

A PERSONAL VIEW OF THE FUNDING COUNCIL PERSPECTIVES ON SUCCESS... AND FAILURE

Powerful or powerless? The Higher Education Funding Council for England (HEFCE) – like the Scottish and Welsh Funding Councils and its various antecedent bodies such as the Universities and the (separate) Polytechnics and Colleges Funding Councils (and even, further back in time, the University Grants Committee and the National Advisory Body [for Public-Sector Higher Education]) – is an enigma.

On the one hand HEFCE distributes each year a very large sum of money to universities and colleges – more than £7 billion. The Council is also regarded as the source of patronage – through its allocation of additional (funded) student numbers, grants and loans from its Strategic Development Fund and other special initiatives. It manages powerful allocation (and reputation-granting) instruments such as the Research Assessment Exercise; it also supervises, partly through a contract with the Quality Assurance Agency and partly through direct interventions such as the National Student Survey, the quality of teaching and the maintenance of academic standards.

On the other hand HEFCE's leverage over the sector is severely limited. If even if the Council were minded to attempt to reshape the system and to impose its own measures of success and failure and reward or penalise universities accordingly, it would be very difficult for it to do so – for two reasons:

i) The first reason is that HEFCE's powers are strictly limited. Unlike, for example, the National Health Service Executive, it is a funding not a planning body. Although the suggestion was floated at the time of the last higher education White Paper that HEFCE should be given some (modest but explicit) planning powers that suggestion was rejected. The autonomy of higher education institutions was upheld. They remain legally independent bodies with our own Governing Bodies. They own our own buildings (and other assets). They employ our own staff. The universities design our own curriculum and make our own academic awards. HEFCE's formal powers are very limited; its only significant statutory responsibility is to ensure that the higher education it (indirectly) funds is of an adequate standard;

ii) The second reason is that, just as HEFCE is hemmed in on one flank by the autonomy of the universities, so it is hemmed in on the other flank by the increasing activism of Government (the – paradoxical – result of the Thatcher-Blair years, of anti-welfare-state Conservatism and of Labour’s rightwards drift, has been an unambiguous aggrandisement of State power). As a result HEFCE enjoys much less freedom of manoeuvre than its predecessor-but-one, the University Grants Committee, once possessed. At the time of the 1981 cuts the then-chairman of the UGC, Sir Edward Parkes, briefed journalists about the detailed institution-by-institution decisions before the Secretary of State of Education and Science, Mark Carlisle, was informed. That would be inconceivable today. The Department for Education and Science (DfES) now has a Director-General for Higher Education – and it is not clear whether the Director-General is more important than the Chief Executive of HEFCE or the other way round. And, of course, the DfES is not the only Government Department with an interest in higher education. For example, the Chancellor of the Exchequer, Gordon Brown, announced the abolition of the Research Assessment Exercise (in its current form) in his Budget speech – without any reference to HEFCE.

As a result evidence can be marshalled on both sides of the argument. Perhaps the best short summary of this evidence is to conclude that, while HEFCE has certainly become a more intrusive body, its own freedom to take independent action has been reduced. It has become less of a buffer body and more of a regulator – but not at its own behest. Three major topics will be discussed in this paper. The first is to consider some of the myths about HEFCE. The Council is blamed for many decisions which impact on universities, especially the less welcome decisions. In many, probably most, cases, these decisions have their origins elsewhere – mostly at Westminster and in Whitehall; but sometimes by the institutions themselves (or their senior managers who find HEFCE a convenient scapegoat). The second is to discuss the actual powers which HEFCE does possess – and which it can, and does, use to shape the fortunes of institutions. These powers can be organised in terms of a matrix, with the impact of these powers in terms of promoting ‘success’ and punishing ‘failure’ in on the vertical axis and the powers themselves – ‘quality’, ‘funding’ and (maybe) ‘planning’ – represented on the horizontal axis.

The third is to offer a personal view. My argument will be that it is not realistic to assume that a higher education system with 1.7 million students and costing upwards of £13 billion a year (75 per cent of which is derived from public sources) can, or should be left, be treated as entirely autonomous (a public policy-free zone). If this is accepted, there are two paths along which English higher education can develop. The first path is as a public system in which the autonomy of universities is shielded to some degree from the unregulated influence of the market. A price must be paid for such protection; some one, or some body, has to represent on the 'public interest' and ensure that that this 'public interest' is respected. The second path is as a quasi-private, or privatised, system. My strong personal belief is that the latter path is incompatible with the value systems and organisational characteristics, which are still regarded by many as essential to maintain the life-world of the university (and the fabric of an open society?).

Myths about HEFCE

There are several myths about HEFCE. But, before these myths are discussed, it is important to emphasise two points of context. The first is that each year HEFCE receives a 'letter of guidance' from the Secretary of State. This is the formal channel through which political messages are passed to the Council. Sometimes these letters contain what amount to direct instructions; at other times they are more discursive, intimations about 'direction of travel'. This is not a new practice; the first 'letter of guidance' was sent in 1967 to the UGC. Nor is it necessarily true that these letters of guidance are becoming more detailed and prescriptive; the level of detail tends to wax and wane depending on the activism of the particular Secretary of State and the visibility of higher education as a policy domain. The second point is that much of what HEFCE does on behalf of the sector is invisible. This applies not only to unofficial lobbying – 'backstairs influence', 'bending ears in Whitehall' and so on (although today HEFCE's informal influence appears to be directed as much at damage limitation as at the active initiation of high-level higher education policy). This second point also applies to the formal advice HEFCE gives to the Secretary of State about the needs of the sector which, regrettably perhaps, is required to remain confidential. The advantages of confidentiality for the Government is that it avoids

potentially damaging public criticism; and for HEFCE that it removes the need to tailor its advice to keep the many interest-groups in the sector as happy as possible.

These two points of context tend to erode the credibility of some of the conspiracy theories that flourish about the role of HEFCE. In the eyes of some the Council is a demonic ‘other’ with its own covert agenda; in the eyes of others it is entirely subordinate to the whims of politicians. An example of the first is the widespread, but misconceived, belief that, almost against the best intentions of modernising politicians who want to set universities free to flourish in the brave new market of top-up fees (and are desperate to remove the current cap of £3,000), HEFCE is fighting a long rearguard action to preserve the planning powers it has never had – in short, to keep universities in a state of public-sector subservience. An example of the second is the belief that HEFCE, far from being a courageous buffer between universities and the state, has become an enthusiastic (maybe, even, an over-enthusiastic) instrument of State control.

In my view, and based on direct observation, both are wide of the mark. Far from HEFCE attempting to plan every detail of what universities do, it actually distributes £6 billion of public money with the most minimal strings attached (a useful comparator is the National Health Service which groans under permanent reorganisation, arbitrary target-setting and micro-management). The ‘problem’, if there is one, is not that HEFCE is an over-mighty planner but that it really has no plan at all. Of course the Council has a five-year Strategic Plan – but, like most university strategic plans, it is mainly ‘motherhood and apple pie’). It is true that HEFCE is much less of a true buffer body than the UGC. But, again, what is remarkable is how few conditions are attached to the provision, allocation and distribution of such a large sum of public money. The HEFCE-institutions nexus remains an anomaly in the operation of the modern state; there are no other examples (with the increasingly dubious exception of the Arts Council).

Furthermore far from HEFCE being subservient to politicians the ‘advice’ it gives to the Government is frequently robust. For example, the HEFCE officers’ draft advice on the comprehensive spending review was substantially hardened up after the Board discussion. There are several occasions when HEFCE has protected the universities

from the full force of Government intentions. The most recent example is the skill the Council showed in deflecting the Government’s initially highly dirigiste and top-down views on how best to protect ‘strategic and vulnerable subjects’ following the high-profile closures of some departments, notably chemistry at Sussex. HEFCE was able to persuade Ministers that these decisions were best left to the universities (and to the market) and should not be taken out of their hands by either the Funding Council or the DfES.

How HEFCE intervenes to ensure success / avoid failure

Despite the implausibility of some of the more lurid accounts of HEFCE’s (sinister?) influence, there are some (limited) ways in which HEFCE can intervene to ‘shape’ success and to limit failure. They will be discussed in the following matrix:

	Shaping Success	Limiting Failure
Quality		
Funding		
Planning		

Quality

This is almost the only area in which HEFCE has something resembling a ‘power’ – the statutory duty to ensure that the higher education it funds is of an appropriate standard. If a university (or, more likely, a smaller college) fails to provide higher education that meets this standard, it should cease to be funded. How does HEFCE discharge this statutory responsibility? Essentially through its contract with the Quality Assurance Agency – which, it is important to remember, is formally a sector-owned body not a Government agency (in other words the higher education sector is being policed by its own policeman). The QAA has recently moved towards what is called a ‘light touch’ – in practice a series of whole-institution audits rather than detailed subject reviews (except in cases where there is assumed to be a higher level of risk – for example, franchised courses or free-standing higher education in further

education). However HEFCE does not rely exclusively on QAA audits and other reports, of course. It has other sources of information on quality, notably the National Student Survey. And every year one of HEFCE's strategic committees, on quality assurance learning and teaching (QALT), examines QAA reports and NSS results, and other relevant information, and offers the HEFCE Board a formal quasi-audit 'opinion' on the academic health of the sector. All the evidence suggests that there are, or should be, no serious 'quality' worries overall. That is one reason why HEFCE has, almost never, had to withdraw funding (never from a university). The other, perhaps more cynical, reason for HEFCE's non-intervention, of course, may be that withdrawing funding is a kind of 'nuclear option'; it is fairly easy to issue 'yellow cards' but very difficult to follow them up with a 'red card'. The only examples are a very small number of higher education courses in further education colleges.

HEFCE, of course, argues that any interventions it does make should be to secure quality improvements (or 'quality enhancement' as it is generally labelled). The Council believes that the best way to avoid failure is to promote success. This is why it developed the Teaching Quality Enhancement Fund (TQEF) and Centres of Excellence in Teaching and Learning (CETLs) (although CETLs were also developed with a wider range of strategic considerations in mind, whether high-minded such as the desire to accord teaching greater status or low-cunning such as a desire to squeeze more money out of the DfES and the Treasury. The QAA itself sees its work in rather similar terms, regarding audit and other reports as developmental rather than judgmental, spreading good practice rather than 'naming and shaming')

Some argue that the TQEF and CETLs are unnecessary interventions, invasions of university autonomy – and, to be fair, HEFCE itself recognises the dangers of so-called 'jam-jar' funding, which is why the TQEF is actually an amalgamation of several other funding streams arising from different policy initiatives. But it is important to recognise two (contrary) considerations. The first is that, while Vice-Chancellors may be frustrated by earmarked funding like the TQEF, there are many other people in universities who welcome such funding streams – for example, those who care deeply about improving student learning and sometimes feel oppressed by what they see as an excessive emphasis on research. The second is that, although these interventions can be seen this attempts to plan the system (or, at any rate, to

steer it in particular directions), they amount to a very benign and gentle form of ‘planning’ – and, on the whole, has produced a better balanced, and higher-quality, university system.

Funding

The second cross-cutting theme is funding – and, once again, examine HEFCE’s role is shaping success and avoiding failure. Although funding is the primary responsibility of HEFCE which is, after, a funding council, in fact the Council’s powers and responsibilities with regard to funding are unspecified, at any rate in statutory terms (unlike its duty to ensure that the higher education it funds is of an appropriate standard). Of course, in the context of funding, HEFCE is subject to all the usual, general, rules about being able to demonstrate that the money it has been allocated is spent in accordance with the wishes of Parliament – which is why the chairman and chief executive were summoned to appear before the Public Accounts Committee after the e-University debacle. It is also why the PAC tends to loom large in the HEFCE imagination. Audit and accountability are big in modern Whitehall.

HEFCE has a very strong interest in avoiding the spectacle of (financially) ‘failing’ institutions. It keeps the PAC at bay; it avoids creating the impression that public money is wasted; and it avoids all kinds of practical complications (such as how to continue to meet the needs of students in an institution that are in danger of collapse). The higher education sector has a strong interest too, however much tough talk there may be about not rewarding failure or protecting people from the consequences of their own mismanagement – because it avoids the same messy complications about redeploying students; because, if an institution went bankrupt, the interest charged on loans to all other institutions would be increased (diverting, probably, hundreds of millions away from teaching and research); and, above all, because it would be unfair (some institutions have to struggle against much more adverse circumstances than others).

HEFCE does two things to minimise the chances of financial failure. First, it requires all institutions to submit financial forecasts – and these forecasts have to cover all our income and all expenditure (not just the HEFCE-derived income) because the Council

needs to understand the full picture if the funding it provides is not be put at risk. Secondly, HEFCE monitors the financial performance of institutions and maintains an up-to-date list of the 'financial health' of individual institutions (which are allocated to one of four categories – 1 for the most threatened; 3 for the most secure; and 2A and 2B for those which are cause for some concern). This list used to be a purely internal HEFCE document on the grounds that its disclosure could affect the credit-worthiness of individual institutions. However the Freedom of Information Act has created a new, and more open, environment which journalists have been struggling to exploit – although (so far) without success. As a concession to openness, HEFCE now sends letters to all institutions – which do not actually disclose which category they have been allocated to, but give a broad indication of how the Council views their financial health. Finally, HEFCE does take more concrete and specific action in the case of institutions in the highest risk category. It monitors their financial performance intensively, demands regular reports and, in a very few cases, by-passes the 'management' and goes directly to Governing Bodies. Such action is undoubtedly interventionist; it is also completely justified and in the broader interests of the sector.

In its efforts to 'shape success' side of the equation HEFCE does three things:

- i) The funding system is designed to produce stability – not to inhibit change; but to give institutions the freedom for manoeuvre and breathing space to be able to develop in the ways they judge to be right. That is why HEFCE operates a so-called 'contract range' funding system. If an institution's actual funding is no more than plus or minus 5 per cent of what it would be entitled to according to the funding formula, it stays unchanged. Institutions that fall below their contract range are still given a minimum uplift in funding; in effect, they are safety-netted. Equally institutions that fail to recruit additionally funded students are given a second chance. All this builds in significant buffers against short-term changes and unexpected turbulence;
- ii) The standard funding formula for teaching, by-and-large, is policy-neutral (although that could change as a result of the current review of T funding). It is based on the principle of like funding for like provision. HEFCE does not make distinctions between institutions. The Council funds science and engineering at a higher level than arts and social science not because they are more important but simply because they

cost more to teach. There are some exceptions – in a few cases there are allocations to institutions that appear to be policy-driven. But even here in these cases care needs to be exercised in reaching premature conclusions. The premium for widening participation, or the additional 10-per-cent funding for Foundation Degrees, are really designed to reflect the higher cost of teaching such students or courses – as much as, or more than, because they are Government priorities. Even the least transparent areas – institutional premiums (for example, to the Royal College of Art and other specialist institutions) – are really designed to reflect the higher cost of such specialist provision;

iii) Where funding is influenced by policy interventions this is – almost always – transparent. Special funding streams are allocated according to transparent criteria (and, where possible, peer review – or, at any rate, judgements made by people who are independent of HEFCE – are used to determine these allocations). For example, one of the major principles of HEFCE’s current proposals for reforming its teaching funding methodology is to draw a clear line between the standard element, determined by the best possible relative costs data, and any special allocations which must be publicly justified (and, of course, are subject to change). The same idea also explains why such care has been taken in the preparations for the RAE.

Of course, some funding initiatives by HEFCE can be represented in a different, and more interventionist, light. For example, it can be argued that the RAE is simply designed to match research outcomes with research funding. But, even back in the 1980s when the RAE was first introduced by the then chairman of the UGC Sir Peter Swinnerton-Dyer, it clearly had other purposes – to steer the strategies and missions of individual universities. A more recent example is the ‘invention’ of double-5*s, which was introduced by HEFCE to head off a much more radical intervention, to designate a handful of ‘top’ universities and fund them on a different basis. So it is clearly naïve to pretend that the RAE is designed simply to allocate research funding equitably.

However, a fair overall assessment of HEFCE’s role should accentuate the positive. The Council’s funding systems, to the extent they try to shape success, do so in two, relatively uncontentious, ways. First, by emphasising stability and continuity, it leaves

the initiative with institutions; they are allowed to determine how they measure success. Secondly, where there are top-down interventions (which is inevitable given the scale of public investment in higher education), HEFCE continues both to deflect the more damaging proposals and to consult the sector about how best any consequential initiatives and/or funding streams can be designed.

Planning

The third cross-cutting theme is planning, in many ways the most contentious. To what extent is HEFCE trying to ‘plan’ the system? A plausible view is that HEFCE does too little planning not too much. Of course, all systems of allocation are, to some degree, planning systems; however apparently ‘neutral’, they have to be based on certain assumptions which, in turn, reflect certain values – so it can be argued that it is preferable to be explicit and transparent. But the range of, certainly explicit, planning instruments available to HEFCE is limited:

- i) HEFCE itself has its own Strategic Plan – which can be regarded as establishing a (rather weak) planning framework for the sector. In practice the HEFCE plan is directed as much ‘upwards and outwards’ to the DfES and the Treasury as it is ‘inwards and downwards’ to the sector. Its, perhaps unacknowledged, intention is to maximise higher education’s share of public expenditure by responding to the priorities itemised in successive letters of guidance (and also to the, implicit but powerful, themes of the prevailing political environment). The plan itself is probably written in too general terms to act as a planning framework for the sector itself;
- ii) HEFCE also requires institutions to provide periodic strategic plans. It is not always clear what HEFCE does with these plans. If an institution was plainly pursuing an unrealistic strategy (and one which was clearly unsustainable in ‘business’ terms), HEFCE officers might (would?) attempt to steer it in more sensible directions. But this would be done gently, through the regular ‘conversations’ institutions have with HEFCE Regional Consultants. The main use to which institutional plans are put by HEFCE is to ensure consistency of strategic direction (rather than to sit in judgement about the correctness of that direction) – and to discourage purely speculative behaviour;

iii) HEFCE has a Strategic Development Fund to support new initiatives. In theory, if the SDF were sufficiently large and if it were used in a sufficiently aggressive manner, it could be a formidable instrument of planning. Sadly – or otherwise – neither condition applies. The SDF is modest in size, so even if it were used aggressively it would still be operating only at the margin (Regional Development Agencies – those with money to spend, i.e. those outside London and the South East – have spent far more money on attempting to produce strategic, or structural, change in higher education than HEFCE in recent years – for example, to encourage the merger between the University of Manchester and the University of Manchester Institute of Science and Technology). However, in most cases the SDF has been used in a reactive way. Bids from institutions have been received – and assessed on their own (internal) merits; rather than being tested against some grand template of the kind of higher education system HEFCE would like to see. In short, the Strategic Development Fund was not really been very strategic;

iv) HEFCE does engage directly – although not very successfully – in planning. But here I would draw a clear distinction between what I will call day-dreaming within HEFCE, playing with ‘what if’ scenarios, on the one hand and on the other planning interventions made by HEFCE at the behest of other more powerful bodies. An example of the first is that a couple of years ago HEFCE did begin to consider ‘regional scenarios’ – in which the officers (and, to a limited extent, the Board) played around with ideas like ‘wouldn’t it be wonderful if University A merged with University B to produce a really strong research-based university in Region X’. But nothing has come – or is likely to come – from these scenarios. An example of the second is Gordon Brown’s peremptory abolition of the RAE (partly because the Treasury wanted, naively, to shift the balance from pure to applied research; and partly, because of a misapprehension that this would be wildly popular with the sector). Although HEFCE had nothing to do with this decision, it did have to manage – not just the fall-out; but also the practical implementation of some kind of alternative metrics-based RAE. So, although the Treasury’s *deus ex machina* intervention on the RAE will produce a significant, maybe fundamental, change in how research is funded and, therefore, in how research is undertaken (and is

undoubtedly a form of ‘planning’ – albeit of a peculiarly chaotic variety), it was not HEFCE’s doing.

Two paths of development

In considering more generally the factors, or conditions, that shape success (and avoid failure), one is immediately struck by a paradox – between dynamism and continuity. On the one hand, in most cases, for a university to be more successful implies embracing change and welcoming innovation (although there may be a very few cases where success means staying the same). But in an increasingly knowledge-based economy, within a society that may not exactly be post-modern but nevertheless has many novel (and alarming?) features (cultural transgressions, the erosion of old solidarities, the construction of ‘virtual’ – and highly volatile – identities, and so on) and, most of all, under conditions of globalisation standing still / staying the same does not appear to be a very viable strategy – especially for cutting-edge creative institution such as universities.

On the other hand, in organisational and structural terms, British higher education has changed rather little (not, of course, intellectual and scientific terms where change has been immense). In most essentials the present pattern of institutions was laid down in the 1960s – almost two generations ago. First, the colleges of advanced technology (Bath, Surrey, Brunel and so on) became ‘technological’ universities; next the new green-fields universities (Sussex, Warwick, York and the rest) were established. Finally the polytechnics were created by amalgamating colleges of technology, colleges of art and (a little later) colleges of education (although the polytechnics subsequently became universities 15 years ago, in essence they were established in the 1960s). Since then all that has happened has been some tidying-up at the edges.

Of course, change and innovation are not simply expressed through institutional restructuring. All these institutions have changed out of all recognition in the last two generations. Nevertheless there has been constant speculation about new patterns of higher education – for example, the still-born scheme to designate half-a-dozen research universities on the pattern perhaps of China’s ‘key’ universities; longer ago the proposal to establish a so-called ‘RXT system’ (Research universities, Teaching

universities and universities in the middle – the ‘squeezed middle’ they would probably be labelled today); most recently the hope that the introduction of top-up fees would create a ‘market’ in higher education (in which institutions would struggle to occupy their own niches). Modernisation, reform, restructuring are in the air. One of the most powerful reasons is probably the (mistaken) belief that, since the abandonment of the binary system, the British higher education has become less differentiated. In fact, it has tended to converge; most institutions now try to do the same (‘one size fits all’).

What form might modernisation, reform or restructuring take? If it is accepted that the present structure of British universities is beginning to creak (still non proven), there are two possible ways forward. (Restructuring, of course, takes many forms apart from institutional mergers or take-overs; the creation of networks and collaboration, and of diversification and differentiation of institutional missions, are equally significant forms of restructuring):

The ‘public road’

The first can be labelled, for want of a better term, the ‘public’ road – the retention of an essentially ‘public’ system of higher education (in terms of public values much more than of public funding – Harvard is a deeply ‘public’ institution in that sense). This ‘public’ road of development would (or should) have two dominant characteristics:

- i) The first is a keen respect for the idea of civil society, alongside and in support of not in competition with the State – and a recognition that universities are among the most important institutions within civil society, i.e. they are autonomous, secular and liberal institutions which are protected, to some degree, from both the attentions of the State and the intrusions of the market;
- ii) The second dominant characteristic is that higher education is aligned with democratic values – in the narrow sense that it is accepted that, ultimately, democratic politics must be allowed to shape its strategic direction; and in a somewhat wider

sense that universities must accept they are part, the leading part, of a wider educational system which is central to the healthy functioning of a liberal democracy.

The 'market road'

The second path can be labelled the 'market' road – in other words the shape and direction of the system will be determined predominantly by market forces (which, it should be emphasised, are the preferences of higher education applicants, which may mean still more media studies and still new places in STEM subjects, and the preferences of the end-users of research, which may mean more 'applied' and less 'pure' research). However there are a number of difficulties with following this second, 'market, road. The first is that there are almost no examples of a truly market system of higher education anywhere in the world. The second is that progress towards even a semi-market in higher education is likely to be agonisingly slow (The recent introduction of top-up fees is an illuminating example – no real variability between institutions and even higher levels of public subsidy through interest-free loans). The third difficulty is that the governance structures of universities and, at a deeper level, their organisational cultures are incompatible with a truly market system (as the controversy at Oxford about the reform of its governance may have illustrated, if in atypical terms).

If the 'public road' is considered to be the most likely (and desirable) path of development for British higher education, something like a HEFCE regime is probably inevitable – a regime in which bottom-up autonomy and top-down planning have to coexist, and in which a 'light touch' accountability regime must be accepted. Perhaps the most appropriate test is to not to measure the present condition of British universities and colleges with some, probably mythic, 'golden time' when (allegedly) the Government left all the money they needed on a tree-stump in the forest to be picked up later by the UGC. This was probably always a misleading – or highly optimistic – metaphor of university-state relations which failed to take account of the collusive (and contingent?) synergies of political, administrative and academic elites in post-war Britain. A better test is to compare the still substantial autonomy of universities with the much reduced freedom of decision and action of other parts of the public sector – for example, local government or the National Health Service – or

of the professions such as law and medicine. Larger forces are at work in society – the problematisation of expertise, the rise of the regulatory state, the emergence of a highly intrusive political culture. Universities have not been exempt from these larger forces but they have perhaps remained relatively insulated from them. For a mixture of structural and accidental reasons they continue to follow a ‘special path’

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