1. What is VFM?

VFM is often expressed in terms of pursuing economy (careful management of available resources), efficiency (delivering the best level of service for less) and effectiveness (delivering the right service) to achieve desired outcomes and maximise the benefit of those outcomes. Successful demonstration of VFM is not limited to purchasing a service or item at the lowest price or making savings from existing resources. Investing higher levels of resource (in terms of cost, time or effort) may be justified by the results they deliver. The ability to set targets, monitor performance and record outcomes is key in measuring VFM. Higher levels of investment may also be justified through increased income generation so the diversification of income streams should be encouraged and incentivised.

2. Why is VFM important?

Constraints on the fiscal environment and significant cuts in public investment in capital infrastructure have resulted in higher education institutions relying increasingly on their surpluses or loans in order to remain competitive. Simultaneously the change in the student funding model for Home/EU undergraduates has placed greater emphasis on student choice as the mechanism to encourage competition between universities and raised the expectations of students regarding the experience that they will receive. Delivering an excellent service to students with diminishing support from the government means that the School must make the best use of its available resources. The School is held accountable for the public funds that it does receive and must
provide evidence that these funds are utilised in the most appropriate manner. The need to ensure VFM must be balanced against the School’s values and good practice, e.g. the School honours the living wage and does not employ staff on zero-hours contracts.

From a compliance perspective, failure to provide adequate assurance to the Higher Education Funding Council for England (HEFCE) that VFM is being achieved can lead to an institution being assessed as "at higher risk". In the short term this would result in increased scrutiny by HEFCE; ultimately HEFCE may sanction the removal of public funding for the institution.

3. Who is responsible for VFM at the School?

The responsibility for VFM lies with all staff and governors of the School, including those who are not directly responsible for resources or finances.

In terms of committee responsibilities and reporting arrangements, the School's Academic Planning and Resources Committee (APRC) has responsibility "to ensure value for money is delivered (especially in relation to the use of public funds), including consideration of the School’s purchasing activity on an annual basis." (APRC Terms of Reference). This assignment of responsibility is reinforced in the School's Financial Regulations which state "It is a requirement of the financial memorandum that the Council of the School is responsible for delivering value for money from public funds. This is carried out through the APRC." (LSE Financial Regulations 2015, section C4.4).

The School's Audit Committee is responsible for "the provision of an independent assessment of the School's arrangements for internal control, risk management, financial reporting, data quality, governance and value for money." (Audit Committee Terms of Reference, 19 September 2016). The Audit Committee produces an annual report for LSE Council and the Director (as accountable officer for the institution) regarding the adequacy and effectiveness of the School's arrangements for a range of factors including VFM.

The Memorandum of Assurance and Accountability between HEFCE and institutions states that "HEFCE has a clear regulatory duty to ensure that universities and colleges in receipt of public funds provide value for money and are responsible in their use of these funds." (HEFCE publication July 2016/12). HEFCE must provide annual assurances to Parliament that VFM is being achieved. Institutions must submit annual accountability returns to HEFCE which include the provision of assurances that the governing body of the institution is using public funds for proper purposes and seeks to achieve VFM from public funds.

4. Objectives of the LSE VFM Strategy

To achieve VFM the School will aim to:

- Embed VFM in management, planning and review processes at the School.
- Demonstrate to HEFCE that the best use is being made of public funds.
- Adopt recognised good practice in relation to VFM.
• Set targets, monitor performance and record outcomes in order to provide evidence of VFM.
• Benchmark the School's activities against those of comparable institutions where appropriate.
• Promote and incentivise opportunities for savings and income generation.
• Ensure all individuals associated with the School recognise the importance of VFM.
• Provide assurance to the School's Council and Audit Committee that VFM is prioritised in the School's activities.
• Allow the School to continue to invest in the best staff, students and infrastructure.

5. The School's approach to VFM

The School will seek to achieve VFM through the following activities:

i) Procurement Strategy: The School's Procurement Strategy aims to take a strategic approach to procurement support ensuring that procurement and contract management is based upon suitable specifications, whole life costing and affordability, to deliver best value to the School. The key elements of the strategy are:

• Constructively challenging specifications of requirement.
• Ensuring contracts properly reflect the LSE's agreed requirements.
• Aiming to achieve best VFM and affordability for the LSE in all procurement activity.
• Ensuring the most suitable strategy is used for all procurements and the level of competition is appropriate to the contract value and criticality.
• Making use of consortium arrangements where they clearly provide best VFM.
• Ensuring that evaluation will always consider the whole life and full economic cost of requirements.
• Contracting with the most appropriate suppliers to ensure consistent quality of service.
• Ensuring contracts provide protection to the LSE, reducing the risk of legal challenge, but also considering risk against cost.
• Ensuring contracts clearly state: service levels; how they are monitored; and remedies for failure, to ensure consistent quality of service provision.

Further information for LSE staff regarding procurement is available from the LSE website at the following address [restricted access intranet site]: https://www.lse.ac.uk/intranet/LSEServices/financeDivision/procurement/internal/staff/home.asp

ii) Recruitment and well-being: The largest item of recurrent expenditure for most institutions is staff salaries. It is imperative that the School continues to attract retain and promote a diverse workforce through competitive pay and reward packages and ensures well-being for its entire staff. Recruiting the right people in the first place and ensuring they stay motivated will ensure the maximum return on the School's investment in its staff. Equally the highest proportion of income to the School is through student tuition fees. The School must ensure that it continues to
recruit the best applicants and that mechanisms are in place to monitor and respond to student opinion regarding their educational experience, the learning environment and their well-being while they are at the School.

iii) Continuous improvement: The School must continuously review its performance across all areas to ensure that the best use is made of available resources and all aspects are being optimised in terms of VFM. An effective appraisal system of the performance of individuals must be in place to address poor performance and provide training and career development where appropriate. The portfolio of teaching programmes is assessed annually on the basis of health measures which have been developed to highlight where programmes may no longer be viable on the grounds of VFM; consideration of these indicators has informed decisions to discontinue or streamline programmes in recent sessions. The School must ensure its infrastructure remains fit for purpose and is fully utilised, e.g. in terms of space usage (both offices and teaching rooms) and accommodation occupancy. The School's Environmental Sustainability policy sets out a strong commitment to continually improve the LSE's environmental and social impacts, and deliver environmental enhancements where possible. Opportunities for collaboration at all levels with other institutions and industry need to be fully explored to both reduce procurement costs and increase the possibilities for improved training and skills. In the academic arena, the availability of open research data should lead to reduced duplication of effort and increased productivity.

iv) Annual budgeting and planning rounds: All Academic Departments and Institutes in the School are subject to the Annual Monitoring process whereby the Head or Director of each unit meets with the School’s Directorate. These meetings provide an opportunity to assess resources, staffing levels and student numbers within the context of a broader evaluation of the overall standing and performance of the Department in terms of research, teaching, engagement and finances as well as its internal operations. The Directorate reviews Departments and Institutes against their own plans and against the School’s strategic goals, reflecting on achievements, progress on implementing recommendations from previous APRC reviews and identifying risks. Departments and Institutes are specifically asked to provide information regarding any potential savings they have identified. In order to inform discussion at the Annual Monitoring meetings, the Directorate and Heads of Department are given access to the latest set of Department Profiles. The Profiles consist of a scorecard for each Department underpinned by 15 data sets and aim to provide a broad view of departmental activity and highlight any particular issues for discussion. There are data sets devoted to student opinion, as captured by internal and external surveys, which provide evidence of whether students perceive they are receiving value for their investment. Heads of Department are held accountable for addressing poor assessments from students relating to their educational experience. In parallel the resource position of Professional Service Divisions is reviewed on an annual basis by a joint group comprising membership from the APRC, the Director’s Management Team and the Finance Committee. This Budget Review Group considers the financial position of each Division in the context of divisional plans and the wider institutional strategy. In order to ensure that all potential costs and impacts (particularly for Service Areas) are assessed as early as possible when new initiatives are being considered the APRC established the Major Academic Initiatives process which involves broad consultation across the School leading to the development of a resource plan.
v) Cyclical reviews: From 2014/15 the APRC reintroduced in-depth reviews of Academic Departments on a five year cycle to assess their current position, ambitions and plans are in line with School objectives and expectations. The APRC reviews are undertaken over two days by a Review Panel consisting of internal members and at least three external members who are subject experts from peer institutions. Prior to meeting with the Review Panel, the Head of Department must submit a self-evaluation document which includes details of the structures in place to review the Department’s use of resources and manage budgets, identifies opportunities for income generation including diversification of funding streams, explores redeployment or disinvestment, benchmarks performance in relation to peer institutions, outlines arrangements for review, reward and mentoring of academic staff and assesses the overall financial sustainability of the Department. Following the review meeting with staff and students from the Department, a report is submitted by the Review Panel to APRC containing commendations for good practice and recommendations for developments to address issues identified. Departments which are undergoing an APRC Review will continue to participate in the Annual Monitoring meetings and any resource requirements arising from the APRC Reviews will be channeled through the next available Annual Monitoring process. From 2015/16 the APRC reinstated full reviews of Professional Service Divisions. The review process is similar to that for Academic Departments however the Review Panel for Service Divisions may also include lay governors who can provide insight from their experience in other sectors. Arrangements for cyclical reviews of Institutes have not yet been formally agreed by the APRC.

vi) Exercises specifically focused on VFM: In response to the financial climate at the time, the APRC established a Special Economies and Revenue Generation (SERG) group in 2010/11 which considered proposals from across the School to moderate expenditure and generate additional income. The SERG group agreed proposals for savings and additional income totally over £5m without resorting to staff redundancies. The exercise also provided an opportunity for resources to be redeployed across areas. The exercise was deemed to be an example of the School at its best as colleagues addressed the issue in a collaborative and collective manner. The APRC expressed strong support for repeating this thorough review of expenditure every three to five years in order to pursue VFM across the School.

vii) Internal and external audit programme: The auditors will assign a level of assurance for the design and operational effectiveness of internal controls for each area subject to audit. The significance of any recommendations put forward by the auditors will take into account VFM. Recommendations given a status of high significance are defined as "a weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently." Recommendations classified as medium significance are defined as "A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action."
Review schedule

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