could also receive these relevant schedules, and of course, all Governors could request further schedules if they wished. The full pack might be reviewed once a year as part of the annual review of the strategic plan.

How to Use the Guide

- 1.51** A suggested way for institutions to use the guide is to review the monitoring framework outlined above, and the materials provided in the supporting schedules in chapter 3, and to agree on an appropriate performance review process for the governing body in the light of these suggestions and illustrations. This is a matter for each institution to decide, but the CUC would expect that any governing body which chose not to follow this broad approach would need to find, and implement, some alternative method to fulfil its responsibilities for institutional monitoring.
- 1.52** As part of this, governors would need to consider;
- a.** how institutional performance assessments are to be presented and monitored by governors;
 - b.** a suitable timetable and process for regular monitoring of institutional performance, including agreement on how action is taken when such monitoring indicates that this may be required;
 - c.** how the assessment capability is to be provided, and what kind of policy supervision (e.g. from the chair and head of institution) is appropriate.
- 1.53** They should also consider how these arrangements fit with the processes of institutional performance monitoring already used in the senior management team for more operational executive purposes. While it is appropriate that governors should have their own monitoring framework and their own KPIs, it will not make sense for institutions to have two parallel processes of institutional monitoring running without at least considering the scope for bringing these closer together, or, perhaps, having a common set of base information and common assessment arrangements. However, governors will also wish to ensure that they have access to advice and data which has a degree of independence – and that they have the capability to request information and analysis as and when they wish.

- 1.54** In this context, the guide assumes that institutions will already have in place, and that governors will be involved in and aware of:
- a strategic planning process which leads to agreed statements of the institution’s mission and key strategic objectives for the medium term;
 - strategies (amongst others) for finance, estates, teaching and learning, research, human resources, and Committees of the Board or Council which review such material and advise the governing body accordingly;
 - a management team properly constituted to account to governors for the performance of the institution in the areas covered by the monitoring framework in this guide.
 - a planning office or secretariat which is capable of assembling KPIs and related data for the governors, and can manage the process of preparing these reports.

Figure 1: An Illustrative One-Page Top-Level Summary

Assessment of institutional performance for ..		Reference *
A. “Super-KPI” indicators of medium-term institutional performance		
1. Institutional Sustainability	AR	
2. Academic profile and positioning	G	
B. Top level KPIs – strategic indicators of institutional health		
3. The student experience	AG	
4. Research	AR	
5. Knowledge Transfer and relationships	G	
6. Financial health	AG	
7. Estates and Infrastructure	AR	
8. Staff & HRD	AR	
9. Governance, Leadership and Management	G	
10. Institutional projects	G	
* reference to relevant back-up schedules attached or available on request		

2 Performance Measurement and the Use of Key Performance Indicators

- 2.1 This chapter provides a brief summary of some of the structured methodologies, techniques and experience of performance management in UK higher education and in other sectors of the economy and overseas.
- 2.2 This review draws upon the results of a survey of the use of KPIs by governors conducted by the CUC early in 2006, (described below) and on information on practice in the USA provided by a corresponding member of the CUC project group.
- 2.3 The aim of this chapter is not to provide a definitive text on KPIs, but to illustrate the range of approaches that are available as this may help governing bodies which are still thinking about how to exercise their responsibilities in this area.

No guidance is presented in this chapter but it is intended to provide helpful background for institutions which are considering their approach to KPIs.

Introduction

- 2.4 It may be helpful to start with a simple conceptual framework. A simple generic model of what can be measured by KPIs could be as follows:

Inputs → Activity → Outputs → Outcomes

- 2.5 The arrows broadly indicate increasingly strategic interest of the measures, but also increased difficulty in defining and measuring performance. So, governors are most interested in outcomes, but these are difficult to define and measure in higher education, as they are often complex and long-term (for example, social inclusion, regional economic impact, the value added to a student by their educational experience, the impact of a research programme). As in other sectors, many of the performance statistics produced in higher education are about inputs and activity, and this tendency is probably accentuated by the focus on public accountability and hence on financial ratios and on efficiency and value for money.
- 2.6 Most institutions have strategic and operational plans, and these contain **strategic objectives**, which will usually relate to outputs or outcomes in being at a relatively high level and medium-term (such as to improve in the next RAE, or enhance the student experience, or improve financial strength). Some objectives in plans will be more operational (e.g. to refurbish 20 lecture theatres in time for the new academic year). All these examples represent quite large and complex projects which will include many more specific individual activities (or tasks).
- 2.7 One aspect of performance measurement is to **monitor** progress or achievement against such pre-defined objectives or tasks. Monitoring is often thought of as softer than measuring – it involves ensuring that things are going to plan which may or may not include **measuring** some quantifiable or numerical factor, usually against a pre-determined target. (For example, student applications can be monitored at a particular date, as can progress towards obtaining planning permission for a new building, but only the former can really be measured.)
- 2.8 Another aspect of performance measurement is to take a health-check in some area (student satisfaction for example), without necessarily having a pre-decided target in mind (indeed, the aim may be to establish a baseline against which to measure future progress). The first time a staff or student satisfaction survey is done for some years is a good example.

- 2.9 A further aspect is to compare (or bench-mark) the institution against its peers or competitors – league tables are one example of this, and there are already many examples of inter-university benchmarking in place in higher education. Some of these are relatively formal and published (such as the Estates Management Statistics, TRAC indirect cost rates for research), others are informal.
- 2.10 Yet another way of monitoring performance is to measure progress or trends – (e.g. retention rates have improved over the past three years since we started a campaign to reduce student drop-outs). Or to compare across different parts of the institution (e.g. PhD completion rates are higher in the school of Natural Sciences, than in Medicine.)
- 2.11 It is probably helpful to make a distinction between **performance measures** - where the numerical indicator is a precise or robust measure of the factor of interest (e.g. student numbers, building condition, financial outcomes) and **performance indicators** – where it is not (such as teaching quality, student satisfaction, or sustainability). However, even the apparently more robust performance measures can have some uncertainty attached to them – financial accounts as every governor will know are not unambiguous statements of a single truth.
- 2.12 Some performance indicators may deliberately be a proxy for something which cannot be measured directly (absenteeism could be used as a proxy for staff commitment for example; income is sometimes used as a proxy for costs).
- 2.13 There will be many (probably hundreds) of performance indicators potentially of interest to governors and used in the papers which the university generates as part of its operational management. In the estates and finance areas for example, there are national data-bases which provide large volumes of comparative statistics across all universities.
- 2.14 As noted on page 1, for the purpose of this guide, Key Performance Indicators are a much smaller set of high-level indicators. They may be generated by some form of aggregation of lower-level PIs, but they should not be limited to measures which can be created in this way.

Structured Models for Monitoring Performance

- 2.15 There are four approaches or techniques in common use which may be relevant to HEIs in performance monitoring. These are:
- the balanced scorecard
 - the EFQM model
 - composite or summary indicators
 - dashboards.

Balanced Scorecard

- 2.16 The Balanced Scorecard (BSC) approach is a simple framework for performance measurement recognising that success for organisations depends on achieving a balance of objectives in different areas (e.g. both financial and customer, not one at the expense of the other). This was developed as a reaction against the common experience that financial ratios tended to dominate corporate performance measurement in a way which was unsatisfactory and potentially misleading.

- 2.17** Typically (but it does not have to be used this way) the scorecard has four segments where organisational performance is monitored, and these are usually based around:
- customer perspective
 - internal (process) perspective
 - financial perspective
 - people perspective.
- 2.18** Performance indicators would be used in each of these four domains, and the main innovation of the approach was that the managers or governors would explicitly look at all four domains in a balanced way when reviewing performance. (So, a good year for student recruitment and income, but in which student satisfaction declined and there was industrial action and a fall in the national league tables, might not look so good when all the factors were assessed in a balanced way.)
- 2.19** Responses to the recent CUC survey (see below) suggest that several HEIs are using a balanced scorecard approach for monitoring by their governing bodies.
- 2.20** It is worth noting that while the BSC is a good idea, there is nothing inherent in the use of the technique that guarantees it will be effective without real engagement and hard work by the institution in defining its strategy and objectives, and specifying the relevant list of indicators. Like the other techniques mentioned in this guide, the BSC can help with analysing and presenting performance data, but cannot substitute for this commitment by senior managers and governors.

EFQM Excellence Model

- 2.21** The EFQM (European Foundation for Quality Management) Excellence model is a framework for assessing organisations' performance. It was introduced as a tool for the European Quality Award, but is used more widely.
- 2.22** The EFQM Excellence Model is a non-prescriptive framework that is based on nine criteria. Five of these are called "enablers", and four are called "results". There is feedback between these two sets. This is shown below.

Enablers	Results
Leadership	Performance Customers People Society
Policy & strategy	
People	
Partnerships and resources	
Processes	

- 2.23** This is really a variant of the Balanced Scorecard approach, albeit a slightly more complex one, and it has similar potential benefits and limitations.
- 2.24** A small number of HEIs are known to be using the full EFQM approach.

Composite or Aggregated Performance Indicators

- 2.25** Some public sector agencies have used composite quantitative performance measures in which a number of different numerical indicators are combined into a single overall indicator of the agency's performance. For example the Department of Transport's vehicle and driver inspection agency used such a composite indicator to aggregate performance of a portfolio of different testing activities, each of which could be measured in terms of volumes completed (activity) or results (outputs). It seems unlikely that this approach could apply to the much more diverse activities across an HEI (although it might apply in limited areas within an HEI).
- 2.26** However, a non-quantitative composite measure might be relevant across the whole of an HEI's performance. Many organisations, including some government departments, use composite qualitative indicators in which a combination of assessments or measures are combined into a single "traffic-light" indicator of progress or performance. An example of this is in the box below.

Traffic-Light Indicators

The Department of Trade and Industry uses a traffic-light system to report progress against departmental objectives. A "Green" indicates that a particular policy or activity is progressing well with no significant risks envisaged. A "Red" indicates a problem area which could threaten the department's outputs unless remedial action is taken. Less significant problems or those which are uncertain or still developing can be indicated by "Amber" or even by "Amber/Green" or "Amber/Red" measures.

The DTI Office of Science & Innovation uses this approach to indicate the sustainability of Public Sector Research Establishments (PSREs) against a number of assessment areas including governance, staff, financial profile, infrastructure. Each area leads to a traffic-light indicator and these are then aggregated to give an overall sustainability indicator for the whole PSRE.

Dashboards

- 2.27** Dashboards are, as the name implies, a way of presenting a variety of data elements on institutional performance. In a sense, all the techniques described above are also forms of dashboard in that they lead to a summary presentation of data for institutional managers or governors. The use of dashboards is quite common in universities in the USA where they are typically electronic tools that take data from institutional systems and present it in a way which shows variations, trends, and directions of travel of key aspects of institutional performance.
- 2.28** A survey of US experience with dashboards was recently conducted by the Office of Institutional Research at Tufts University. They found that the average number of indicators used in a dashboard is around 25-30, and that the indicators used varied by institution, but could be grouped into eleven broad categories. These are shown in the table below, together with the most common indicators used in each category.

Table 3: Most Common Indicators used in Dashboards by US Universities

Category	Indicator Group
Financial Indicators	Endowment & Expenses Data Advancement Financial Aid Figures Fees/Tuition Data
Admissions	Admissions Scores General Admissions Data Graduate Admissions
Enrolment	Enrolment Figures Enrolment Figures (Special Population)
Faculty	Faculty – General Faculty Composition - Special Population
Student Outcomes	Graduation Rates Retention Rate Measures of Success Enrolment Awards Graduation Rates - Special Population
Student Engagement	Student Body – Engagement
Academic Information	Student/Faculty contact Academic Information
Physical Plant	Physical Plant
Satisfaction	Student Satisfaction Employer/Staff, Other Satisfaction Faculty Satisfaction
Research	Research
External Ratings	Peer Assessment Data

Conclusion on Techniques

2.29 It is perhaps obvious, but important to note that none of these frameworks for performance measurement provides an “off-the-shelf” solution in the sense of defining KPIs for institutions. All they can do is provide a framework for presenting KPIs and context within which institutions can think about their own set of relevant KPIs, and the possible relationships between them.

Current Practice in the Sector

- 2.30** There is already a large volume of experience of using performance measures in higher education. The systems in use at a national (sector) level include the following:
- a. league tables: there are now a large number of these, both national and international. Typically, they combine several different measures of institutional performance to derive a composite single institutional “score”, and hence a ranking of institutions (see e.g. Good University Guide, Times Higher, Guardian, Shanghai, Jiao Tong);
 - b. the Research Assessment Exercise;
 - c. the National Student Survey;
 - d. Quality Assurance reviews by the QAA, Departments of Health and a range of other regulators and professional bodies;
 - e. the funding councils’ performance indicators which cover four main areas (Widening Participation, progression and retention, research output, and employment outcomes). These are currently under review. They are reported against benchmarks which indicate where the institution might be expected to be in the light of its profile and location;
 - f. the funding councils assess institutions’ overall financial health, and categorise them according to the perceived risk of failure.
- 2.31** These approaches all serve a purpose, and they are all different from each other. In most cases, the purpose is quite specific, and the indicators can be misleading if used in the wrong way. The Times good university guide, for example, produces a league table of the “Top universities” by aggregating institutional scores on nine key aspects of activity as follows:
- Student satisfaction
 - Research assessment
 - Entry standards
 - Student-staff ratio
 - Library and computing spend
 - Facilities spend
 - Good honours degrees
 - Graduate prospects
 - Completion
- 2.32** No one would deny that these are relevant measures, but they are not the only ones, and they contain a mix of input measures (the spend indicators) alongside outcomes (graduate prospects) and of hard data (student–staff ratio) alongside judgements (student satisfaction). They also implicitly reinforce a particular view of higher education in which an institution is nearer the “top” if it takes in students who already have high qualifications. Some disagree, and argue that value-added is at least as important.
- 2.33** This emphasises the point that there is no such thing as an “objective” league table or KPI. Each indicator measures the quality that its designers are interested in and each governing body needs to decide for itself what measures are relevant and helpful in its specific situation.

The CUC Survey

- 2.34** CUC collected some information on institutions' current experience with the use of KPIs as part of its 2006 Governance Questionnaire exercise (conducted by Alan Smith on behalf of CUC).
- 2.35** The questionnaire asked HEIs if their governing body had adopted KPIs, and also invited them to provide information about these. 51 institutions (about 50% of those responding to this question) said that their governing body had adopted KPIs, and about 20 provided further information on these.
- 2.36** While there is an interesting range of experience to draw upon, many of these institutions' use of the term KPIs differs from the sense in which it is used in this Guide (i.e. as a small number of high-level indicators that cover the whole range of institutional performance). The most common difference is that some institutions have very large and detailed sets of data (in some cases many dozens of performance measures) and so these arguably are really operational performance measures rather than KPIs.
- 2.37** About half a dozen institutions submitted information which describes KPIs in the sense of a smaller number of much more strategic indicators, and it has been helpful to draw upon their experience in formulating the CUC guidance. Some illustrative examples of institutional practice are noted in the box below.

University A uses a moderate number of KPIs (approximately 25) which are directly tied to the university's strategic aims in the strategic plan.

University B has a large number of PIs categorised by "office". These are therefore more operational and not strategic KPIs in the sense of this guide.

University C uses corporate performance indicators tied to the university's strategic aims. It uses a traffic-light system to indicate the status of the indicators (Red Amber Green) and a separate indicator of progress being made. Both of these indicators show a comparison with the previous year.

Universities D and E use a Balanced Scorecard approach.

At university F a long list of KPIs was discussed by the board and senior management and it was agreed to extract the ten most important KPIs to be used as an executive summary or quick indicator of the university's progress. The ten clearly reflect the nature of the institution and its preoccupations at the time.

- 2.38** One institution has nine "strategic aims" with one or more objectives for each and one or more "corporate performance indicators" used to monitor their performance against each objective. This is illustrated in the box below, which shows a nice cascade process in which one strategic aim (for research) generates nine supporting PIs.

Strategic Aim	Objective	Performance indicator (s)
world-class research...	1 successful implementation of key research themes	Progress against business plans
	2 external recognition of key distinctors	Monitor research quality External awareness
	3 strengthen international standing	Research income from international sources Engagement with major foreign sponsors Increased media coverage
	4 obtain and retain first choice recruits ...	Number of overseas applicants Acceptance rates Length of service

2.39 Another institution identifies critical success factors in each of the four domains of the balanced scorecard (academic; financial; customer; process) and a set of (approximately 20) Key Performance Targets. For example, in the Customer Perspective domain of the scorecard, the KPIs are as follows:

<p>Customer Perspective <i>What do our customers value from us?</i></p> <p>Student value proposition</p> <p><i>'Best in class' student experience for the price</i></p> <ul style="list-style-type: none"> • employment rate • non-continuation and achievement • student satisfaction • repeat enrolments/CPD clients • recommendation rate by students • standard of services/facilities (if national service benchmarks are available) <p><i>Recognised for high quality in teaching and selected areas of research</i></p> <ul style="list-style-type: none"> • RAE scores/% research active staff • QAA outcomes • success rate in Research Council funding bids <p>Regional stakeholder value proposition</p> <p><i>Partner of choice for the region in achieving social and economic objectives</i></p> <ul style="list-style-type: none"> • share of the Regional Development Agency funding that is awarded to HEIs • % of 3rd stream revenue from Yorkshire & Humberside region <p>Research and consultancy value proposition</p> <p><i>Deliver applied knowledge relevant to client needs</i></p> <ul style="list-style-type: none"> • % academic staff engaged in consultancy

Conclusions

2.40 These are all interesting approaches, and it is encouraging to see institutions thinking about KPIs, and beginning to develop their processes for performance monitoring. The CUC survey suggests that many institutions are still at a relatively early stage of development of KPIs; while a few have invested considerable thought and effort into the subject (but may not necessarily yet have fully reached a satisfactory position). These conclusions have confirmed the CUC's belief that CUC guidance on the subject could be helpful to many HEIs.

Experience outside the UK Sector

2.41 Performance measures are common in other parts of the public services, but the management culture and issues in (e.g.) the National Health Service or in government departments and public bodies are significantly different from those in higher education.

2.42 Many universities look naturally to their peers and competitors in Europe and the USA.

2.43 A request to one of the "Corresponding" members of the CUC steering group, Tom Ingram (formerly Chief Executive of the US Association of Governing Bodies of Universities and Colleges), produced a large volume of helpful information and comment about experience in the USA. Some of this has already been noted in the discussion of dashboards above.

2.44 There is widespread reference by governors in the USA to league tables of collegiate rankings (e.g. US News and World Report), and most boards of trustees also rely on the regional voluntary accreditation system, plus benchmarking with their chosen peer institutions. However, there is no single accepted 'good practice' approach which could inform the CUC guidance. On the contrary, there is quite a diverse and bewildering array of approaches including sets of strategic indicators, sample dashboards, Top-Ten indicators. This is not surprising in such a large and diverse system as that in the USA, but it makes it difficult to draw relevant lessons for UK institutions.

2.45 Indeed, Tom Ingram's view is that US institutions might benefit, as UK ones should, from the work being done by the CUC in this area.

2.46 Whilst the CUC has not conducted a formal review of other approaches overseas, informal exchanges with governors and representative bodies in countries such as Australia, France and Spain, and also with the OECD, tend to confirm Tom Ingram's view that there is no "ready-made" example of good practice that UK institutions could simply adopt.

3 The Supporting Schedules and KPIs

Introduction

- 3.1** This chapter provides an illustrative approach to assessing performance in each of the ten high-level KPIs as follows:
1. Institutional Sustainability
 2. Academic Profile and Market Position
 3. The student experience and Teaching and Learning
 4. Research
 5. Knowledge Transfer and Relationships
 6. Financial Health
 7. Estates and Infrastructure
 8. Staff and HRD
 9. Governance, Leadership and Management
 10. Institutional Projects
- 3.2** For each high-level KPI, the guide illustrates the kind of supporting material that could be used in terms of:
- A. The context
 - B. Some suggested self-assessment questions
 - C. Some illustrative supporting KPIs and other sources of information.
- 3.3** As already noted, this guidance is illustrative, and institutions will decide how to develop and use it most appropriately to suit their own circumstances, and the preferences of their governing bodies. One approach would be to produce a short report for each of the ten high level KPIs, including a table of the self-assessments and supporting KPIs with notes as appropriate and an assessment for each. In some cases, a subjective assessment is appropriate. In others numerical data are required possibly including trends or comparisons against a target.
- 3.4** The ten high-level KPIs are not intended to be mutually exclusive so there will be some cross-over between them. Indeed, the two summary KPIs (1 and 2) clearly draw on many of the areas covered in KPIs 3-10 and these cross-references are indicated in the text where appropriate. Even within the KPIs 3-10 there is some read-across (financial health for example is not completely independent of staff, estates or management). In order to make the guide easier to read, there may be a small amount of repetition in the self-assessment questions or supporting KPIs where appropriate.
- 3.5** The full list of illustrative KPIs with more information on how each could be defined and used is included as an Appendix to this report.
- 3.6** This chapter therefore illustrates what a full “governor’s pack” might look like (subject to changes that institutions may choose to make), but it is not intended to represent the actual information that any particular set of governors would use. As suggested in the summary report, each institution needs to design this for itself, and to decide how best to present this to governors. As also suggested in the Summary, it would not be appropriate to circulate all this information to all governors on each occasion that institutional performance is reviewed.

KPI 1: Institutional Sustainability

A. Context

- 3.7** Across the public services, there are tensions between the desirability of maximising activity and outputs in the short-term, and the need to invest for the future. Heads of Institution are under pressure to show results in the short-term, and it is a key responsibility of governing bodies to ensure that this is not done at the expense of the future health and development of their institutions.
- 3.8** Governors naturally wish to hand on an institution that is in at least as good condition as the one they inherited, and has no major liabilities or threats to its viability. It is explicit policy across the UK that all institutions take account of sustainability in their planning and report on it to their funding councils.
- 3.9** Sustainability is not the same as survival, and nor is it just a financial issue. Sustainability means that the university can finance its long-run costs in such a way that it is not creating liabilities for future generations. Two useful informal definitions are “operating today in a way which does not inhibit our ability to do so tomorrow” or “managing key resources so as to at least maintain the current capacity of the institution to respond effectively to changing demands”.
- 3.10** To do this, institutions need to attract students and income; to command the confidence of their funders and stakeholders; to create enough financial headroom for investment; to make hard decisions about their portfolio of activities (stopping as well as starting activities); to take account of long-term implications and whole life-cycle costs; and to manage the risks and opportunities that all institutions face.
- 3.11** Much policy attention has been paid to the adequacy and appropriateness of institutions’ investment in their physical infrastructure. Many HEIs have an unacceptable backlog of remedial investment requirements. But sustainability is also about investment in staff, in innovation, in relationships. In a changing policy and market environment for higher education, it is also about what has been called “adaptive capacity” – i.e. a combination of leadership and quality of management and acceptance of change.
- 3.12** This performance area therefore includes consideration of:
- the financial (business) strategy of the institution;
 - how far its academic plans are affordable and realistic in the light of expected levels of student demand and public and other funding;
 - how well academic, financial, staffing and infrastructure (capital asset) strategies are integrated.
- 3.13** Institutions will wish to add further contextual briefing for their governors, including perhaps drawing on the institution’s sustainability framework submitted to its funding council in 2006, and subsequent developments of this strategy.

B. Self-Assessment Questions

- 3.14** In assessing their institutions’ performance in this area, governors could consider a number of questions including the following:

1	Does the mission and academic positioning of the institution make sense as a business and academic proposition?
2	Are we performing as well as we should in the main academic and student-related activities which are important to our mission and our markets? (KPIs 3-5)
3	Are we generating enough cash to allow strategic investments and to manage risk and uncertainty
4	Is our infrastructure fit for purpose and generating a realistic return on past investment?
5	Are we attracting and retaining the calibre of staff needed to deliver our vision for the institution? Do skills shortages or other HR issues threaten our performance?
6	Are we managing technology, information systems, and innovation in our operations effectively, so that we remain at "industry standard" in these areas?
7	Do league tables and our own benchmarking show that we are broadly keeping pace with the institutions we would regard as our peers or competitors?
8	Do we have the confidence of our main funding bodies and partners?
9	Are there threats to our viability (e.g. from rising staff costs, buildings or utilities inflation, pensions liabilities, competitive pressures), and do we have convincing strategies for managing these?
10	Do we have confidence in our ability as an institution to focus on the essential challenges and to adapt to the changing environment?
11	Does our strategic plan map out a clear development path for the institution?

C. KPIs and Other Information

- 3.15** There are many possible performance indicators that contribute to an understanding of sustainability. As this is a summary indicator, many of the KPIs in other performance areas are also relevant.
- 3.16** In the first (2006) annual monitoring of sustainability by the four UK funding bodies, a series of 14 metrics were used. These are mostly financial ratios, and it can be argued that many of these overlap or are redundant if appropriate higher-level KPIs are used. For example, cash generation is necessary for sustainability, but it is the wise strategic investment of cash that will determine future sustainability rather than the fact that cash is generated in itself. Hence the sustainability KPIs below include annual spend on infrastructure rather than cash generation. (Cash generation is however included as a KPI for financial health in Area 6.)
- 3.17** Some illustrative KPIs for sustainability are listed below. Institutions could choose other KPIs. Further information to help HEIs in defining and using these KPIs is provided in the Appendix.

Illustrative KPIs for institutional sustainability
1. Return on assets – (CE/CP ratio)
2. Annual spend on infrastructure compared to agreed annual requirement
3. Income growth, diversity and security
4. Student demand, achievement and satisfaction
5. Strategic relationships and reputation
6. Leadership and adaptive capacity
7. Balance of development opportunities and strategic risks

- 3.18** As this is a summary indicator, the assessment in this area should also take account of the assessments in KPIs 2-10. For example, a “Red” or “Amber” assessment on financial health (or in most of the other areas) would also cause concern in respect of institutional sustainability.
- 3.19** Institutions could also take account of the following additional sources of information that are relevant to sustainability:
- the Funding Council’s financial health/risk categorisation
 - the latest external QA ratings by QAA, Departments of Health, other regulators, and professional and statutory bodies as appropriate
 - reports by external auditors, and any management reviews
 - the institution’s position in published league tables
 - views expressed by key stakeholders and funders.
- 3.20** Governors might ask for a periodic digest of such external assessments. Adverse reports from any of these sources could indicate potential problems for sustainability.

Assessment

- 3.21** As discussed in the summary, governors will need to see a summary assessment drawing on all the results of the self-assessment; the institution’s chosen KPIs for this performance area; and the other sources of information as appropriate. This summary assessment will be taken forward to the one-page summary sheet (Figure 1).

KPI 2: Academic Profile and Market Position

A. Context

- 3.22** This area is concerned with the academic profile and market positioning of the institution. This is primarily a contextual indicator addressing the scope and realism of the institution's academic aspirations, and its intended position in the higher education market. The academic profile of an HEI is the most fundamental feature of its core business and will determine many of its strategies and policies. It will evolve over many years, and may not change radically from year-to-year for many institutions.
- 3.23** This indicator is not directly concerned with the institution's short-term current academic performance (which is considered in KPIs 3-5).
- 3.24** It is a duty of governors to determine the academic character of the institution (which is not the same as interfering in the detail of academic affairs). In this, they will be strongly advised by the senior management and the Senate or Academic Board, but they must not be afraid to question and challenge academic assumptions. Governors have to own the academic profile and character of their institution. They have to assure themselves (for example) that it is relevant to their students; and that it is affordable and realistic given the institution's resources and capabilities, and the expected levels of market demand and public funding flowing from the academic profile.
- 3.25** The academic character can become critical, and should be re-examined, at times of major change (such as changes in government policy, mergers or strategic alliances, new chairs or institutional heads, financial crises, new strategic plans, reviews of funding), and it should always be kept clearly in mind as a benchmark to inform the other strategies of the institution.
- 3.26** The key issue for governors is: are we clear about the academic character and positioning of the institution, and is this coherent, realistic and affordable, given likely market demand and funding levels? Critical secondary issues relate to how far policies and activities are consistent with the academic profile, and how well it is communicated to, and accepted by, the various stakeholders and others who need to know (including students, staff and funding bodies).
- 3.27** Institutions will wish to add further contextual briefing for their governors, including perhaps:
- the academic rationale and values of the institution;
 - the spread of activity and income;
 - the student profile (FT/PT, home/overseas, disciplines, UG/PG etc.);
 - the role of research and its importance in income terms;
 - a view of where the institution sees itself in the various groupings and league tables in the UK higher education system. Who are our peers? Whom do we wish to be compared with? Who would we like to emulate?

B. Self-Assessment Questions

3.28 The kind of questions that governors could consider include:

1	Do we have a clear view of the teaching profile and market positioning of the institution?
2	Do we claim to be distinctive as an institution – what evidence do we have to support this claim, and is it clear to prospective students what sort of institution this is?
3	What is the place of research in our mission? <ul style="list-style-type: none"> • do we have a research strategy? • how is it financed, and is it loss-making? • is it selective, or are staff able to bid for any grants or contracts they wish?
4	What is the relationship between teaching and research?
5	Does our academic positioning depend on a particular set of skills, a particular approach to pedagogy, the curriculum, our location, strategic partnerships, our facilities or other factors which we need to manage to maintain our advantage?
6	What challenges does this pose for the institution in terms of marketing, income generation, competition, required levels of investment, sustainability?
7	Does the Funding Council and other key stakeholders understand and support our mission?
8	How effectively are governors informed about the academic work and development of the institution? <ul style="list-style-type: none"> • how effective are communications between the Senate or Academic Board and the governing body? • how effective are the opportunities for governors to meet heads of department and schools and individual faculty? • what opportunity do they have to communicate their plans and contribution to institutional objectives?
9	What will the academic and institutional profile look like in 5 and 10 years from now? <ul style="list-style-type: none"> • do we have an agreed vision for this? • are we doing enough to deliver it? • should we be considering more radical change?

C. Supporting KPIs and Other Information

3.29 This performance area is less amenable to numerical KPIs than some of the others. It requires some contextual information to inform a debate about policy and positioning, and some qualitative or judgemental indicators. The governors and management may need to have a discussion about how these indicators are to be produced. One possible method would be to have a small task group, perhaps led by the Pro-Vice-Chancellor or Vice-Principal (Academic), or equivalent, and including selected members of the Senate or Academic Board and of the Governing Body. Some institutions may already have such a group to provide liaison between governors and the academic planning process.

3.30 Some illustrative KPIs are listed below. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for academic profile
8. Teaching/research balance
9. Student population – character and diversity
10. Evidence of academic distinctiveness
11. Position in peer group and league tables
12. Contribution of strategic academic relationships
13. Integration of academic and strategic planning
14. Medium-term academic ambitions

3.31 Institutions could also take account of the following additional sources of information that is relevant to academic profile:

- recent reports by QA agencies and inspecting professional bodies
- results of the National Student Survey
- reports by external examiners
- reports from Senate or Academic Board
- the institution's position in published league tables
- views expressed by key stakeholders and funders
- feedback from employers and professional bodies
- the Higher Education Performance Indicators.

3.32 Governors might ask for a periodic digest of such external assessments. Adverse reports from any of these sources could indicate potential problems with the academic profile.

Assessment

3.33 As discussed in the summary, governors will need to see a summary assessment drawing on all the results of the self-assessment; the institution's chosen KPIs for this performance area; and the other sources of information as appropriate. This summary assessment will be taken forward to the one-page summary sheet (Figure 1).

KPI 3: The Student Experience and Teaching and Learning

A. Context

- 3.34** The quality of the student experience is probably the single most important performance criterion for most universities – if it is poor, both academic reputation and public funding may be adversely affected, in turn damaging the profile and sustainability of the institution.
- 3.35** However, the student experience is not easy to measure. It is centred around the quality of the learning experience of students – which is in turn linked to the teaching and learning strategies, pedagogic methods, learning resources and how effectively these are deployed in the institution. However, different types of student need different degrees of challenge or support in these areas, and the student experience will also be significantly affected by social and pastoral issues, including the quality of teaching and learning accommodation and resources, student support services, social and sporting facilities, cultural opportunities.
- 3.36** Teaching and Learning is the core business for most HEIs, and the contribution of academic (and other) staff is critical to this. This is an area where governors often feel inhibited in trying to become too involved, but they need an overview and understanding of performance and of student satisfaction, progress and feedback. They also need to be assured that the institution has appropriate management processes in place to deal with critical events like:
- introduction of a new course, or closure of an existing one
 - external inspections and reviews
 - dealing with student failure, attrition, complaints and feed-back
 - quality enhancement and staff development.
- 3.37** The academic profile and strategies of the institution will have been considered as part of the assessments of KPI2 (Academic profile).
- 3.38** Some further contextual information will be required here on the types of student and pedagogic approaches used in the institution. This could include reference to:
- the profile of the student body;
 - teaching quality and student satisfaction indicators;
 - the University's strategy for Teaching and Learning;
 - the roles and responsibilities of the senior officers, academic heads, and university committees;
 - the role of the governors and the occasions (such as scheduled meetings, strategy away-days) when governors can meet academic leaders and engage with the strategy.
- 3.39** Each institution will have its own agenda, but key aspects of the strategy of interest to governors may include generic issues like:
- a. making links between Teaching and Research and Scholarship more explicit and ensuring they add value to the student experience;
 - b. optimising the volume of assessment without adverse impact on students;
 - c. more flexible delivery (increasing 24/7 facilities, work-based learning, employer engagement);
 - d. development and performance of any Centre for Excellence in Teaching and Learning (CETL) or equivalent;
 - e. maximising utilisation of infrastructure and providing high quality teaching and learning environments.

B. Self-Assessment Questions

3.40 In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	Do we have a clear view of what students get out of their experience at the institution? Which areas do they rate well, and which less well in terms of the national student survey, and how are we addressing this?
2	How do we compare with the peers against whom we wish to benchmark ourselves?
3	Is our teaching and learning strategy understood by the governing body? Does it appear to address real issues of concern to students, employers and governors? Is it in line with the academic profile and market positioning of the institution? Does it address equality and diversity challenges in a manner appropriate to the institution?
4	Does the Senate/Academic Board ensure that the academic programme and assessment structure are fit for purpose? Does it effectively identify and address major areas of poor student performance? Has it recently considered the need for adaptation and modernisation, and what was the outcome?
5	Are we able to attract and retain an appropriate calibre of academic staff? How do we assess the scholarly progress and contribution of our staff? Is this satisfactory?
6	Do we have an externally-funded CETL or other centre of excellence? If so, are we maximising the value from it? If not, what are we doing to promote centres of excellence in the institution?
7	How effective are our internal QA processes? How well does the programme of internal review work? Is it seen as developmental by academic staff? What benefits has it delivered for students in the last 3 years?
8	Have we acted on all the recommendations made by the QAA and other external QA agencies in their latest reports? If we have decided not to follow one or more of the recommendations, are we satisfied that we have robust grounds consistent with the academic standards and objectives of the institution?
9	What are our goals in terms of quality enhancement, student and portfolio development? How will we deliver these?
10	How effective are the mechanisms to enable communication between the governors and staff and students in the institution?

C. Supporting KPIs and Other Information

3.41 Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for the student experience
15. Results of external assessments
16. Student recruitment against plans
17. Quality of student entry
18. Student progression
19. Student achievement
20. Student satisfaction
21. Employability and student destinations
22. Staff scholarly activity

3.42 Other sources of information which may be of interest include:

- a. for external feedback, all the sources mentioned in performance area 2 are relevant;
- b. the institution's own internal Quality Assurance and Quality Enhancement processes should provide a regular flow of information on academic performance in different parts of the institution.

KPI 4: Research

A. Context

3.43 The role and importance of research differs widely amongst institutions, but for many is a key determinant of their academic profile and other policies.

3.44 Academic research is understood to include the concept of generating new knowledge, usually evidenced by publication in recognised peer-reviewed journals. This is a competitive activity in the sense that institutions compete for limited research funding. Funding is allocated partly as a block grant from the funding councils (called QR for quality-related) allocated on the basis of research quality measured by the Research Assessment Exercise (RAE) and partly on the basis of bids to research councils and other sponsors for grants for particular research projects. This is known as the dual support system for research.

3.45 The RAE is an extensive peer review process carried out every few years which awards scores to institutional research based on quality of outputs (chiefly, but not limited to publications) across a number of discipline areas (called units of assessment). It is a dominating influence for many research institutions and is currently under review with the prospect that it may be replaced by a metric-based system.

3.46 In recent years there has been a policy of concentrating this type of research funding into a relatively small number of academic departments which can demonstrate excellence. Only a minority of UK universities could describe themselves as genuinely research-led, but many others nevertheless do important research.

- 3.47** Many of these latter have a “less academic” research focus doing more applied types of research (which do not lead to “RAEable” outputs), including contract research for industry, consultancy, policy analysis and attracting much less QR grant.
- 3.48** Research can usefully be distinguished from Scholarship (and needs to be for costing purposes), but the distinction is not clear cut and differs between disciplines. Broadly, scholarship includes academics reading around their subjects, writing review articles, but does not usually generate RAE-type outputs. All academics should engage in scholarship as part of their continuing professional development, and to inform their teaching. However, the way these terms are defined and understood can vary between discipline groups (research in sciences can look quite different from that in the arts, for example).
- 3.49** There are strong academic incentives to do more research, yet almost all university research has been loss-making due to a combination of:
- public funding below full economic cost;
 - rapid growth of volumes of research (funded on a marginal or direct-costs only basis) without equivalent increases in the block grant (QR);
 - poor cost information leading to institutions pricing research contracts too low.
- 3.50** Some categories of research are now to be funded closer to the full economic cost (known as the TRAC fEC). These include Research Council and government-funded research, but other categories (notably charity-funded and EU research) will continue to require subsidy by institutions.
- 3.51** Many leading research universities have (in strict financial terms) unsustainable portfolios of (e.g.) charity-funded medical research, and many are investing heavily in Post-Graduate Research students and “own-funded research” (i.e. research without an external sponsor) which is a net cost to the institution. It is therefore important for governors to satisfy themselves that the institution’s overall research strategy is realistic and affordable.
- 3.52** The relationship between research and teaching is an important but complex issue and may work differently in different types of institution. The key question here for governors is how, if at all, does research contribute to the student experience and is this appropriate?
- 3.53** Institutions will wish to add further contextual briefing for their governors, including perhaps addressing issues such as:
- why we do research;
 - how, if at all, it influences the student experience;
 - the outcomes of the most recent Research Assessment Exercise, or other means to measure outputs;
 - the overall deficit on research;
 - key elements of the strategy and their financial implications.

B. Self-Assessment Questions

3.54 In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	Do we have a clear view of why the institution is doing research and what type and volume of research is appropriate to the mission and position of the institution?
2	How can we assess the success of the institution's research? How should we measure outputs? How does this compare with where we need to be?
3	What are we doing to improve research outputs in terms of quality and cost recovery? Is our research strategy sufficiently selective?
4	What is the relationship between research and teaching? How does research contribute to teaching?
5	What is the relationship between research and knowledge transfer and how well are we exploiting this?
6	What is the condition of the infrastructure for research, how have we used SRIF (government capital funding for research infrastructure) to improve this, and what further investments are required?
7	How are we using the additional funding received under the new fEC payments from Research Councils? - Is this being used to support sustainability of research – or to increase levels of activity? If the latter, how is the institution going to finance its research infrastructure in the future?
8	Do we understand the financial implications of our research activity (and do the senior management)?
9	What are we doing to attract and retain research “stars” and to ensure they contribute to the institution's overall research profile?
10	What are we doing to help new and/or less research-active staff to develop appropriately?

C. Supporting KPIs and Other Information

3.55 Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for Research	
23.	Research outputs, by appropriate measure
24.	Research income, total, % and by type of sponsor
25.	Research income per academic, trends and by academic area
26.	Research-active staff
27.	Cost recovery on research, by sponsor type
28.	Success rates on research grant applications
29.	Number of PGR students
30.	PGR awards

- 3.56** For a research-active institution or faculty, a key project-type KPI here would be progress of preparations for the next RAE and this would generate a number of supporting KPIs, for example:
- appointments made
 - results of mock reviews
 - staff numbers to be submitted in each area.
- 3.57** For an institution or faculty with a different research profile (such as one in the performing arts, for example, or one that is still developing its research capability), the RAE type of KPIs may be less relevant and the institution will wish to develop different KPIs, including comparisons with relevant national and international peers.

KPI 5: Knowledge Transfer and Relationships

A. Context

- 3.58** There is a growing “third stream” of income and activity for many institutions which goes under a variety of names, but Knowledge Transfer is the most widely-used. For institutions with a strong science research base, this is often about spin-out companies, licensing deals, patents, and technology transfer. However, there is a wide range of other types of activity. There is a small but growing level of public funding to support this activity under the Higher Education Innovation Fund (HEIF). Many institutions are also involved in Knowledge Transfer Partnerships (KTPs).
- 3.59** The Government wishes to encourage this type of activity which is seen as critical to exploitation of the UK research base and economic development. The Lambert report on university-industry relations was an important recent review of this area.
- 3.60** Knowledge transfer is also important in the arts and humanities, and supports the creative, cultural and heritage industries, which are a major contributor to the UK economy. The appropriate transfer mechanisms here may be different, as the research base is itself very different.
- 3.61** It is useful to remember that the most important knowledge transfer activity of most institutions is effected through their graduates entering the economy and society.
- 3.62** Knowledge transfer extends beyond these semi-commercial relationships into a much broader range of areas where universities and their staff and students interact with local and regional communities, often for no payment, in ways which contribute to local and regional economic social, civic and cultural development with mutual benefits to both the universities and the communities they relate to.

B. Self-Assessment Questions

3.63 In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	What is our mission in this area? How important is it and what is it driven by? How do we wish to measure our performance?
2	How systematically and successfully are we identifying and exploiting opportunities to use our academic work to develop additional income and services? Are these adding financially to the university, or creating other benefits?
3	How strong is our reputation and contribution in our local and regional communities? How are we perceived by these communities? Are we playing the role we should in the region?
4	Which are our ten most important relationships in our region and what are we doing to develop and maintain them?
5	How many local businesses and organisations have significant contacts within the university? How satisfactory is this?
6	What contribution do our Alumni and Fund-raising activities make to the institution: a. financially b. in terms of profile and reputation? Are we satisfied with this?

C. Supporting KPIs and Other Information

3.64 Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for Knowledge transfer	
31.	“Other” income as % of total
32.	Proportion of academic time on “O” activity
33.	% of research income from commercial sponsors
34.	Measures of exploitation of IP (spin-outs, licence agreements, patents)
35.	Number and quality of strategic partnerships
36.	Engagement with local and regional and professional communities
37.	Success of Alumni, fund-raising, and sponsorship activity

3.65 Governors should also see regular reports on Knowledge Transfer activity from the appropriate managers responsible for commercialisation, reach-out, strategic relationships, and community engagement activities.

KPI 6: Financial Health

A. Context

- 3.66** This area is about the financial health of the institution in the short-term (3 year timeframe) and is therefore deliberately focused on aspects of financial performance and key financial risks with consequences in this timeframe.
- 3.67** Longer term issues of financial strategy and sustainability are equally important but are much broader in character involving for example academic strategies and investment in staff and infrastructure. These are considered under KPI 1.
- 3.68** The four UK funding bodies assess the financial health of institutions using a range of information and key ratios or KPIs including:
- surplus/deficit as % of income;
 - discretionary reserves as % of income;
 - external borrowing as % of income (gearing);
 - current ratio (current assets/amounts falling due in one year);
 - liquidity (cash plus investments less overdrafts)/expenditure.
- 3.69** The senior management and the Finance Committee will wish to look at these and at other operational indicators of financial health such as the budgetary position, debt control, measures of efficiency and unit costs, benchmarking with peer institutions. For the governing body as a whole, higher-level KPIs may be appropriate.
- 3.70** The question of what level of surplus institutions need to generate is a complex one and depends on a number of factors specific to each institution. However, it is widely accepted that a break-even position or small surplus shown in the published financial statements may not, in themselves, be an adequate indicator of financial health. Rather, institutions need to be aiming to make surpluses on a “full economic cost” basis as indicated by TRAC (i.e. after allowing for necessary costs of infrastructure investment and a margin for development, including managing risks and contingencies).
- 3.71** The level of this surplus is for each governing body to decide, but it needs to be adequate to permit:
- investment in physical assets;
 - investment in innovation and new developments;
 - a contingency for risks and opportunities.
- 3.72** For physical infrastructure alone, it is recommended that institutions need to invest in the region of 4.5% of insured asset value on an annual basis. Some of this is available from public sources of capital funding (SRIF and Learning & Teaching capital are the main sources at present), but these may not be adequate, and institutions will anyway need to generate cash to invest in their non-publicly-funded activities.
- 3.73** The historic culture of many higher education institutions has been a rather “public sector” one in which large surpluses would be regarded as inappropriate (or even unnecessary). However, in the new financial environment, governors might consider that surpluses in the region of 5% or above are not excessive, depending on the circumstances of the institution.

B. Self-Assessment Questions

3.74 In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	How financially strong is our institution and what are we doing to maintain and enhance this?
2	What level of surplus do we need to generate on a consistent basis to provide cash for investment and financial headroom to cope with contingencies?
3	How does our financial performance compare with this? What are we doing to improve it if necessary?
4	How dependent are we on funding council grants? What, if anything, should we do to diversify our sources of income?
5	Do we have significant areas of loss-making activity in our portfolio? Are these justified? What, if anything, should we do about this?
6	Are we satisfied with the financial management of the institution and the quality and timeliness of information and advice presented to governors?
7	Do we have a financial strategy which is broadly in line with good practice as recommended by the funding councils and is integrated with other strategies of the institution? Are we satisfied with the rationale for, and contribution made by our policies on: <ul style="list-style-type: none"> ● borrowing ● fund-raising ● efficiency and utilisation of assets ● collaboration?
8	How do we compare with the other institutions in our peer group in terms of high-level ratios such as: <ul style="list-style-type: none"> ● CE/CP ratio (see KPI 1) ● income per academic ● surplus/deficit ● TRAC estates and indirect cost rates for research? ● the new Subject FACTS (unit costs of teaching in each discipline by TRAC)
9	Do we have an effective process for reviewing and managing financial risks?
10	What are the (five) most important financial risks facing the institution and how are we managing each of these?

C. Supporting KPIs and Other Information

3.75 Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for Financial health	
38.	Aggregate surplus/deficit for past 3 years as % of income
39.	Cash generated – last financial year
40.	Forecast surplus for next/current FY
41.	Current assets to liabilities ratio (financial strength)
42.	Liquidity (days expenditure available as cash)
43.	Borrowing as % of income (gearing)
44.	Unfinanced capital investment requirement
45.	Credit rating, quality of relationship with bankers and auditors

3.76 There are several sources of financial data on HEIs which can be used to benchmark against peer institutions:

- HESA (The Higher Education Statistics Agency) publish an annual digest called Resources of Higher Education Institutions;
- The Higher Education Financial Yearbook;
- BUFDG (the British Universities Finance Directors Group) are currently developing a set of financial KPIs which will be delivered electronically through the HESA HEIDI project;
- TRAC (the Transparent Approach to Costing) produces data on the surplus/deficit position at department level for each main activity (Teaching, Research, Other) and on the full economic costs (called fEC) of research and other types of project activity. It is currently being extended to provide the costs of teaching in each of the HESA academic cost centres – effectively the unit cost in each main academic discipline. This data will be benchmarked and reported to the funding councils from 2007.

3.77 Institutions can use these sources as appropriate, but care is needed to avoid the risk that governors will become overloaded with data and ratios which are essentially operational rather than strategic.

3.78 The Finance Committee has a critical role in monitoring the financial strategy and financial health of the institution. Regular reports should be made to the Board or Council. The Treasurer or Chair of Finance might be asked to give a view on the status of financial health of the institution.

KPI 7: Estates and Infrastructure

A. Context

3.79 Institutions use physical assets: - buildings; associated plant and services; general equipment; specific educational equipment for teaching and research. These assets all incur costs of depreciation, maintenance and renewal, and they need to generate a financial return adequate to cover these costs. In the recent past, most institutions have not invested enough in their physical infrastructure and this can adversely affect income, research productivity, and the quality of the student experience, and hence threaten sustainability.

- 3.80** Recent studies have demonstrated the importance of consistent and strategic investment in institutions' infrastructure, and have shown the extent of remedial backlogs which have built up due to inadequate investment. They have also shown that the problems are usually greater in respect of the 'generic institutional infrastructure' such as plant and services ("lifts, boilers and drains"), IT networks, libraries, which are often less well funded (and easier to neglect) than more specific research or student facilities.
- 3.81** Government capital funding has been provided to all institutions to address these problems (through the Science Research Infrastructure Fund – SRIF, and Learning & Teaching Capital schemes), and funding councils will be looking to see how wisely and sustainably these capital monies have been invested. Some institutions do not yet have a financed 10-year capital investment plan; others have used the remedial capital funding to expand or create new capacity, rather than to underpin sustainability of existing activities.
- 3.82** There are three key sets of strategic issues for governors in respect of physical infrastructure. These relate to:
- a. is our infrastructure fit for purpose and suitable to enable us to deliver our mission and strategies?
 - b. are we investing enough to maintain its productive capacity and our position in the market?
 - c. are we using it effectively to generate an adequate return?
- 3.83** Universities are not primarily property developers or managers, but they do have a responsibility to manage their assets in a way which delivers a reasonable academic and financial return on past public investment; contributes to their mission; and is also sustainable.

B. Self-Assessment Questions

- 3.84** In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	Do we have the facilities needed to meet student expectations, to attract high quality staff, and to deliver our academic objectives?
2	Have we defined how much we need to invest annually for a sustainable infrastructure, and are we doing this?
3	Do we have a ten-year capital investment strategy? Are we satisfied with the business case for this expenditure; can we finance it; and will it deliver what we need to support our academic and student support requirements?
4	Are we utilising our assets effectively? <ul style="list-style-type: none"> ● are high-cost space and facilities intensively used for value-adding operations? ● are we duplicating facilities unnecessarily? ● do we collaborate where appropriate to reduce the cost of infrastructure? ● how does our return on assets (shown by the CE/CP ratio) compare with our peer institutions?
5	Are we satisfied with the management of capital projects and the effectiveness of planned maintenance programmes?
6	Is the total infrastructure bill, including utilities costs and efficiency, being managed effectively?

C. Supporting KPIs and Other Information

3.85 Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for Physical infrastructure	
46.	Maintenance condition and functional suitability of estate
47.	Total cost of remedial investment
48.	Utilisation – square metres per student
49.	Return on assets: £ income per square metre
50.	Proportion of modernised teaching rooms
51.	TRAC estates rates for research compared to peer institutions

3.86 It should be noted that supporting KPIs 1 and 2 are also related to infrastructure.

3.87 The Estates Management Statistics (EMS) provides a key source of data which can be used to benchmark against peer institutions.

3.88 The UK Higher Education Space Management Group is a valuable source of advice, data, and analytical tools to help institutions to assess and benchmark the needs and costs of their estate. Its reports are published by HEFCE.

3.89 Under TRAC, institutions are calculating a space-charge for estates for research in two different types of space (generic and laboratory) to be added to research project costs. These estates charges are benchmarked and sector analyses are published by the Funding Councils.

KPI 8: Staff and Human Resource Development (HRD)

A. Context

3.90 Staff are the largest cost for most institutions and their motivation and productiveness are critical to the academic performance and reputation of the institution. The retention of national pay bargaining and the inherent difficulty of managing academic staff contribute to a culture of higher education which has been slow to adopt HR strategy and management techniques used in other sectors. Overall, HR is generally a weak (but developing) area of management in higher education, and one where governors can play an important role in supporting their senior management.

3.91 Key aspects of interest to governors will include:

- do we have the right staff in the right places?
- are we providing support and leadership to them?
- are we managing performance in appropriate ways?
- are our costs of staff out of line?
- is our HR strategy effective and relevant?
- do we have adequate professional HR capability?

3.92 Analogous to the position with physical infrastructure, governors will need to know whether staff as a resource are making the contribution to its strategies which the institution needs, and the investment in staff requires;

- 3.93** Various aspect of this can be benchmarked. The Human Resources Committee should play a role in developing this assessment.
- 3.94** The recent introduction of a new national framework agreement; merger of the two main teaching staff unions; and industrial disputes (in some institutions) over the summer of 2006 have added to a legacy of HR issues dating back some years which need to be addressed.
- 3.95** There are some important risks associated with staff pay and pensions which all institutions need to manage at a strategic level.

B. Self-Assessment Questions

- 3.96** In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	How satisfied are we with the institution's overall management of staff and with the quality of HR strategy and advice to governors? What are the key challenges for us?
2	Are we satisfied with the quality of appointments made to senior positions and the way these posts are managed and appraised?
3	Do we have a clear framework of succession planning?
4	Are we identifying, supporting and investing in our star performers?
5	Are our policies for promoting equality and diversity in our staff effective?
6	Is staff development given appropriate priority, investment and leadership in the institution? Do we see appropriate benefits from this investment? Is it regarded as a 'soft' area for cuts and management neglect when other pressures become acute?
7	Do we have an appropriate framework for performance management for all types of staff bearing in mind the nature of academic work?
8	Do we invest enough in developing and supporting leadership and management in all units?

C. Supporting KPIs for Staff and HRD

- 3.97** Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for staff and HRD	
52.	Cost of staff as % of total costs
53.	Staff turnover, absence and vacancies against plans
54.	Staff age, skills and diversity profile
55.	Expenditure on staff development and training
56.	Pensions liabilities – funding coverage
57.	Staff satisfaction (surveys, complaints and appeals)

- 3.98** There are many other sources of useful information and feedback on HR strategies and for many institutions other KPIs may be related to progress in implementing objectives in their HR strategies.

KPI 9: Governance, Leadership and Management

A. Context

- 3.99** Governors have a duty to ensure that their HEI is well-governed, well-led, and well-managed. If they are confident of these things, they will be able to focus on strategic issues in this area, and not worry about more operational matters such as that it is compliant with legislative requirements; that it exercises good practice in all areas where public money is involved or the interests of staff and students are involved.
- 3.100** Each HEI is autonomous, and all have different missions, character, priorities and needs. The CUC does not intend that governors should slavishly follow the requirements or advice in published documents, but that each governing body should carefully consider how best to discharge its responsibilities in the light of its particular mission and circumstances. In doing this, governing bodies will naturally wish to be aware of the many sources of guidance and advice that are available to them.
- 3.101** There is extensive guidance on governance from the CUC, and on good management practice from the Funding Councils and many other sources. Leadership has been identified more recently as a key focus for higher education, and is promoted by the Leadership Foundation. Heads of Institution and other senior managers often come to their posts via an academic career without necessarily having any explicit training or experience in management, and governors can play a useful role in helping to ensure that suitable mentoring, support, and development opportunities are taken.

B. Self-Assessment Questions

- 3.102** In assessing their institutions' performance in this area, governors could consider a number of questions including the following:

1	How satisfied are we with the working of the governing body and its committees? Was the latest self-assessment exercise effective and have its findings been successfully implemented? What issues remain for attention?
2	Are the composition of the governing body and the processes for refreshing its membership and maximising the contribution of governors effective?
3	Are communications between governors and the institution effective?
4	Is the relationship between governors and senior officers appropriate (professional, open and frank, able to accommodate challenge and robust exchange, but characterised by mutual respect and a shared sense of partnership in a common aim)?
5	Do governors understand the management structure and systems in the university? Do they find that requests for information lead to effective presentation and appropriate opportunities for dialogue with the managers who deal with issues of concern?
6	Are we confident about the way that senior officers are appraised and remunerated? Could we defend the decisions made to staff and to public funders?

7	Are legislative compliance and related issues including risk management, health and safety, diversity and equality, industrial tribunals, student complaints, external audits reported to the governors in an appropriate manner? Does this enable them to engage with the issues at a strategic level, and to have confidence that they are exercising their responsibilities on behalf of the institution?
8	Does the institution have a coherent and good quality set of strategies in the key management areas (academic, finance, estates, HR, Information Systems)? Are governors familiar with the rationale behind these and satisfied with the way they are implemented and the way progress is reported and strategies are up-dated?

C. Supporting KPIs for Governance, Leadership and Management

3.103 There are fewer numerical type KPIs in this area. Some illustrative KPIs are as follows. Further information to help HEIs in defining and using these KPIs is provided in the Appendix to this report.

Illustrative KPIs for Governance, leadership and management	
58.	Assessed compatibility with the CUC code (periodic self-assessments)
59.	Results of external audits of management, including feed-back from funding council
60.	Extent of leadership skills and training in senior management
61.	Successful delivery of strategies, projects and plans
62.	Remuneration committee reports

KPI 10: Institutional Projects

3.104 It is suggested that this performance area will be useful and relevant for most institutions, but it is not appropriate for the CUC guide to suggest monitoring approaches or tools in this area. Each HEI can develop these as it wishes.

3.105 The kinds of projects or events which might be monitored here could include:

- progress of modularisation or of a major review of all courses;
- preparations for a QAA institutional audit;
- merger or collaboration negotiations;
- a major review (e.g. of management structure, strategic options);
- a financial recovery plan;
- a major capital programme (such as a relocation, or new campus);
- preparations for the next Research Assessment Exercise;
- involvement in a major national or regional project (e.g. the Olympics, a new regional university).

4 Annex: Membership and Terms of Reference

Terms of Reference for the Project

4.1 The terms of reference for the project were as follows.

The purpose of the project is to develop and issue guidance that will assist governing bodies to put in place a range of suitable indicators, both quantitative and qualitative. A menu of performance indicators is being sought so that Boards can select according to the mission of their institution. The project, therefore, does not seek to be over-ambitious nor does it seek to be prescriptive, merely to undertake a piece of work which will be of practical use in implementing the requirements of the CUC Code.

Membership of Steering Group

4.2 The membership of the steering group consisted of:

Dr Andrew Cubie (chair)

Sir Andrew Burns

Professor Sir Ivor Crewe (UUK)

Dr David Fletcher

Mr Eddie Newcomb (project manager)

Mr Ewart Wooldridge (Leadership Foundation)

Corresponding members:

Dr Tom Ingram (former Chief Executive of the Association of Governing Bodies in the USA)

Sally Neocosmos (University of York, representing AHUA)

Mr Greg Wade (UUK) and Mr Dick Coldwell (HEFCE Board) also attended the meetings of the group.

The group was assisted by Dr Jim Port (J M Consulting).

Glossary of Terms

Care has been taken to minimise the use of abbreviations and acronyms in this report, but a few are unavoidable. The main abbreviations used are listed below, together with definitions or explanations where this may be helpful for governors.

CE/CP	Cost of Equity to Cost of Production Ratio used to measure return on assets in higher education
CUC	Committee of University Chairmen
EMS	Estates Management Statistics
HEI	Higher Education Institution
HESA	Higher Education Statistics Agency
HR, HRD	Human Resource, Human Resource Development
KPI	Key Performance Indicator Defined on page 1
RAE	Research Assessment Exercise Explained in chapter 3 under KPI4
QAA	Quality Assurance Agency
OECD	Organisation for Economic Co-operation and Development
OFSTED	Office for Standards in Education
TRAC	Transparent Approach to Costing Standard Activity-Based Costing system used by all UK HEIs

Appendix: Full List of Illustrative Supporting KPIs

This appendix is intended to help institutions to construct and use the KPIs illustrated in the report by providing more information on how they can be defined (if not obvious), where the data can be obtained (if this is not well-known), and commenting on their significance for governors.

Performance Area 1: Institutional Sustainability

	KPI	Definition/measurement	Comment
1	Return on assets	CE/CP ratio Cost of equity over cost of production (use insured asset value over income as an easy proxy)	Measures the amount of asset value used by the institution to create each £ of income. CE/CP values vary widely across the sector – usually in the range 0.5-5. Research-intensive and specialist institutions tend to have higher ratios. Other things being equal, institutions with higher CE/CP will find it harder to create enough surpluses to service their assets and invest for the future. But if CE/CP is too low, it may indicate under-capitalisation. These ratios can readily be derived from sector statistics (e.g. EMS) and benchmarked against peer institutions.
2	Annual spend on infrastructure compared to agreed requirement	Total investment in buildings plus maintenance as % of insured asset value	It is generally accepted that institutions need to spend in the region of 4.5% of their insured asset value every year (on average) to maintain their physical assets in a good maintenance condition and functionally-suitable. This will vary depending on the nature of the institution, but each institution should set its own target spend, and monitor its performance against this.
3	Income growth, diversity and security	Growth and spread of income sources and perceived security of these and opportunities to grow net income	In the current funding climate (where cost inflation is higher than increases in unit funding) most institutions need to grow their income to be sustainable. Institutions vary widely in their dependence on funding council grant. The scope for diversification of income, and the risks and benefits associated with this should be considered by each institution as part of its financial strategy.
4	Student demand, achievement and satisfaction	Various possible measures: <ul style="list-style-type: none"> • applicants per place • attrition/progression rates • degrees awarded • student satisfaction by National Student survey 	These are of fundamental importance for every institution which should choose the most appropriate indicators and benchmark these against relevant peer institutions.
5	Strategic relationships and reputation	Feedback on quality of reputation and relationship with key stakeholders and partners	Every institution should identify its key stakeholders and partners: i.e. those which make a significant contribution to its sustainability. For most there will be a small number of these (e.g. funding council, Teacher Development Agency, Department of Health, QAA and Accrediting Professional Bodies, Research Councils, other major research funders, RDA and partner institutions). Governors should ensure they have access to feedback from these key stakeholders (e.g. by client satisfaction surveys and feedback). If any top-ten clients see the university's contribution as less than very good or good, governors should demand an explanation and proposed action.

	KPI	Definition/measurement	Comment
6	Leadership and adaptive capacity	Assessment	<p>This KPI is about the quality of leadership in the institution (in academic and support units as well as senior management) and its ability to recognise the need for, and accept and implement necessary change. Some indicators of good performance could include:</p> <ul style="list-style-type: none"> • a high proportion of modules or programmes have been reviewed and updated; • projects such as new systems or capital developments are generally implemented effectively and in a timely manner; • staff are regularly exposed to external experience and peer relationships; • emerging good practice and new initiatives are considered rapidly and effectively; • the institution performs well when benchmarked against its peers.
7	Balance of opportunities and risks	Assessment	<p>Does the institution face significant strategic risks? Does it have strategies to deal with these, including developing room to manoeuvre and strategic options to pursue? Can it attract extra funding or significantly improve its academic reputation and position? Has it reviewed strategic options, e.g. for collaboration?</p>

Performance Area 2: Academic Profile and Market Position

8	Teaching/Research balance	Income balance; TRAC data on staff effort, and surplus/deficit on T and R	Helps governors to understand the relative importance, cost and contribution of Teaching and Research.
9	Student population – character and diversity	By level UG/PG By mode FT/PT home/overseas and region of domicile proportion of WP students	Helps governors to understand the nature of the academic job the institution is doing, the student profile, and the priorities for the student experience.
10	Evidence of academic distinctiveness	Assessment of coherence and achievement of chosen positioning	Governors might wish to request a statement of how the institution is positioning itself academically, its specific appeal to students and academic partners, and evidence of achievement of this. This could include external input or validation to avoid any perception of complacency.
11	Position in peer group and league tables	Placings in Times guide for teaching/student experience, and for research	Some league tables may be inappropriate. The institution should define for itself how it wishes to be compared, and should present these KPIs for governors. If published league tables are considered unsatisfactory, further benchmarking should be undertaken to provide equivalent assurance.
12	Contribution of strategic academic relationships	Most significant academic strategic alliances listed by <ul style="list-style-type: none"> • partner • purpose • health and contribution 	Academic collaboration is a central part of higher education, and is important to the reputation and performance of the institution. Governors will wish to be aware of the health and vitality of these partnerships, their cost to the institution, and the opportunities they offer. A periodic review would be appropriate.

	KPI	Definition/measurement	Comment
13	Integration of academic and strategic planning	Assessment of effectiveness of process	Governors need to know how well the academic and financial strategies are linked. Do academic needs inform financial and estates plans? Do academic objectives take account of financial and market realities?
14	Medium-term academic ambitions	Statement	Governors need to understand the academic vision for the institution? Does it make sense to governors? Is it exciting, achievable, relevant, and affordable? Has it been well-communicated?

Performance Area 3: The Student Experience and Teaching and Learning

15	Results of external assessments	Latest assessments by QA agencies	Governors should be concerned by any poor assessments or major recommendations, and should be assured of remedial action in hand.
16	Student recruitment against plans	Enrolments against targets	Critical KPI for many institutions. Failure to recruit to contract incurs financial penalties and funding council concern. May also be an indication of an unattractive portfolio, or poor marketing, or other reputational problems.
17	Quality of student entry	Applications per place A level point scores, or other indicators as appropriate	Note this is only one aspect of performance and may not be important for all types of institution. Many institutions do an excellent job by taking students with low entry qualifications (and adding value). Governors might wish to see trend figures and comparison with peers. Also the pattern across faculties or schools.
18	Student progression	Drop-out rates in each year and area	Again, the relevant indicators need to be decided in the context of nature of the mission. Trend figures and comparison with peers. Also pattern across faculties or schools.
19	Student achievement	Degrees awarded or credits gained	Trend figures and comparison with peers. Also pattern across faculties or schools.
20	Student satisfaction	National Student Survey (and other data as appropriate)	Data from the National Student Survey has limitations, but is published so institutions will be judged on this by potential students and other stakeholders. Governors need to be briefed on how the institution compares with its peers, and what is being done to address any areas with low student satisfaction.
21	Employability and student destinations	Institutional surveys and HESA	This is one of the funding council's higher education performance indicators.
22	Staff scholarly activity	Possible measures: <ul style="list-style-type: none"> • research active staff and outputs • secondary publications, conferences etc. • membership of relevant professional bodies • assessment by academic development unit. 	These are important indicators to support HR and staff development strategies.

Performance Area 4: Research

	KPI	Definition/measurement	Comment
23	Research outputs	As by RAE or other, trends, and by academic area.	Institutions may also wish to develop their own internal measures of research outputs to measure progress between RAEs, or where the RAE is not considered the most appropriate indicator.
24	Research income	Total R income and income by research sponsor type, trends, and by academic area.	The relative income by sponsor type will be of both academic and financial interest. For example, research councils and medical charities are both regarded as high prestige "blue chip" funders. Research Councils now pay much closer to the full economic costs of projects. Charities and the EU (for example) pay less and imply strong institutional financial subsidy.
25	Research income per academic	By FTE and by R-active FTE trend and by academic area.	One of the best measures of productivity for a research-led institution – but note comments above about type of research sponsor. Discipline is also important. The big external funding is mainly concentrated in the sciences, medicine, technology and business disciplines. Institutions should therefore set their own relevant targets in this area.
26	Research-active staff	As by RAE	Institutions may also wish to develop their own internal measures of research activity and outputs to measure progress between RAEs, or where the RAE is not considered the most appropriate indicator.
27	Cost recovery on research	Deficit on R, and cost recovery as % compared to peers	TRAC gives R surplus/deficit by sponsor type. Other cost recovery data are published in HESA and so are available for peer institutions. Governors should expect to see clear reasons for a poor position on this KPI, and plans to improve this.
28	Success rate on research grant applications	% success, by research council and other sponsors, and by faculty or academic area	Measure of quality of proposals – and also therefore of how far the institution is taking a serious strategic approach including proper training and support to academics and how far it is just letting them "scatter-gun" for grants. Unsuccessful proposals may have some value in scholarship or staff development, but can be a waste of scarce and expensive academic resource.
29	Number of PGRs	PGRs, total and by academic area	Key measures of effort to train new researchers and increase total institutional research capacity. But PGR funding is below costs in many cases, so institutions are making an investment for their future (and for the nation) here. Governors will wish to know this is well-directed.
30	PGR Awards	Numbers and completion rates	There has been concern about poor completion of PhDs for example. This is the corresponding quality or outcome measure to review alongside KPI 29.

Performance Area 5: Knowledge Transfer and Relationships

	KPI	Definition/measurement	Comment
31	Other income	Total, growth, and as % of income.	This is one volume and output measure for KT (but not the only one).
32	Proportion of academic time on "O" activity	From TRAC	Input/activity measure for different areas such as clinical services, consultancy.
33	% of R income from commercial sponsors	R and other contract income from private and overseas sources as % of total	Useful for research strategy, and also an indicator of the extent of involvement with industry. May vary interestingly across disciplines.
34	Measures of exploitation of IP	As appropriate for type of institution, could include: <ul style="list-style-type: none"> • spin-outs and licences; • patents granted; • commercial income; • corporate programmes 	Care is needed in using these indicators. They need to be related back to objectives and targets in the strategy.
35	Number and quality of strategic partnerships	Report	See KPIs 5 and 12 above. The point here is does the institution have an appropriate range and quality of serious partnerships and is it using them, and adding value as a result?
36	Engagement with local and regional communities and employers	Measures of penetration into local networks.	A number of indicators could be used here including visits, contacts, local awareness, press. Governors are very likely to have contacts and knowledge in this area.
37	Success of Alumni, fund-raising, and sponsorship activity	Report	Need to be related to objectives in plans. These are long-term strategies, but income generation may be the best single measure of success and progress.

Performance Area 6: Financial Health

38	Aggregate surplus/deficit for past 3 years as % of income	From accounts	Smooths effect of exceptional years. Each institution should set its own target but something in the region of 3-5% would normally not be inappropriate.
39	Cash generated – last financial year	From accounts	Cash generated is a useful measure of the financial headroom the institution is creating from its operations. It is usually calculated as (historic surplus + depreciation – capital grants released).
40	Forecast surplus for next/current FY	As in institutions' forecasts.	Governors need to see the latest (evolving) forecasts which may not be the same as those provided to the Funding Council. Governors need to define/agree the objectives for surpluses as part of the financial strategy.
41	Current assets to liabilities ratio (financial strength)	From accounts	This is generally regarded as a useful measure of financial strength.
42	Liquidity (days expenditure available)	From accounts	

	KPI	Definition/measurement	Comment
43	Borrowing as % of income (gearing)	From Accounts	Governors should normally agree a policy on borrowing as part of the financial strategy. The Funding Councils generally monitor borrowing and require institutions to inform them of borrowing plans which lead to servicing costs above a defined limit.
44	Unfinanced cost of 10-year capital investment requirement	Estates strategy	Measure of how far the institution is from being able to finance its own aspirations in terms of capital development. Governors will also wish to test how realistic/necessary these plans are.
45	Credit rating	E.g. standard & poor's	Measure of how the institution is viewed by its bankers and financial advisers. If the institution does not have a formal rating, the Director of Finance should report on external perceptions.

Performance Area 7: Estates and Infrastructure

46	Maintenance condition and functional suitability	% of infrastructure in maintenance conditions C and D and functional suitability	It is not necessary for all infrastructure to be in condition A, but governors would be concerned if a large part of the estate is in poor condition – and especially if critical infrastructure needed to deliver high value and competitive programmes or research is in poor condition or unfit for purpose. Each governing body might set objectives for this KPI as part of their estates or infrastructure strategy.
47	Total cost of remedial investment	From estates strategy	This is a financial measure related to the volume measure in KPI 46. It does not follow that all this investment is necessary – or would have a good business case. This is unlikely to be the same as KPI 44 – although the two will be related.
48	Utilisation – square metres per student	From EMS	Useful measure for comparing space utilisation with peer institutions, or between different parts of the institution.
49	Return on assets £ income per square metre	From EMS	An alternative way to look at KPI 1 (CE/CP ratio). May provide a useful complement to KPI 1, especially if governors wish to understand more about why CE/CP ratio is high (or low).
50	Proportion % of modernised teaching rooms	Assessment	Many institutions have a rolling programme to bring all or most teaching rooms up to good modern standards including IT and Audio-Visual technology. This KPI needs to be used in conjunction with agreed objectives in the Teaching & Learning and/or Estates strategies.
51	TRAC estates rates	From TRAC and HEFCE publication	Measure of what space costs the institution is adding on to Research costs. May be useful/important if the institution is out of line with its peers. The rates for all UK HEIs are benchmarked and published, with quartiles, at sector level by HEFCE.

Performance Area 8: Staff and HRD

	KPI	Definition/measurement	Comment
52	Cost of staff as %	From accounts	Governors may wish to set an objective for this. Useful to benchmark with similar types of institution.
53	Staff turnover, absenteeism and vacancies against plans	HR department	Useful measures to compare with objectives in HR strategy, and with other institutions.
54	Staff age, skills and diversity profile	HR department	Useful measures to compare with objectives in HR strategy, and with other institutions.
55	Expenditure of staff development and training	HR department	Useful measures to compare with objectives in HR strategy, and with other institutions.
56	Pensions liabilities	Finance department	May be significant for some institutions. Only useful for governors if it is significant.
57	Staff satisfaction	HR department	Useful measures to compare with objectives in HR strategy, and with other institutions.

Performance Area 9: Performance Area 9: Governance, Management, Administration and Systems including Legislative Compliance

58	Compatibility with CUC code	Assessment	Can be done as part of periodic self assessment.
59	External audits of management	Reports and feedback	Governors should receive reports on results of any external audits of management – e.g. Funding Council, credit agencies, accrediting bodies.
60	Leadership skills	Assessment	Each governing body could decide how it wishes to handle this area.
61	Successful delivery of projects and plans	Report	Links to high-level KPI 10. The governors could request a periodic assessment by the appropriate senior manager.
62	Remuneration committee reports	Report	Most institutions have a remuneration committee which reviews the performance of senior managers for pay purposes and so will form a view about effectiveness of management and administration.

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