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Circular

Future Arrangements for Capital Funding

12 October 2007 **Ref: W07/41HE**

To:	Heads of higher education institutions in Wales
Summary:	This Circular announces the introduction of new arrangements for capital funding from 2008-09 onwards.
Response by:	No response required.
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INTRODUCTION

1 This Circular announces the introduction of new arrangements for capital funding from 2008-09 onwards.

BACKGROUND

2 In March 2007, the Council consulted on a proposed new approach to arrangements for capital funding (Circular W07/11HE). Responses indicated that there was a reasonable measure of support for the principle underlying the proposals – namely, the promotion of a more strategic, long-term approach to the planning of capital investment. However, reservations were expressed about some of the practical implications, particularly in relation to the proposed capital investment strategies.

3 As was reported to the sector in July, the Council accordingly established a small working group consisting of Council officers and four members of the sector to consider in more detail the nature of the information framework which would be required under the proposed approach.

FURTHER DEVELOPMENT OF PROPOSALS

4 As a result of discussion with the working group, a template for the capital investment strategy has been developed. This consists of a brief textual section, followed by high-level investment plans covering a five year period. In discussing the template, the working group was very mindful of the concerns about institutional burden which were expressed during the consultation process, and it considered that the agreed format provides a proportionate and acceptable way forward. The template, in the form of a worked example, is shown at **Annex A.**

5 Through discussion with the working group, the Council has also refined the list of metric indicators which it will use. These are listed at **Annex B.** HEFCW will draw on existing HESA and EMS data to run the indicators on an annual basis, and will use the outcomes for monitoring purposes, and as the basis for discussion with individual institutions, where required. The outcomes will not be published.

6 In the light of these developments, the Council has agreed to proceed with the implementation of the new arrangements for capital from 2008-09. These arrangements are summarised below.

SUMMARY OF ARRANGEMENTS

7 The new arrangements will apply to all institutions which have a successful track record of managing their previous capital allocations efficiently and effectively, as evidenced primarily by their annual expenditure reports. Those institutions which are not eligible to transfer to the new arrangements at this stage will continue to be required to submit detailed expenditure plans together with annual expenditure reports. Letters have already been sent directly to the heads of any institutions in that category.

8 For all other institutions, the arrangements from 2008-09 will be as set out below. They are intended to give institutions greater flexibility in the use of funding, whilst at the same time ensuring that investment is undertaken in a strategic context.

- Institutions' capital allocations for research and learning and teaching will be announced as a single, combined figure. The underlying calculations, showing how this combined figure is derived from the research and learning and teaching components, will also be provided for information. Institutions will be free to determine their own division of capital funding between learning and teaching and research, subject to a requirement to ensure that any contribution which may be provided by DIUS (formerly the OSI) is used for research infrastructure.

- Institutions will be asked to submit capital investment strategies, following the format shown at Annex A. Allocations will then be released on a quarterly basis.

- Monitoring arrangements will be simplified. One year after the end of each funding period, institutions will be asked to state, by means of a tick-box form, which elements of the investment strategy have been completed. HEFCW will also use the metric indicators set out in Annex B to monitor overall levels of investment.

- It remains important for the Council to be able to identify specific benefits from capital investment, not least so that it can justify the continued provision of funding to its sponsoring body, the Assembly. At the end of each funding period, institutions will therefore be asked to provide some case studies on how their allocations have been used. Wherever possible, these case studies should focus on large-scale investment which have had major impact.

TIMETABLE

9 The Council is publishing the format for the capital investment strategy at this stage in order to provide institutions with early notification of requirements. However, submission of the completed strategies will not be required until after the announcement of the capital funding allocations for 2008-09 and 2009-10. It is hoped to announce these allocations in January 2008, although that is dependent on the timing of the CSR outcomes. Assuming a January announcement of funding, the investment strategies would be required by the end of March, and the first tranche of the 2008-09 capital funding would be released in summer 2008.

10 HEFCW officers plan to hold individual meetings in the New Year with those institutions not represented on the working party in order to talk through the new arrangements in more detail.

FURTHER INFORMATION

Any queries arising from this Circular should be addressed to Linda Tiller (linda.tiller@hefcw.ac.uk; tel 029 2068 2228).

ANNEX A

Capital Investment Strategy 2008-2013
Institution - University of *****************

The table below should cover the totality of the institution's capital investment plans, not just the elements funded from HEFCW capital funding allocations.

The table should be preceeded by a brief textual statement to provide strategic context. This statement should look forward over a ten-year planning horizon (although the table itself covers only five years) and should address issues such as:
- key strategic drivers for investment (e.g. plans to introduce new subject areas, engage in new forms of delivery, consolidate the estate, address major estates backlogs etc)
- process by which the capital investment strategy was developed, and relationship to the strategic plan and other institutional strategies
- estimate of total capital investment needs over the next five years, and assessment of the extent to which these needs can be met
- institutional procedures for ensuring value for money for its capital investments

A worked example of the textual section will be provided as part of the individual meetings with institutions referred to in paragraph 10 of the Circular

The planned investments identified in the table should be categorised as follows:
Category A = certain to proceed. Funding secured and any necessary planning permissions obtained or well in hand
Category B = very likely to proceed, but some funding or other arrangements still to be finalised
Category C = institution would like to implement, but funding not yet identified.

Category (A-C)	Area of Expenditure	Estimated Expenditure					
		2008-09 £	2009-10 £	2010-11 £	2011-12 £	2012-13 £	Total £
Estates							
B	Refurbishment of biochemistry laboratories - necessary to upgrade dated premises. Links to L&T strategy, Research Strategy, DDA requirements and Estates strategy. Specifics contained in Estates Strategy 2006-2016		300,000	200,000	50,000		550,000
A	New build - for new department of _____________ due to start intake of students in 2012-13. Architectural and planning permission finalised in 2008 09 allowing work to commence 2009-10. Further details included under section ____________ in the Estates Strategy 2006-2016	800,000	800,000	500,000	900,000	1,200,000	4,200,000
A	Maintenance - All estates, ongoing.	55,000	55,000	55,000	55,000	55,000	275,000
C	Other	20,000	20,000	20,000	20,000	20,000	100,000
	Estates totals	*875,000*	*1,175,000*	*775,000*	*1,025,000*	*1,275,000*	*5,125,000*
Central Investment in Research Equipment*							
A	Upgrading equipment and facilities for new Genetics Group	200,000	50,000				250,000

Category (A-C)	Area of Expenditure	Estimated Expenditure					
		2008-09 £	**2009-10 £**	**2010-11 £**	**2011-12 £**	**2012-13 £**	**Total £**
B	Equipment for optometry in newly refurbished laboratories. Areas of investment to be determined at later date when priority becomes A grade.			300,000			300,000
C	Other	10,000	10,000	10,000	10,000	10,000	50,000
	Research Equipment Totals	210,000	60,000	310,000	10,000	10,000	600,000
Management Information System							
A	New system required for student services to replace obsolescent system not currently fit for purpose			100,000			100,000
A	Replacement of personnel system		50,000				50,000
C	Other	5,000	5,000	5,000	5,000	5,000	25,000
	MIS totals	*5,000*	*55,000*	*105,000*	*5,000*	*5,000*	*175,000*
IT Infrastructure							
A	Constant upgrade of PCs for students and staff	200,000	100,000	100,000	100,000	100,000	600,000
A	Network upgrades	200,000	100,000	50,000		50,000	400,000
A	Maintenance of server	25,000		25,000			50,000
B	MLE		50,000		50,000		100,000
C	Other	5,000	5,000	5,000	5,000	5,000	25,000
	IT totals	*430,000*	*255,000*	*180,000*	*155,000*	*155,000*	*1,175,000*
Central Investment in Learning and Teaching Equipment*							
A	AV equipment upgrades for Main Lecture Theatre and 3 smaller lecture theatres in building R				25,000	15,000	40,000
A	Chemistry lab equipment for undergraduate learning and teaching		12,000				12,000
B	Geography field equipment			5,000			5,000
A	New equipment for Art, Media and Design	100,000	25,000	15,000			
C	Other	1,000	1,000		3,000	3,000	
	L&T equipment totals	*101,000*	*38,000*	*20,000*	*28,000*	*18,000*	*205,000*
DDA Building Upgrades/Equipment							
A	Standard building upgrades for Building R, C and Z	100,000	25,000				125,000
B	Replacement lift in building R			80,000			80,000
B	Hearing loops in all lecture theatres	25,000	25,000	15,000			65,000
C	New signage for campus in accordance with DDA regulations				5,000		5,000
C	Other			20,000			20,000
	DDA totals	*125,000*	*50,000*	*115,000*	*5,000*	*0*	*295,000*
Other areas of expenditure							
	Totals						

Category (A-C)	Area of Expenditure	Estimated Expenditure 2008-09 £	2009-10 £	2010-11 £	2011-12 £	2012-13 £	Total £
	Total expenditure for institution	**1,536,000**	**1,573,000**	**1,195,000**	**1,218,000**	**1,453,000**	**6,975,000**

Sources of Funding							
1	HEFCW Capital Funding for Research 2008-09 and 2009-10	600,000	600,000	*600,000*	*600,000*	*600,000*	3,000,000
2	Institutional General Fund	500,000	500,000	500,000	500,000	500,000	2,500,000
3	Borrowing						
4	EU	150,000					150,000
5	Other - please specify	15,000	10,000	5,000	12,000	15,000	57,000
	Total available in year	**1,265,000**	**1,110,000**	**1,105,000**	**1,112,000**	**1,115,000**	**5,707,000**
	Investment Gap	**-£271,000**	**-£463,000**	**-£90,000**	**-£106,000**	**-£338,000**	**-£1,268,000**

Exenditure on Research			
	Within the above totals, how much of HEFCW's capital funding will be used to support research in 2008-09 and 2009-10?		

** Note* *It is recognised that, in some institutions, ongoing investment in equipment for learning and teaching is also undertaken at departmental level through devolved budgets. Where this is the case, a brief reference to this arrangement should be included in the textual section of the strategy. It is not necessary to quantify the level of this devolved expenditure.*

Institutional contact name for Capital Investment Strategy (to be used by HEFCW for all future correspondence relating to the CIS):	
Position in Institution:	
Telephone Number:	
Email:	

Signature (Head of Institution):	
Date:	

ANNEX B

HEFCW CAPITAL FUNDING

SELECTED METRICS INDICATORS TO BE USED FOR MONITORING PURPOSES

1. Expenditure on major and minor works (capital) and repairs and maintenance as a percentage of insurance replacement value. *(Target value from JM Consulting report: at least 4.5%.)*

2. Average expenditure on major and minor works and repairs and maintenance over the last three years as a percentage of insured asset value. *(Target value from JM Consulting report: at least 4.5%.)*

3. Average expenditure on major and minor works and repairs and maintenance over the last three years as a percentage of income.

4. Average capitalised value of expenditure on equipment over the last three years as a percentage of the balance sheet value of equipment.

5. CE/CP ratio. This is the ratio of "cost of equity" to "cost of production", where the cost of equity is the insured value of the non-residential estate, and the cost of production is the institution's total income (excluding residences and conferences). *(Target value from JM Consulting report: below or close to 2.0, or up to 2.5 for research-intensive institutions).*

6. Proportion of space (percentage of gross internal space) in condition C and D.

7. Cost of upgrading space in Condition C and D to Condition B as proportion of insured asset value.

Data Sources

- Expenditure on buildings, repairs and maintenance – HESA data
- Total institutional income – HESA data
- Insured asset value – EMS return
- Capitalised expenditure on equipment and balance sheet value of equipment – institutional accounts
- Proportion of space in Condition C and D and cost of upgrading to Condition B – EMS return