

**Future Development of the Higher Education Economic
Development (HEED) Fund**
- a consultation document

To: Heads of higher education institutions
& other key organisations

Summary: This Circular sets out for consultation the
core principles of the Council's HEED
Fund, together with the proposed HEED
funding formula to be used in 2003/04

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■ INTRODUCTION

- 1 This Circular sets out for consultation the core principles of the Council's Higher Education Economic Development (HEED) Fund, together with the proposed funding formula to be used to determine HEED Fund allocations in 2003/04.
- 2 This document is being sent to all higher education institutions in Wales and a wide range of other interested parties from both within and without the Welsh higher education (HE) sector.
- 3 Responses to this circular will be analysed in conjunction with the outcomes of a sector seminar to be held at the Metropole Hotel in Llandrindod Wells on 27 January 2003 and a Knowledge Exploitation Fund (KEF) sponsored HE Masterclass to be held in Cardiff on 25 February 2003.
- 4 The sector seminar is intended to provide a forum to debate issues arising from institutions' experiences of the Council's first call for HEED Plans in August 2002, and the core principles and proposed HEED funding formula set out in this document. Invitations to the **KEF Masterclass, Third Mission: 3rd place or no place?** will be extended to senior HE sector representatives. It will concentrate on how to develop strategic approaches to overall third mission activities. An analysis of all consultation outcomes will be submitted to the Higher Education Funding Council (HEFCW) on 14 March and reflected in the circular to be published in April 2003, requesting updated HEED Plans from institutions.

■ BACKGROUND

- 5 The Council's revision of the research funding method in 2000 produced a new funding stream, known initially as "knowledge transfer". Circular W01/48HE, published on 1 June 2001, re-named the knowledge transfer fund as the HEED Fund and set out the rationale for its operational framework. Circular W01/48HE also indicated that the HEED Fund would initially comprise merged training and consultancy services (TACS) and contract research (CR) funds. However, in February 2002, the Council decided to bring forward to 2002/03 the

inclusion of its Wales Spinout Programme (WSP) funding within the HEED Fund. At the same meeting the Council also approved including within the HEED Fund in 2002/03 monies previously associated with the earlier TACS HE/FE Programme and the funds linked to the appointment of commercial managers at selected Centres of Expertise between 1999 and 2002. (The Centres of Expertise were established as part of a joint project with the Welsh Development Agency (WDA) aimed at promoting units or groups in higher education institutions (HEIs) that had particular skills or expertise of direct value to commerce and industry).

- 6 In May 2002, the first HEED Fund allocations were announced and institutions were requested to submit a HEED business plan for the first time. Institutions were advised that, in addition to triggering the release of the 2002/03 HEED funding allocations, their HEED Plans would also be used to determine the release of allocations from Strands 1 to 3 of the Knowledge Exploitation Fund (KEF) for the period 1 January 2003 to 31 July 2005.
- 7 Council's Circular W02/32HE made it clear that the arrangements for allocating HEED Funding in 2002/03 were interim, pending further developments. In particular, the Council committed itself to consult with the sector not only on the development of a new HEED funding formula, but also on responding to the Welsh Assembly Government's third mission vision for the HE sector in Wales as set out in March 2002 in *Reaching Higher*. Inter alia, *Reaching Higher* specifically requires HEFCW "to assess the potential for **introducing a single funding stream** in support of knowledge exploitation activities."
- 8 The Council's 2002 remit letter from the Assembly Government required a report on progress to date towards a single stream of third mission funding. This report was submitted to the Assembly in July 2002. The report also drew attention to the Council's latest spending round submission that asked for a measured series of increases in funding to enable the Council to place the HEED fund firmly towards the top of HEIs'

agenda, just behind the main block grant support for teaching and research.

- 9 The Council's new Corporate Strategy, also places "Benefiting the economy and society" through "delivering more productive relationships between HEIs and the public and private sectors, other agencies and local communities" at the heart of its own agenda.

■ CORE PRINCIPLES

(i) Definitions

- 10 As indicated previously, the Council sees the HEED Fund as the precursor of a substantial third stream of permanent funding to be set alongside those already existing in support of teaching and research. To enable the sector to proceed along common lines, it is necessary to be clear on how we perceive and define *third mission* activities and their future development and application. The Council regards economic development as an integral component of overall activity in this area, which, as our own mission statement makes clear, should encompass the cultural and social agendas, as well as the economic.
- 11 Whilst the focus of the HEED Fund currently remains on supporting economic development activities, it is important not to treat the economic, cultural and social agendas as mutually exclusive areas of activity. This is why the Council will increasingly be seeking clear links between all the plans and strategies it requests from institutions, and asking how they are integrated to create a coherent overall institutional strategy that delivers all three HE missions, ie teaching and learning, research and third mission (in its broadest sense, not just in terms of economic development).
- 12 The HEW/HEFCW Third Mission Working Group (the membership and terms of reference for which are presented at **Annex B**) has recommended the adoption of the following definition of third mission activities. This is taken from a report, *Measuring Third Stream Activities*, commissioned by the Russell Group in 2002, from the Science Policy Research

Unit (SPRU) at the University of Sussex (spru@sussex.ac.uk):

"Third Mission activities are concerned with the generation, use, application and exploitation of knowledge and other university capabilities outside the academic environment. It is about interactions between universities and the rest of society."

Issue 1

Comments are invited on the appropriateness of adopting the SPRU definition of third mission activities. Respondents are asked to give particular consideration to the extent to which this definition lends itself to the development of indicators against which, in line with the commitments given in its own Corporate Plan, the Council can measure HEIs' contribution to economic, cultural and social benefit in a way that monitors the proper use of public funds and/or incentivises and optimises such activity (see paragraphs 21 to 23).

(ii) Development of a single stream of third mission funding

- 13 The Council is committed to developing a single stream of funding in support of institutions' overall third mission activities. In its present form, the HEED Fund has always been seen as an interim measure that provides a first step towards the creation of a single stream of funding.
- 14 The HEW/HEFCW Third Mission Working Group has drawn attention to the fact that the current multiplicity of funding arrangements poses a problem for HEIs in Wales. Specifically, the short-term nature of many programmes does not provide a solid basis from which institutions can develop coherent medium to long term plans and strategies. The HEW/HEFCW Working Group has, therefore, recommended the creation of "a single funding stream based on a robust and well-understood framework". It has, however, also suggested that within this single framework there may well be a need to ring-fence funding for particular purposes, eg in pursuit of the graduate employability agenda.

- 15 On 29 November 2002 the Minister for Education and Lifelong Learning confirmed that the Welsh Assembly Government had endorsed the recommendation of the Graduate Support Programmes Steering Group that the separate Graduate Wales and Cymru Prosper Wales initiatives should be replaced with a single, repackaged and re-branded employability support programme. In view of this, and, as a further step towards the creation of an over-arching funding stream, the Council is proposing that from 2004/05 funding for the proposed new employability programme will be incorporated within the HEED Fund, but specifically ring-fenced therein.
- 16 As an additional step towards embedding third mission thinking into institutions' overall plans and strategies (see paragraph 10 above), the Council will from 2003/04 no longer require institutions to produce stand-alone work experience and employability plans (WEEPS). Instead, the Council will expect institutions to embed activities to promote the employability of undergraduates and graduates within both their learning and teaching and HEED strategies, (**Circular letter W03/04** also refers).

Issue 2

Comments are invited on the timescale which should be adopted by the Council in moving towards a single stream of third mission funding. In particular, comments are sought on the pros and cons of the Council's intention to cease asking institutions to produce stand-alone WEEPS and the intention to fund the successor programme to Graduate Wales and Cymru Prosper Wales via HEED. Consideration should also be given as to the most appropriate point at which to metamorphose the HEED Fund into an all-encompassing Third Mission Fund – including what other activities need to be supported via the envisaged single stream of funding.

- (iii) **Knowledge Exploitation Fund**
- 17 Like the present HEED Fund, KEF support focuses on the economic agenda. That is why the Council regards it as imperative

that, when developing their HEED plans, institutions pay due regard to the way in which they will utilise KEF monies to achieve their overall aims and objectives.

- 18 In 2002/03, HEED Plans were used to trigger the release of KEF strands 1 to 3 monies. In 2003/04, it is intended that HEED Plans will also be used to underpin allocations under strands 4 and 5 of KEF.
- 19 The Council is keen to see all institutions adopt a more strategic approach to using KEF in support of the achievement of overall institutional aims and objectives. This is why in 2003/04 applications for KEF support in respect of strands 4 and 5 will not be accepted from individual staff members or departments. Instead, all bids will need to be channelled through a nominated department and/or individual and clearly derived from the institution's HEED plan.

Issue 3

Comments are invited on the Council's intention to strengthen the links between KEF and HEED and the specific requirement that future bids for allocations from Strands 4 and 5 of KEF will need to be channelled through a nominated department and/or individual, and clearly derived from the HEED Plan.

- (iv) **European Funding in support of economic development activities**
- 20 Just as we are encouraging institutions to adopt a more strategic approach to accessing KEF monies, we are also keen to see the sector adopt a more strategic approach to the pursuit of European funding in general in this area. To avoid repeating the experience of the previous year, which has seen competing bids from different departments of the same institution submitted to the same European Funding Board, we would like institutions to consider the practicalities of requiring their departments to link and prioritise European funding bids in this area to the achievement of the aims and objectives of their HEED Plan and, to submit European bids via a nominated department and/or individual as they will be required to do in respect of drawing on strands 4 & 5 of KEF.

Issue 4

Comments are invited on the benefits and practicalities of requiring departments to link and prioritise (where appropriate) European funding bids to the achievement of institutional HEED aims and objectives, and to submit such European funding bids via a nominated department and/or individual as will be required in respect of future allocations from strands 4 & 5 of KEF.

(v) Performance Measurement

- 21 In moving towards a single stream of funding the Council is concerned to ensure that proper use is made of public monies and that the support provided incentivises and maximises institutions' third mission activities. It is, therefore, imperative to develop indicators that enable both institutions and the Council to monitor, evaluate and measure progress in delivering benefits on the economic, cultural and social fronts.
- 22 In developing third mission performance indicators it is important for the Council to ensure that Wales remains in step with the rest of the UK, not least to enable the measurement of the contribution HE makes to economic, cultural and social well-being on a UK-wide level. Several recent studies have looked at the issues of data gathering in this area, including the SPRU study referred to above, a UNICO/NUBS survey and the CIHE/Salford Enterprise Benchmarking project. HEFCE recently convened a *roundtable* of those involved in these studies to consider how to relate performance indicators to the development of a permanent stream of third mission funding. This *roundtable* concluded that the only way to move forward would be in a "steerable and evolutionary way".
- 23 In Wales, it is helpful to view the development of the HEED Fund as an evolutionary process. The Council's role is to work with institutions to encourage the evolution of a third mission culture. In parallel, the Council is committed to developing a set of indicators that will enable it (and institutions), together with other interested parties such as the Assembly and WDA, to monitor progress in the third mission arena. The data

collected with the first HEED plans in 2002/03 was a first step in this direction, and will be repeated in future years. As far as possible, the Council will strive to ensure that the format of its data gathering dovetails with that asked of institutions as part of UK-wide data collection exercises in this area, eg in respect of returns to HESA and to the annual surveys of HE-Business Interactions (HEBI), now being co-ordinated by HEFCE, and the latest of which will be published shortly.

Issue 5

Comments are sought on the Council's intention to repeat, over the medium-term at least, the data gathering exercise undertaken in conjunction with the submission of the HEED Plans in 2002/03. Comments would be especially welcomed on the ease with which this data is already collectable, and to the extent to which it dovetails with returns required by HESA and with the format of the latest HE-BI Survey.

(vi) Collaborative Activity

- 24 In line with the Assembly's collaboration agenda, the Council is committed to increasing collaborative activity in all aspects of third mission activity.
- 25 Although invited to do so, no institutions submitted a joint HEED Plan to the Council in 2002/03 and in general, collaborative activity did not greatly feature in the HEED Plans received. Conversely, analysis of the HEED Plans revealed a significant amount of duplication and, in some areas, competition between individual institutions, (eg see reference to competing use of European funding in paragraph 20 above). The Council intends to recognise collaborative activity in this year's HEED allocations by including a weighting factor reflecting participation in KEF strand 2 training consortia. In future years, consideration may also be given to making increased monies available to facilitate the implementation of collaborative HEED Plans.

Issue 6

Comments are sought on the measures being proposed to encourage collaborative third mission activity in this and future years. More general observations on how such collaborative activity could be further encouraged would also be welcomed.

progress made in each individual activity area covered by the funding models.

Issue 7

Comments are sought on the Council's proposed funding model for HEED Fund allocations in 2003/04.

■ **HEED FUNDING FORMULA FOR 2003/04**

- 26 As indicated above, in developing a HEED funding formula the Council is seeking both to incentivise activity and reward progress made. It is also important that we begin to move away from basing funding purely on income generating activities and start to focus on factoring into the funding formula participation in a wider range of third mission activities. The table overleaf presents outcomes from three possible funding models. The example allocations have been calculated using TACS and CR income data collected in respect of the 2002/03 HEED allocations (ie income achieved in 1999/2000 and 2000/01). Data relating to participation in KEF activities and numbers of spinouts and business start-ups have been taken from data collected from institutions' 2002 HEED plans.
- 27 All three models incorporate a £10,000 floor provision and provide:
- ◆ £15,000 per spinout/startup;
 - ◆ £2,000 per KEF scholarship;
 - ◆ £2,000 per KEF Strand 2 consortium membership, and
 - ◆ £20,000 per CETIC.
- 28 In Model 1 the remainder of funds are allocated pro rata to the weighted sum of TCS, IPR, other TACS and CR income averaged over two years. Models 2 and 3 reward increases in income generation over the two years via banding weighting applied to the total income level in the case of Model 2 and applied separately to total TACS and CR income levels in Model 3. The value of all of the weightings used is indicated in the table presented at **Annex A** overleaf.
- 29 The Council's preferred option is Model 3 because, in its view, it more effectively encourages participation and rewards

■ **RESPONSE TIME**

- 31 Written responses to this consultation exercise should be submitted by Wednesday 19 February to:

Teresa Cooper
Economic Development Manager
HEFCW
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Llanishen
Cardiff
CF14 5DZ

- 32 **Annex C** provides a summary of the core principles and issues on which the Council is seeking comments. The sector seminar being held on 27 January, referred to at paragraph 34 above, will also provide a forum in which to debate the issues raised in this consultation document.

HEED allocation funding models for 2003/04

Summary of Allocations

Institution	Actual allocation for 2002/03	Model 1 allocation	Model 2 allocation	Model 3 allocation
University of Glamorgan	201,624	206,273	190,655	202,159
University of Wales, Aberystwyth	266,305	252,691	252,411	250,448
University of Wales, Bangor	481,903	461,460	423,245	438,360
Cardiff University	1,022,937	1,048,245	1,131,881	1,098,140
University of Wales, Lampeter	36,468	21,912	20,301	20,207
University of Wales Swansea	397,768	460,124	426,398	454,881
University of Wales College of Medicine	307,379	304,865	304,514	294,840
University of Wales Institute, Cardiff	173,836	130,727	143,207	135,136
University of Wales College, Newport	121,568	91,065	82,048	81,522
North East Wales Institute	48,519	65,856	63,441	63,300
Swansea Institute of Higher Education	47,709	62,798	67,914	67,023
Trinity College Carmarthen	10,000	10,000	10,000	10,000
Royal Welsh College of Music and Drama	10,000	10,000	10,000	10,000
Total	3,126,016	3,126,016	3,126,016	3,126,016

PARAMETERS

Total funds	3,126,016
Funds allocated per spinout/startup	15,000
Funds allocated per KEF scholarship	2,000
Funds allocated per consortium membership	2,000
Funds allocated per CETIC	20,000
Minimum allocation	10,000

WEIGHTS

TCS	1.2
IPR	1.1
Other TACS	0.9
CR	1.0

BANDING

2000/01 income compared to 1999/2000 income

	Same or decrease	0% < increase	10%	10% < increase	20%	20% < increase
TACS	0.9	1.0	1.1	1.2	1.1	1.2
CR	0.9	1.0	1.1	1.2	1.1	1.2

HEW/HEFCW THIRD MISSION WORKING GROUP

Membership

Geraint Jones, Director of Research & Consultancy, Cardiff University [**Chair**]

John Jones, Spin Out Manager, NEWI (until 15 October 2002)

Stewart Milne, Acting Head of Business Development Unit, NEWI (from 15 October 2002)

Professor Robert Brown, Assistant Principal (Research & Enterprise), UWIC

Professor Noel Lloyd, Registrar, University of Wales, Aberystwyth

Roger Carter, Head of Economic Development, HEFCW

Terms of Reference

- * To consider the implications of the Welsh Assembly Government's Strategy for Higher Education, "*Reaching Higher*" and as further developed in the Remit Letter to the Higher Education Funding Council for Wales in respect of Third Mission.
- * To identify the scope for relatively immediate improvements in performance or provision via collaborative action.
- * To identify issues that present significant difficulty in terms of seeking improvements via collaborative action.
- * To propose "next steps" for consideration by HEW and HEFCW.
- * To submit an interim report by mid-October 2002.
- * To report by January 2003.

SUMMARY OF CORE PRINCIPLES & ISSUES FOR CONSULTATION

- 1 **To enable the sector to proceed along common lines, it is necessary to be clear on how we perceive and define *third activities and their* future development and application.**

Issue 1

Comments are invited on the appropriateness of adopting the SPRU definition of third mission activities. Respondents are asked to give particular consideration to the extent to which this definition lends itself to the development of indicators against which, in line with the commitments given in its own Corporate Plan, the Council can measure HEIs' contribution to economic, cultural and social benefit in a way that monitors the proper use of public funds and/or incentivises and optimises such activity (see paragraphs 21 to 23 of circular).

- 2 **The Council is committed to developing a single stream of funding in support of institutions' overall third mission activities.**

Issue 2

Comments are invited on the timescale which should be adopted by the Council in moving towards a single stream of third mission funding. In particular, comments are sought on the pros and cons of the Council's intention to cease asking institutions to produce stand-alone WEEPS and the intention to fund the successor programme to Graduate Wales and Cymru Prosper Wales via HEED. Consideration should also be given as to the most appropriate point at which to metamorphose the HEED Fund into an all-encompassing Third Mission Fund – including what other activities need to be supported via the envisaged single stream of funding.

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- 4 **The Council is keen to encourage the sector adopt a more strategic approach to the pursuit of European funding in support of HEED activities.**

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Comments are invited on the benefits and practicalities of requiring departments to link (where appropriate) European funding bids to the achievement of institutional HEED aims and objectives, and to submit such European funding bids via a nominated department and/or individual as will be required in respect of future allocations from strands 4 & 5 of KEF.

ANNEX C (cont)

- 5 **The Council has a duty to ensure that proper use is made of public monies and that the support provided incentivises and maximises institutions' third mission activities. To this end, it is imperative to develop indicators that enable institutions, the Council and other interested bodies to monitor, evaluate and measure progress in delivering benefits on the economic, cultural and social fronts.**

Issue 5

Comments are sought on the Council's intention to repeat, over the medium-term at least, the data gathering exercise undertaken in conjunction with the submission of the HEED Plans in 2002/03. Comments would be especially welcomed on the ease with which this data is already collectable, and to the extent to which it dovetails with returns required by HESA and with the format of the latest HE-BI Survey.

- 6 **The Council is committed to increasing collaborative activity in all aspects of third mission activity.**

Issue 6

Comments are sought on the measures being proposed to encourage collaborative third mission activity in this and future years. More general observations on how such collaborative activity could be further encouraged would also be welcomed.

- 7 **In developing a HEED funding formula the Council is seeking both to incentivise activity and reward progress made.**

Issue 7

Comments are sought on the Council's proposed funding model for HEED Fund allocations in 2003/04.