
THIRD MISSION FUNDING ARRANGEMENTS 2007/08-2009/10

18 September 2006

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To: Heads of higher education institutions
in Wales & other key organisations

Summary: This circular sets out the Council's
proposed funding arrangements for
the Council's next three year Third
Mission Fund cycle (2007/08-2009/10)

Response by: 31 October 2006

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INTRODUCTION

- 1 This Circular:
 - presents the proposed funding arrangements for the Council's next three year Third Mission Fund cycle (2007/08-2009/10); and
 - invites responses to be submitted to HEFCW by 31 October 2006.
- 2 This document is being sent to all higher education institutions (HEIs) in Wales and a range of stakeholders from both within and without the Welsh higher education (HE) sector. As part of this consultation process, the Council is also organising a seminar at the Holiday Inn, Newport on 11 October. Invitations to this event are being despatched separately.

BACKGROUND

- 3 Following a widespread consultation exercise the Council established its Third Mission Fund in June 2004 as a dedicated stream of core funding to support institutions' third mission activities. The Council defines HEIs' third mission activities as those that "stimulate and direct the application and exploitation of knowledge to the benefit of the social, cultural and economic development of our society".
- 4 As early as 2000-01, HEFCW's remit letter from the Welsh Assembly Government (then Welsh Office) cited as a priority that HE institutions should "continue to increase their contribution to the economy and their responsiveness to the needs of business and the community". All subsequent HEFCW remit letters have reflected this priority and it is a principle that has underpinned the development of the Council's Third Mission Fund.
- 5 On 9 May 2003 Council Members agreed to the establishment of a Third Mission Committee to take forward policy development in this area. Council Member, Dr Len Arthur, was invited to Chair the Committee and members were sought from the Welsh HE sector at both senior manager and operational level; from the Welsh business sector; and from the Council's key *Team Wales* partners. The Third Mission Committee oversaw the establishment of the Third Mission Fund, including a widespread consultation exercise that involved all HEIs in Wales and their key stakeholders.
- 6 **Circular W04/36HE**, published on 1 June 2004, presented the outcomes of the consultation exercise on third mission funding arrangements from 2004/05 to 2006/07 and set out the key principles that would underpin the Council's new Third Mission Fund in its first three year cycle. These were:
 - (a) a three year planning cycle;
 - (b) funding allocations that remain constant in each year of the three year planning cycle;
 - (c) planned activities that must play to the individual strengths of each HEI;
 - (d) **no hypothecation** of funding so as to enable (c) above;
 - (e) allocation of funds subject to receipt of a satisfactory strategy that clearly identifies the outcomes/impacts that will accrue from all of the HEI's planned activities;
 - (f) performance monitoring via the annual monitoring statements introduced in 2004/05 as part of HEFCW's strategic planning interactions with HEIs (via key

performance indicators that are unique to each HEI & reflect their particular contribution to the 3M agenda in Wales); and

(g) institutions that deliver all agreed targets to be rewarded in the next three year cycle at the expense of HEIs that fail to deliver.

7 The Council's Third Mission Committee has also been fully engaged in the development of the proposed funding arrangements for 2007/08-2009/10 and the names of its current members are presented at **Annex A**.

CONTEXT FOR 2007/08-2009/10 FUNDING PROPOSALS

8 The impact of the HE sector on both economic and social well-being is a recurring theme in the Assembly Government's own long term strategy for HE in Wales, *Reaching Higher*. It is mirrored in HEFCW's corporate strategy, which has included since 2002-03 an overarching aim about *Benefiting Society and Economy*. On a UK-wide scale, the impact of HE on both social and economic well-being is recognised in key policy documents such as Richard Lambert's review of HE- business collaborations and in HM Treasury's Ten Year Science & Innovation Investment Framework and it is measured in the annual UK-wide survey of HE-Business and Community Interactions (HEBCIS).

9 The two sides of the third mission agenda, social and economic, are not mutually exclusive. For example, all of the following activities are two sides of the same coin:

- widening access to groups hitherto under-represented in HE;
- developing skills for the knowledge economy and/or that enhance an individual's employability;
- promoting healthy living or energy conservation.

10 This interaction of the social and economic dimensions is also embedded in the third theme, *Enabling Sustained Economic and Social Renewal*, of the Assembly Government's proposed science policy, which refers to the "complexities of the interaction between technology, individuals and communities" and the "wide range of development issues at the confluence of economic, technology, cultural, natural resources and environmental issues".

11 Accordingly, in the third mission strategies that will trigger the release of third mission fund allocations between 2007/08-2009/10, HEIs will be expected to demonstrate how delivery of their strategy will contribute to the achievement of Assembly policies and strategies across the wide range of activity areas outlined above. In developing their third mission strategies HEIs will be expected to play to their own particular strengths/areas of knowledge and expertise, reflecting the diversity of mission in Wales' HE sector. Where appropriate, HEIs will also be expected to take account of policy imperatives pertaining to the UK HE sector as a whole, including on the European and wider international fronts.

12 HEFCW's Third Mission Fund is valued by HEIs for the role it plays in enabling an infrastructure in each HEI that underpins the development of third mission policy, strategy and administrative support. This predictable stream of clean, core funding helps give HEIs the flexibility to take advantage of opportunities to support economic and social activities, which can in turn be coherently and robustly integrated with other streams of HEFCW core funding and/or be deployed to lever funding from Europe and other external funding sources. In addition, the need to produce a strategy in order to

access third mission funding also constitutes a mechanism that is helping to embed third mission 'thinking' in all relevant academic and managerial dimensions of HEIs' operations. For example, many HEIs now offer enterprise and entrepreneurship and/or employability modules within their teaching curricula. Whilst third mission funding is not directly supporting these developments they are, nonetheless, contributing to the third mission agenda by impacting on both society and economy through the production of graduates to swell the graduate cohort of Wales' overall workforce and/or contributing to the establishment of new or the expansion of existing businesses in Wales. Similarly, HEFCW's Research Capacity Development Fund and the Science Research Investment Fund have contributed to third mission activities in recent years by helping to provide much of the underpinning infrastructure of Welsh HEIs' research and development activity – the commercial exploitation of which (frequently by specialist staff funded via the Council's Third Mission Fund) is a key component of economic development policy in both the UK and internationally.

- 13 Institutions' third mission strategies and their associated funding similarly influence the way in which they access and deploy non-Council monies. This includes public and private sector funding from both within Wales and the wider UK, as well as significant support from European structural and framework programmes. Third mission funding allocations from HEFCW are frequently used as match-funding to lever in external support. But perhaps more importantly, the Council's ongoing policy of supporting and enabling HEIs to develop a strategic approach to third stream activities in all of their mission areas (ie teaching, research & third mission) is creating an increasingly stable base in terms of both human and physical resources, which can be efficiently and effectively mobilised to attract new inward investment into Wales and to develop new areas of activity. Recent examples include Welsh success in attracting UK funding to establish the Cardiff Gene Park and the Skillset Academy for Wales. Also crucial on this front is the way in which HEFCW works alongside the Welsh Assembly Government in strategically co-ordinating support for HEIs' third mission activities, particularly via the Knowledge Exploitation (KEF), in order to maximise the HE sector's impact on economic development in Wales.
- 14 In their third mission strategies for 2007/08-2009/10 HEIs will be asked to detail all sources of funding for their third mission activities. However, whilst it is important not to equate third mission activities only with activities that are funded by HEFCW's Third Mission Fund, it is equally important not to underplay its significance to the infrastructure that underpins these activities.

FUNDING PROPOSALS FOR 2007/08-2009/10

- 15 In developing the following proposals the Third Mission Committee has been mindful of the need to respond to the often articulated wish of HEIs for continuity of funding in relation to their third mission activities. For this reason, no changes are proposed to the underpinning principles set out at paragraph 6 above, which were developed in consultation with Welsh HEIs and their key stakeholders prior to the establishment of the Third Mission Fund in 2004.
- 16 At the same time, Third Mission Committee members were keen to ensure that the Council's Third Mission Fund should continue to be:
 - (a) fit for purpose;
 - (b) relevant to current Welsh Assembly economic and social policy; and
 - (c) a vehicle for evidencing the pivotal role played by the HE sector in the successful delivery of key Assembly and, where appropriate, Central Government policies and strategies.
- 17 A total annual allocation of £6.1m is available for each of the three years of the next cycle. It is proposed that the monies will be allocated as set out in the table below. As

in the first cycle, an assessment panel of appropriate experts from the Council's Third Mission Committee will be convened to assist officers in formulating funding decisions for Council approval.

	£
To be allocated as foundation funding (£100k per HEI)	1.2m
To be allocated by formula	3.9m
To be reserved for collaborative Third Mission Strategies	1.0m
Total	6.1m

- 18 The decision to reserve £1m to support collaborative third mission strategies from two or more HEIs is a proposed new departure. The Third Mission Committee has advised the executive of the demands competing for relatively small amounts of money places on institutions. Nevertheless, the Council is mindful of its remit under the Assembly's *Reaching Higher* agenda to encourage and facilitate worthwhile collaboration within the sector (eg where institutions can sensibly complement each other; eliminate unnecessary competition; create new critical mass etc). The £1m that we propose to set aside for this purpose in each of the three years of the next cycle is new money and no additional burden on top of producing a third mission strategy will be imposed on HEIs wishing to access it.
- 19 Furthermore, HEIs wishing to incorporate a collaborative element within their strategy will still each receive the £100k foundation funding earmarked for all institutions and their respective formula allocations. In addition, they will be eligible to request additional funding (up to £250,000pa per collaboration) to fund costs arising from the proposed collaborative activity, eg the employment of a shared specialist/expert, the creation of a new commercial company or the establishment of a shared administrative function etc etc. Collaborative strategies will be subject to the same process of analysis as all other third mission strategies and proposed collaborations will only be funded when the Assessment Panel is satisfied that all assessment criteria have been met and the additional monies requested justified. As in the previous cycle, institutions will be advised in advance of all criteria to be applied in the assessment of their third mission strategies and, as part of the planning process, opportunities will be provided for informal discussions with Council officers prior to formal submission. It is intended that this approach will minimise the risk of any over-subscription to the £1m collaboration money and help ensure the most cost-effective mix of collaborative awards. In the event of under-subscription, any remaining monies will be fed into the formula allocations.
- 20 With regard to the allocation components carried forward from the previous cycle, it has been decided to increase the level of foundation funding (payable to **all** HEIs) from the present £75k to £100k. The proposed method of allocation of the majority of the available monies each year, £3.9m, is set out in detail at **Annex B**.

Comments are invited on the proposed breakdown of the £6.1m annual Third Mission Fund allocations (Question 1).

Proposed Funding Formula

- 21 The performance indicators that will turn the wheels of the proposed funding formula were discussed at length by the Council's Third Mission Committee. Members advised that it was important to ensure a sufficient range of indicators to reflect both the overall breadth of the third mission agenda and the diversity of mission within the Welsh HE sector, which influences the scale and impact of each institution's contribution.
- 22 The input indicators set out at Annex B are organised into three groups, which:

- (a) provide a measure of third mission activity potential and capacity building;
 - (b) reward income related performance (outcome activities); and
 - (c) reward non-income related performance (outreach activities).
- 23 Collection of these data will place no new reporting obligations on institutions as they are already being collected via the Higher Education Statistics Agency (HESA), the Welsh Assembly Government or the annual HE-Business & Communication Interactions Survey (HEBCIS). The Council made extensive use of HEBCIS in establishing its Third Mission Fund and Circular W04/36HE noted that as part of its strategy to minimise the data collection burden placed on HEIs in Wales, HEFCW would utilise future HEBCIS returns as a key vehicle for monitoring and evaluating HEIs' contributions to economy and society. The 2004 HEBCIS Report clearly signalled HEFCW's intention to utilise HEBCIS data in future third mission funding allocations and in 2005 returns to HEBCIS were made a condition of funding.
- 24 It is proposed to allocate the £3.9m earmarked for formula funding in the second cycle as follows:
- 50% (£1.950m) in relation to potential and capacity building – for which the number of FTE staff excluding those in support services roles (as reported to HESA) has been selected as the most appropriate proxy for institution size. Total number of FTE students was considered as an alternative as was total number of FTE academic staff. However, both of these were rejected by the Third Mission Committee as being of less relevance to HEIs' third mission activities than staff numbers, which would include non-academic knowledge transfer specialists.
 - 50% (£1.950m) in relation to reward of performance in both income and non-income related third mission activities.
- 25 The proposed performance measures in respect of income and non-income generating activity are summarised in the table overleaf, whilst Annex B provides details of the intended data collection sources and associated definitions:

Income Generating (outcome-orientated)	Non-Income Generating (outreach orientated)
Income from contract research	No. of graduate business start-ups
Income from IPR (including income generated by the sale of spin-off companies)	Engagement in KEF: - Consortia for Industrial Training - Technology Transfer Networks - Higher Level Skills Development Grants - SME Development Grants
Income from participation in regeneration & development programmes	No. of licences generated
Income from collaborative research activity involving funding from both public sector & business	No. of active spin-out companies
Fee income from international students	No. of Go Wales Phase 2 beneficiaries (including placements)
	No. of businesses engaged in GO Wales Phase 2
	No. of consultancy contracts
	No. of contracts for the hire of equipment, facilities & other specialist services
	No. of outgoing exchange students
	No. of students on industrial placements

26 In looking at Annex B, respondents will note that of the £3.9m earmarked for formula funding, £0.78m has been allocated to income generating (outcome) activities (20% of the £3.9m) and £1.17m to non-income generating (outreach) activities (30% of the £3.9m). This split reflects the greater cost of delivery frequently associated with HEIs' outreach activities.

Comments are invited on the proposed range of performance indicators within the formula allocation (Question 2) and the 20%/30% split between income generating and non-income generating activities (Question 3).

27 Annex B also presents two alternative methods of allocating the £3.9m formula funding. They are identical other than that the first calculates the allocation in relation to non-income related performance indicators pro rata to the sum of the indicators and the second splits the allocation equally between the indicators and calculates a pro rata allocation within each indicator. (The allocations in respect of potential & capacity building and income related performance indicators are the same in both methods).

Views are invited as to whether or not the funding allocation in relation to non-income related performance indicators should be calculated pro rata to the sum of the indicators or split equally between the indicators to calculate a pro rata allocation within each indicator – HEFCW’s preferred option (Question 4).

- 28 The funding data presented at Annex B are for illustrative purposes only. It is intended that data returns for the academic year 2005/06 will be used in determining allocations for the 2007/08-2009/10 Third Mission Fund cycle. In relation to GO Wales activities, cumulative Phase 2 data will be used and for KEF data, the latest figures available will be used.

Accounting for performance between 2004/05-2006/07

- 29 The principles that underpin HEFCW's Third Mission Fund commit the Council to reward HEIs that deliver all their targets in the first cycle at the expense of those HEIs that fail to deliver (see paragraph 6(g) above). To this end, officers are in regular contact with HEIs to discuss both their progress in implementing their overall third mission strategies and specific areas of activity, eg in relation to knowledge transfer, participation in GO Wales or engagement with the emerging sector skills councils. The annual HEBCI surveys also enable the Council to build up a longitudinal overview of the sector's performance in comparison with the rest of the UK and highlight areas of both progress and concern. However:

- to date, only one set of annual performance indicators has so far been collected and analysed via the Council's annual monitoring statement (AMS) exercise, which forms part of the Council's strategic planning interactions with HEIs (see paragraph 6 (f) above);and
- HEIs will not submit a full review and evaluation of their first three years of activity until they submit their next three year Third Mission Strategy in July 2007.

- 30 As allocations for 2007/08-2009/10 will only be released on receipt of a satisfactory third mission strategy in July 2007 that builds on the achievements of the previous three years, it is proposed that this will be a more appropriate time to consider the application of any funding adjustments deemed necessary. As in the previous cycle, a panel of experts will be convened to assist Council officers in their analysis of each institution's third mission strategy, which this time will need to include a critical review of their success in implementing their previous three year plan.

- 31 It is proposed that the assessment panel should be engaged in any decision to withhold funding in the event of under-performance. It is further proposed, that any funding adjustment will be applied only to the element of the allocation calculated via formula. Any monies withheld from one or more HEIs, will then be re-allocated to satisfactory performers via the funding formula.

Comments are invited on the proposed methodology to reward satisfactory performers at the expense of those HEIs that fail to meet the targets agreed with Council in respect of their Third Mission Strategy for 2004/5 to 2006/7 (Question 5).

OPEN UNIVERSITY IN WALES

- 32 From 1 August 2005, HEFCW assumed responsibility for funding the activities of the Open University (OU) in Wales. However, the nature of the hand-over of funding responsibility from HEFCE to HEFCW means that in the 2007/08-2009/10 Third Mission Fund cycle, the OU in Wales will not be eligible to receive either foundation or formula funding from HEFCW. However, the OU in Wales would be eligible to benefit from the £1m to be reserved for collaborative third mission strategies under the proposed rules set out at paragraph 19 above.

NEXT STEPS

- 33 Written responses to this consultation exercise are invited by 31 October 2006. For ease of reference, the consultation questions are summarised at **Annex C**. They will be analysed together with the outcomes of the seminar on 11 October and discussed by the Third Mission Committee at its meeting on 28 November 2006. The Committee's advice on the funding arrangements to be employed in the next Third Mission Fund cycle, 2007/8-2009/10 will then be submitted for approval by the Council on 8 December 2006.
- 34 A circular setting out the consultation outcomes and providing indicative third mission funding allocations for 2007/08-2009/10 will be issued in spring 2007. This circular will also request HEIs to submit a third mission strategy for 2007/08-2009/10 and will include all necessary guidance, together with details of the criteria against which all strategies will be assessed.

FURTHER INFORMATION

- 35 General enquiries should be directed to Teresa Cooper via e-mail (Teresa.Cooper@hefcw.ac.uk) or telephone 029 2068 2304. Questions related specifically to the proposed funding methodology should be directed to Hannah Falvey via e-mail (Hannah.Falvey@hefcw.ac.uk) or telephone 029 2068 2240.

CURRENT MEMBERSHIP OF HEFCW's THIRD MISSION COMMITTEE

NAME	ORGANISATION
Dr Len Arthur (Chair)	HEFCW Council Member
Professor David Brooksbank	University of Glamorgan
Mr Roger Carter	HEFCW
Dr Virginia Chambers	Welsh Assembly Government - DEIN
Ms Judith Cole	Welsh Assembly Government – DELLS
Ms Teresa Cooper (Secretary)	HEFCW
Mr David Craddock	Nominated by Welsh (HE) Industrial Liaison Officers Network (WILOs)
Professor Richard Davies	Nominated by Heads of Higher Education Wales (HEW)
Ms Angela Evans	Welsh Assembly Government – Chief Social Research Officer
Mr John Howells	Welsh Assembly Government – DELLS
Ms Pat Jones	Welsh Assembly Government – DEIN (KEF)
Dr Drew Nelson	IQE plc
Mr Bryan Reid	e-skills
Mr Richard Rossington	Welsh Assembly Government - DEIN
Mr Bob Waller	Welsh Assembly Government - DELLS
Mr Iain Willox	Welsh Assembly Government - DEIN

PROPOSED MEASURES AND METHOD TO BE USED IN THE CALCULATION OF THIRD MISSION FUNDING ALLOCATIONS 2007/08 TO 2009/10

MEASURES

The following tables list the various measures that we propose to include in the allocation of Third Mission funding for 2007/08 to 2009/10. The total for each measure across the sector is given, based on the latest available data. However, figures used in an actual allocation will be updated to those available at the time of calculation. For example, 2004/05 staff FTE are shown here, but 2005/06 staff FTE would be used in any actual allocation.

Potential and Capacity Building

Measure	Description	Source	Total across sector
Staff FTE	FTE of managerial, academic, professional, technical and administrative staff with an active contract in the academic year (includes HESA activity codes 1 to 4A). Atypical staff are excluded.	HESA new individualised staff record 2004/05	11,299

Rewarding Performance (Income Related Outcomes)

Measure	Description	Source	Total across sector
			(£000s)
Contract research income	Total value of contracts	HEBCIS survey 2003/04, Table 1b	12,184
Income from intellectual property rights	Total revenues (including sale of shares in spin-offs)	HEBCIS survey 2003/04, Table 4c	2,998
Income for regeneration	Total income for regeneration	HEBCIS survey 2003/04, Table 3	20,507
Income from collaborative research activity	Total income from collaborative research activity	HEBCIS survey 2003/04, Table 1a	53,920
Fee income from international students	Total HE course fee income from non-EU domiciled students	HESA finance statistics record 2004/05, Table 5a, row 1b	48,717

Rewarding Performance (Non-income Related Outcomes)

Measure	Description	Source	Total across sector
Number of engagements with KEF	Number of current active training consortia and Technology Transfer Networks engaged with as lead or partner plus SME development grants obtained and number of Higher Level Skills projects.	KEF, as at August 2006	45
Number of graduate start-ups	Total number of active firms	HEBCIS survey 2003/04, Table 4d	168
Number of licences	Total number of non-software plus software licences	HEBCIS survey 2003/04, Table 4b	79
Number of active spinouts (excluding graduate start-ups)	Total number of active firms including spinouts with some HEI ownership, formal spinouts not HEI owned and staff start-ups (excludes graduate start-ups)	HEBCIS survey 2003/04, Table 4d	82
Number of contracts – consultancy	Total number of consultancy contracts	HEBCIS survey 2003/04, Table 2a	974
Number of contracts - facilities and equipment related services	Total number of facilities and equipment related services contracts	HEBCIS survey 2003/04, Table 2b	1,267
Number benefiting from GO Wales Scheme	All GO Wales beneficiaries, including placements, up to July 2006	GO Wales phase 2	12,663
Number of businesses engaged in GO Wales	All businesses, including SMEs and larger companies, engaged with GO Wales, up to July 2006	GO Wales phase 2	1,212
Number of outgoing exchange students	Number of outgoing students on ERASMUS/SOCRATES programmes	HESA student record 2004/05	377
Number of industrial placements	Number of students out on an industrial placement	HESA student record 2004/05	806

METHOD (FORMULA FUNDING)

Two methods of allocation are proposed. These differ in the way in which the non-income related element of the rewarding performance allocation is calculated.

The two methods are set out below:

Method 1

Total allocated - £3.9m.

Potential and Capacity Building

Individual institutional allocations calculated pro rata to staff FTE.

Total allocated - £1.95m.

Rewarding Performance - Income Related

Individual institutional allocations calculated pro rata to sum of income related measures.

Total allocated - £0.78m.

Rewarding Performance - Non-income Related

Individual institutional allocations calculated pro rata to the sum of non-income related measures.

Total allocated - £1.17m.

Method 2

Total allocated - £3.9m.

Potential and Capacity Building

Individual institutional allocations calculated pro rata to staff FTE.

Total allocated - £1.95m.

Income related

Individual institutional allocations calculated pro rata to sum of income related measures.

Total allocated - £0.78m.

Non-income related

Money available split equally between all measures.

Within each measure, individual institutional allocations calculated pro rata to the total of the measure.

Allocations for each measure summed for each institution to get individual institutional allocations.

Total allocated in relation to each measure - £117k.

Total allocated - £1.17m.

SUMMARY OF CONSULTATION QUESTIONS

Comments are invited on the proposed breakdown of the £6.1m annual Third Mission Fund allocations (question 1).

Comments are invited on the proposed range of performance indicators within the formula allocation (question 2)

and on the proposed 20%/30% split between income generating and non-income generating activities (question 3).

Views are invited as to whether or not the funding allocation in relation to non-income related performance indicators should be calculated pro rata to the sum of the indicators or split equally between the indicators to calculate a pro rata allocation within each indicator – HEFCW's preferred option (question 4).

Comments are invited on the proposed methodology to reward satisfactory performers at the expense of those HEIs that fail to meet the targets agreed with Council in respect of their Third Mission Strategy for 2004/5 to 2006/7 (question 5).