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Cylchlythyr

Circular

Consultation on proposed changes to the funding system for higher education in Wales

Date: 22 July 2010
Reference: W10/27HE
To: Heads of higher education institutions in Wales
Principals of directly-funded further education colleges in Wales
Response by: **6 September 2010**
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This circular sets out for consultation proposed changes to the funding system for higher education in Wales.

The proposals respond to the Welsh Assembly Government's remit that the Council should make greater strategic use of funding to achieve the changes and address the priorities identified in *For our Future*, and to instigate a step change in our approach to funding.

This document is available online, in large print, Braille, on CD and on audio CD and cassette. Should you or someone you know require this in an alternative format, please contact us on (029) 2068 2280 or email info@hefcw.ac.uk.

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Introduction

1. This circular sets out for consultation proposed changes to the current funding system for higher education (HE) in Wales. The proposals respond to the requirement in the Welsh Assembly Government's Remit Letter for 2010-11 that the Council should make greater strategic use of funding to achieve the changes and address the priorities identified in *For our Future*, and to instigate a step change in our approach to funding.
2. Responses are invited by 6 September 2010. Any responses received after this deadline will not be included in the consultation analysis.

Background

3. Our remit letter 2010-11¹ noted in relation to the *For our Future* Strategy that:
4. 'Making greater strategic use of funding is essential to achieve the changes identified in the Strategy. Future public funding investment in higher education therefore needs to be steered towards meeting these changes. I expect the Council to instigate a step change in its approach to funding. This will necessitate a comprehensive review and re-structuring of existing funding streams from 2010-11 to ensure sustainable delivery of the priorities for higher education in Wales set out in *For our Future*.

I expect the Council to put in place a new Strategic Implementation Fund (SIF) from 2010-11 onwards to replace the current Reaching Higher Fund. The majority of revenue funding will in future be allocated to this fund. It will consequently be necessary to re-balance funding over the course of the new two years, but I wish to see the Council commence this change so that at least 20% of existing revenue budget is allocated to the new fund by 2010-11 and progressively to 80% in following years. To this end the Council should also undertake an assessment of all planned expenditure in the HE sector in Wales to assess alignment with the goals of *For our Future* and take the necessary action.'

5. Following a process of review within HEFCW, this circular sets out agreed principles for a future HE funding system. It discusses the process of delivering the Strategic Implementation Fund (SIF). It then sets out, against each of the strategic and underpinning themes within the HEFCW Corporate Strategy, our initial assessment of how our existing funding mechanisms assist in meeting *For our Future* priorities.

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6. A key area of activity for us arising from *For our Future* is to implement a regional dimension to the planning and delivery of higher education. (Circular W10/16HE refers). Our actions to achieve that goal are embedded in a number of funding streams, which will take an increasingly regional approach to allocation.
7. This circular does not cover future proposals on capital funding, which will be the subject of a separate consultation.

Principles

8. At its July 2010 meeting the Council agreed a set of principles which it considered pivotal to any future HE funding system. These are that any funding system needs to:
 - support WAG and HEFCW strategic priorities, including a sustainable higher education system;
 - be transparent;
 - be responsive to need, and be dynamic;
 - be efficient and promote cost effectiveness;
 - support quality in all aspects of HE activity;
 - respond to, and, where appropriate, reward performance;
 - be flexible and straightforward in operation.
9. Taking account of those principles, and of evidence of the high transaction costs of non-formulaic approaches to funding, the Council proposes to maintain a largely formulaic approach to funding, with the variables within formulae set to support strategic priorities, and with an expectation of clear evidence of how funding is actually delivering those priorities.

Strategic Implementation Fund

10. In his 2010-11 remit letter the Minister states that he expects the Council to put in place a new Strategic Implementation Fund (SIF) from 2010-11 onwards to replace the Reaching Higher fund, and with a view to re-balancing funding over the next few years so that the SIF moves from 20% to 80% of our total revenue funding.
11. The purpose of the SIF is to make, and be able to demonstrate, greater strategic use of funding in support of delivery of *For our Future*. We take this injunction to apply to all HEFCW funding. Accordingly, the Council has concluded that, in practice, once some 80% of revenue funding had been moved into the SIF, it would be difficult to construct a persuasive rationale for not moving to 100%. On the same reasoning, the Council has decided to include capital funding also in the SIF.

12. As a first step, in the Recurrent Grant 2010/11 circular (W10/10HE), we determined that a number of pre-existing funding lines already met the SIF criteria. Those lines were considered to be demonstrably supportive of *For our Future* priorities, which is the basic criterion for inclusion in the SIF. On the same basis, and after further consideration, Council has determined that other pre-existing lines could also meet the SIF criteria, provided that we apply vigorously the principles [para 8 above] of setting the variables within formulae to support strategic priorities, and so arrange reporting requirements that there is clear evidence of how the funding is actually delivering the required priorities.
13. Taking this approach, no funding line will become part of SIF until the Council is persuaded that it is constructed in a way which maximises its potential to secure the change in performance which is sought in *For our Future* and our Corporate Strategy. That condition in turn entails clarity over the expectations associated with each funding line, including what evidence of delivery we will require from institutions.
14. On that basis, subject to a thorough review of the research funding arrangements in order to be satisfied that a clear case can be made that they are consonant with *For our Future*, we would expect to include research funding in the SIF from 2011/12. Subject to further consideration of the outcome of this consultation we would expect also to include core teaching funding incrementally in the SIF from 2011/12 onwards.
15. In addition, and as required in our remit letter, as a first step all other planned expenditure and budget lines are in the process of being rigorously reviewed in order to assess alignment with the goals of *For our Future*.
16. Our new Corporate Strategy² is also our action plan for delivering *For Our Future*. Hence, in laying out below our thinking on potential changes to the funding method, and seeking views on those proposals, we do so in terms of the main themes within the Corporate Strategy and the measures laid out within it.

² http://www.hefcw.ac.uk/publications/corporate_documents/corporate_strategy_plan.aspx

Assessment of Funding to Support Corporate Strategy Themes

Strategic Theme: Widening Access

Ensure equity, opportunity and success in higher education

Measure 1. A 10% rise in the proportion of all Welsh domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are domiciled in the Welsh Communities First Areas from 15.6% in 2008/09 to 17.2% in 2012/13.

17. Current mechanisms: Our funding for widening access strategies includes a measure of performance against recruitment from Communities First areas. In addition, Communities First is a key target for funded activity by the Reaching Wider partnerships. There is a Communities First premium of £285 per student within the teaching funding. We also provide a premium of £285 per student for those from a low affluence background (the 'postcode' premium) from across the UK. The balance of the fund available for the Communities First premium is allocated pro rata to institutions in respect of those students whom research has indicated are difficult to retain (in this case students with non-traditional qualifications).
18. We propose to increase the current Communities First premium, in order to address more directly this Wales-specific requirement for widening access and, in so doing, remove the balance of funding based on non-traditional qualifications. This will assist sector achievement of Measure 1. We also expect to fund regional Reaching Wider partnerships more explicitly against Communities First from 2011/12.

Question (a) What level of increase in the Communities First premium would be necessary in your view to ensure that the sector is enabled to meet the target in Measure 1? What other actions might we take to secure sector achievement of that measure?

Measure 2. A 2.7%% rise in the module completion rate for undergraduate enrolments in Welsh higher education institutions from 87.6% in 2008/09 to 90% in 2012/13.

19. Current mechanisms: The current teaching funding method funds on the basis of module completion which supports the measure above. In addition, the widening access premium currently has an element of reward based in respect of those students whom research has indicated are difficult to retain (i.e. students with non-traditional qualifications).

Both of these approaches are designed to encourage module completion.

20. Additionally, UK Performance Indicators assess retention by looking at non-continuation following year of entry, i.e. completions in terms of completion of the year. (Another UK module completion indicator covers part-time students but not all undergraduate enrolments).
21. The UK PIs, then, are not in alignment with credit-based approaches, encouraged through the Credit and Qualifications Framework for Wales and our credit-funding method, because they don't cover all undergraduate activity at a module level. We recognise, though, that the publication of institutional benchmarks for this UK data is a major driver affecting sector performance in the area of retention, despite these limitations.
22. We propose to incorporate a more focussed element of funding support to reward retention, to replace the funding allocated in respect of students with non-traditional qualifications (see M1 above). We are considering how we might build in a funding incentive linked to the UK Performance Indicator for non-continuation as an encouragement to institutions to meet and exceed benchmarks and improve retention and learning success. This might reward performance improvement significantly above benchmark or penalise retention levels significantly below.

Question (b) What is your view on rewarding retention significantly above accepted benchmarks, or penalising retention levels which fall significantly below accepted benchmarks?

Question (c) What other measures might we take to promote the achievement of this target?

Widening Access - General

23. In terms of other measures under this theme, we recognise that the widening access 'postcode premium', which is our current funding measure reflecting the UK widening access performance indicators (PIs), uses postcode data that are becoming increasingly obsolete. We could stop this premium, and the emphasis that it places upon a measure of UK widening access students; continue to provide a premium for UK widening access students with updated data; or develop a different UK measure. In considering how we might use funding to support other UK widening access measures, we propose to continue making premium payments for students in receipt of disabled students' allowance.

Question (d) Do you think that we should continue, or begin, to support with funding including via premia, any of the other widening access sub-measures listed in the Corporate Strategy?

Question (e) *Should we continue to base an element of the widening access premium on a UK measure, or is it enough to use a Wales-only measures?*

Strategic Theme: Student Experience

Ensure that the student learning experience is of high quality

Measure 3. The three year rolling average score for Wales in the National Student Survey 'overall satisfaction' question will be equal to, or greater than the comparative score for the UK.

24. Current mechanisms: We currently support the enhancement of the student learning experience through a range of measures, including through our teaching funding, learning and teaching capital funding and the funding of learning and teaching strategies. We do not currently include any specific steers within our teaching funding, apart from the Welsh medium premium (see below).
25. We propose to attach a limited amount of funding to individual institutional NSS performance, using a three year rolling average.

Question (f) *What overall level of funding should we attach to NSS performance and what mechanism within our funding should we use to reward appropriate performance?*

Measure 4. The number of Welsh domiciled students at Welsh higher education institutions and further education institutions undertaking some element of their course through the medium of Welsh will rise from 4,667 in 2008/09 to 5600 in 2012/13.

26. We are committed to continuing to maintain the current total allocation of funding to the Welsh medium premium. This means that the current weighting of 0.34 on the unit of funding will continue to be adjusted to ensure a stable amount of Welsh Medium premium funding annually. Given the substantial planned additional investment in the Coleg Ffederal from 2011/12, we see no need to amend further our current funding arrangements to assist the sector to meet this target.
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Measure 5. The percentage growth in the number of overseas students attending higher education courses in Welsh higher education institutions will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding London and the South East).

27. Current mechanisms: We fund a range of sector support arrangements to assist in meeting this measure. We see no need to provide any further incentive in current circumstances to encourage institutions to address this target.

Student Experience - General

Question (g) Are there any other student experience measures that we should continue, or begin, to support with funding, including via premia?

Strategic Theme: Skills

Ensure that all graduates are equipped for the world of work and for their role as citizens

Measure 6. The proportion of leavers obtaining first degrees from full-time courses who were employed, studying or both six months after leaving, will be equal to, or greater than the UK proportion by 2012/13.

28. Current mechanisms: We support employability through funding both innovation and engagement (previously third mission) and learning and teaching strategies and we fund a range of sector support in this area, including the GO Wales initiative.

29. The development of employability skills runs in so many ways through the student experience that it is not self-evident how best to support this aim. We welcome proposals.

Question (h) What would be the most appropriate means for supporting improved performance on employability?

Measure 7. The absolute participation rate within Welsh higher education providers of students in the five Universities Heads of the Valleys Institute unitary authorities will rise by 8% to the current national average by 2012/13 (from 2.5% to 2.7%).

30. In view of the substantial dedicated funding already made available to support UHOVI we do not propose any additional support.

Measure 8. The total number of part-time students studying higher education courses in higher education institutions and further education institutions in Wales will rise from 54,714 in 2008/09 to 59,000 in 2012/13

31. Current mechanisms: As well as providing support through a range of strategy funding, specific allocations of 'Graham funding' are made to institutions to support part-time recruitment. We also fund institutions in relation to part-time fee waivers. Our credit-based funding method encourages flexible approaches to part-time provision, including work-based learning and our increased focus on Foundation degree provision, particularly through the regional dimension, will assist this agenda.
32. We recognise that steps now in train to manage full-time undergraduate numbers may encourage institutions towards additional part-time recruitment but we would wish to take a coordinated approach to part-time provision which takes into account the variety of support mechanisms available. We plan to return to this issue, taking account of the Welsh Assembly Government's review of part-time provision signalled following the publication of *For our Future* and the need to encourage a wider range of flexible learning opportunities, not least for people already in work. In the meantime, we would welcome your views on specific part-time funding mechanisms.

Question (i) How should we use our funding to further encourage part-time recruitment?

Skills – General

Question (j) Are there any other skill measures that we should continue, or begin, to support with funding, including via premia?

Strategic Theme: Knowledge Transfer

Ensure more productive relationships between higher education institutions and public/private sectors, local communities and other agencies

Measure 9. The number of spin-off companies still active which have survived at least three years will increase by 10% from 252 in 2008/09 to 277 in 2012/13

33. Current mechanisms: Our funding for innovation and engagement (I&E) strategies includes an element of support for spin-out companies (defined in the Measure above as 'spin-off' to align with UK measures). Within the I&E formula, the measures which relate to 'spinouts' are: 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). We also provide sector level funding support for spin-out managers.
34. To directly support the corporate strategy measure above, we envisage, within the I&E formula, giving more weight to spinouts. In addition, given the significance of this area to *For our Future*, we envisage increasing the funding for innovation and engagement (I&E) (total in 2009/10 £6.6m) which currently comprises foundation funding (£100k per HEI) plus formula funding, as well as funding for collaborative projects, including on a regional basis.

Question (k) By how much should we increase I&E fund?

Question (l) By how much should we increase the proportion of funding allocated to spinouts within the I&E formula?

Question (m) How might we further encourage through our funding collaborative research and knowledge transfer with business?

Strategic Theme: Research

Ensure improved research performance to underpin the knowledge economy and cultural and social renewal

Measure 10. The annual percentage growth in income from Research Councils, from its 2008/09 base of 4.8% of the UK total, will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding the 'golden triangle' of Oxford, Cambridge and London).

35. Current mechanisms: We allocate Quality Research (QR) funding on the basis of the outcomes of the Research Assessment Exercise, which judged the quality of research across the full spectrum of activity, including applied, practice-based, policy-oriented and basic/strategic research. We provide funding to institutions for Postgraduate Research and we also allocate research capital funding. Our key aim for the future is to secure sustainable research excellence in higher education in Wales.
36. Although we will continue to provide QR funding to institutions as a block grant, we wish to look further at the 'building blocks' which make up the

institutional allocations. This will mean consolidating QR funding around units which have high quality research, and which are sufficiently large to be sustainable in the longer term. In undertaking such consolidation, we will provide appropriate protection where the Welsh Assembly Government or HEFCW has already made significant investment in areas of national priority for Wales. We will also continue to allocate QR funding in accordance with the principles of the dual support system – enabling institutions to take a strategic approach to the deployment of this funding. We will use other, discretionary, funds in more direct support of Assembly Government research priorities.

Question (n) We currently apply a volume threshold to QR such that departments with fewer than 3 Category A FTE of classified work are not eligible for inclusion in the QR funding formula. We envisage increasing this threshold. Views are invited on the most appropriate future level for this threshold, in a range from 6 FTE to 15 FTE.

Question (o) We are considering introducing a quality threshold, such that those departments with the weakest performances in the 2008 RAE will no longer be eligible for inclusion in the QR funding formula, irrespective of size. We propose to base this threshold on the combined percentage of 4 and 3* quality attained by departments in the 2008 RAE quality profiles. We envisage that the threshold for the combined total of 4* and 3* would be set at between 5% and 15%. We invite views on this proposal.*

Question (p) What means of incentivisation could we put in place which would drive up Research Council grant capture in Wales?

Question (q) What more might we do to encourage growth of PGR activity in Wales?

Underpinning Theme: Reconfiguration and Collaboration

Deliver a reconfigured higher education system with strong providers that, through partnership working, particularly regionally, offers more accessible higher education opportunities

Measure 11. At least 75% of the Welsh higher education institutions will have an annual income in excess of the UK median (36% in 2008/09), with no institution to be in the lower quartile by 2012/13 (4 in 2008/09).

37. Current mechanisms: our SIF Reconfiguration and Collaboration Fund (RCF) and SIF Strategic Development Fund (SDF) provide a source of funding for institutional proposals which support collaboration and merger.

We have no specific funding measures in place to reward institutional behaviour in support the achievement of this measure. We are currently implementing mechanisms to assist the development of regional strategies which will support closer working on a regional basis.

38. In support of this measure we are considering allocating funding, including capital, in relation to institutional size. We might adjust our funding mechanisms to support larger institutions (for example, removing floors and ceilings in some allocations). We might also retain funding to be reallocated on the basis of satisfactory institutional plans to meet this measure.

Question (r) How would you advise that we use our funding to encourage rapid movement towards achievement of this measure?

Question (s) Do you consider an element of funding reward essential to ensure that adequate rationalisation takes place?

Underpinning Theme: Governance

Deliver continual improvement in the quality of governance and long term sustainability of the higher education system.

Measure 12. No higher education institution to be classified as 'high risk' under HEFCW institutional risk review processes.

39. Current mechanisms: We currently fund a range of mechanisms for the sector to share good practice and improve leadership, management and governance and thereby to assist the sector to meet Welsh Assembly Government objectives. This includes our existing and past funding for Governor and staff development; support for the Leadership Foundation; equality and diversity; estates and capital developments; environmental sustainability and carbon management; and procurement. Our SIF RCF and SDF provide funding for collaborative actions in these areas.
40. Our institutional risk review process provides a summative overall judgment based on a wide range of features of each institution. That judgment will incorporate all the measures listed above, and others. Accordingly, we see no need for any additional funding measure to support Measure 12. However, we are open to the argument that there might some areas of Governance which might benefit from funding support. On a very specific aspect of good governance, we identify the area of environmental sustainability, and would welcome views on other elements which might be supported through SIF. The Minister's current HE Governance Review may also make recommendations that will require us to revisit this subject in due course..

Question (t) *Should we use our funding to support improved Governance in any ways different from present arrangements?*

Question (u) *How might we further support action on environmental sustainability?*

Summary of questions

Question (a) *What level of increase in the Communities First premium would be necessary in your view to ensure that the sector is enabled to meet the target in Measure 1? What other actions might we take to secure sector achievement of that measure?*

Question (b) *What is your view on rewarding retention significantly above accepted benchmarks, or penalising retention levels which fall significantly below accepted benchmarks?*

Question (c) *What other measures might we take to promote the achievement of this target?*

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Sector Consultation

41. The purpose of this circular is to seek sector views on the proposals set out in paragraph 17 to 40. We invite responses to be returned to us by 6 September 2010. These responses will help us to finalise our new approach to funding.

42. The timescale to which we are working means that any responses received after the return date will not be considered.
43. We expect to issue final guidance on the future funding system for higher education in Wales by 29 October 2010.

Involving our stakeholders

44. We are committed to making equality a core issue in developing and implementing policies and services, and evaluating and refining those approaches to advance the equality agenda. We have a legal responsibility to assess the impact of our policies on equality groups and to set out how we will monitor or address any possible negative impact. An equality impact assessment (EIA) will improve HEFCW's work by making sure we do not discriminate in our services, functions, policies and employment and ensuring, where possible, we do all we can to promote equality and good relations between different groups. It also helps us when drafting policies to carefully consider the likely impact of our work and take action to improve it and ensure that, as far as possible, we eliminate any negative consequences.
45. We recognise that the involvement of disabled people is critical to the success of our work and that the Disability Discrimination Act specifically requires us to go beyond merely consulting disabled stakeholders. If you are disabled or have experience working with disabled people in the sector and would like to be more actively involved in our policy making process – from providing feedback or contributing to equality impact assessments – please contact us at equality@hefcw.ac.uk to be added to our stakeholder database. Any information is stored safely and confidentially and will not be shared with institutions or third parties.

Further information

46. For further information, contact Leanne Holborn (tel 029 2068 2259; email leanne.holborn@hefcw.ac.uk) or Celia Hunt (tel 029 2068 2222; email celia.hunt@hefcw.ac.uk).