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Cylchlythyr

Circular

Consultation on changes to funding arrangements

Date: 30 September 2009
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To: Heads of higher education institutions and Principals of Directly-funded further education institutions in Wales
Response by: **6 November 2009**
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This circular sets out for consultation proposed changes to HEFCW funding arrangements.

The proposals respond to the Welsh Assembly’s remit to HEFCW to increase the strategic use of core funding.

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Introduction

1. This circular sets out for consultation proposed changes to HEFCW funding arrangements. The proposals respond to the Welsh Assembly's remit to HEFCW to increase the strategic use of core funding.
2. Responses are invited by Friday, 6 November 2009.

Background

3. In 2005 the Council was remitted by the Minister to 'provide advice on options for using core funding more strategically to promote the reconfiguration and collaboration agenda ... including ... the possibility of using student numbers to provide a sharper incentive for securing changes which will strengthen the sector in Wales as a whole'. As a result, the Strategic Development Fund was established, with a sum of £3m top-sliced from teaching funding. The Fund has continued to be increased since that time, supporting a wide range of strategic projects, and now stands at £6m per annum.
4. In addition, Council approved an increase in funding against specific Corporate Plan priorities, namely research, Welsh medium and widening access. Funding for research (QR) was increased by £2m for 2009/10 to take account of the outcomes of the Research Assessment Exercise. Funding was also set aside for Welsh medium provision, although this was not used in 2009/10 because of the ongoing deliberations of the Coleg Ffederal Planning Board, and was instead directed to fund the Economic Support Initiative. A further implementation of the strategic use of core funding is planned in 2010/11 to support widening access provision, with proposals currently under development.
5. In 2008/09 we set up a budget line for strategic funded numbers, reclaimed from institutions through the funding method, as a result of under-recruitment. At present, because recruitment is healthy, numbers held in this budget are small, but it is the intention to use these student numbers to support the reconfiguration and collaboration agenda in the future.
6. An internal review of the operation of the funding method has identified some further mechanisms which could be utilised to enable the Council to be more strategic in its approach to funding the sector. The review was also an opportunity to clarify and rationalise some aspects of the funding arrangements, which are included in this consultation.
7. All this is undertaken in the context of the grant letter, which notes that all the funding figures 'are provisional, and are subject to change in year'. However, in order to take forward the Welsh Assembly Government's strategic agenda we need to utilise our planning and funding mechanisms, even in the context of reductions in funding.

Remit

8. Council is remitted in 2009-10 to
 - (i) provide advice on how the Council's strategic planning process and funding can be better used to ensure that the work of institutions aligns with the delivery of government policy and key strategic priorities; in doing this we should
 - (ii) engage with key sector stakeholders to review the balance between recurrent and strategic funding streams, the way that government funding makes its way to institutions and how this translates into policy delivery;
 - (iii) explore ways in which additional levers can be used to deliver government policy including measures to stimulate collaborative activity and to widen access; and
 - (iv) in its funding allocations to take account of the regional dimension of HE provision in order to secure efficiency and value for money in allocations of funding across Wales;
 - (v) provide advice on how criteria to access strategic funding can be widened to take into account emerging WAG priorities, such as the transformation agenda;
 - (vi) work closely with WAG to explore ways in which HEFCW capital funding can be used to secure maximum strategic impact for Wales.
9. The proposals in this circular comprise an initial step in exploring these elements, some of which are expected to impact on funding allocations for 2010/11, whereas others will be subject to further development. A further circular on Reconfiguration and Collaboration will set out revised arrangements for strategic funding.
10. This circular considers what changes might be made to funding mechanisms to increase the strategic use of core funding. It does not consider the uses to which such funding would be put. HEFCW is developing a new corporate strategy in the light of the response to the Jones' Review of Higher Education. We would expect that the strategic use of funding would respond to the Manifesto for Change and those items set out above from the HEFCW remit letter.

Definitions

11. In discussing the strategic use of core funding, we need first to be clear about the terminology used in funding. This circular uses the following definitions and the relationship is also depicted in the table attached at Annex A:
 - a. '*Grant-in-aid*' is the totality of the funding provided by the Welsh Assembly Government to HEFCW.

- b. *'Core funding'* is all elements of the Grant-in-aid except the running costs budget for the operation of HEFCW and those funding streams which are controlled directly by the Welsh Assembly Government, that is *'Reaching Higher'* (incorporating funding for the *'Reaching Wider'* initiative and RH capital funding); and *'One Wales'* funding.
 - c. From within *'core funding'* there are some elements which constitute the *'block grant'*, that is those elements of formula funding which are known as *'teaching'* and *'research'*. This funding is allocated on the basis of activity levels in teaching and research but also contributes to institutions more generally and institutions are free to spend these allocations as they wish (within the terms of the Financial Memorandum with HEFCW).
 - d. Other funding streams (including capital and 3M) therefore comprise *'strategic funding'*, which is tied to specific deliverables. These streams are agreed individually by Council and include funding support for programmes, initiatives and UK-funded bodies to support the sector. Other HEFCW funds to support the sector (eg the Strategic Development Fund) would also fall into this category.
 - e. We also use *premia* within the teaching grant, which allocate to institutions an additional sum per eligible fundable student within the relevant category. The current premium categories are: widening access (comprising of three elements: for students from low affluence neighbourhoods in the UK (£215); for students from Communities First areas in Wales (£215); and for hard to retain students (allocated pro-rata from £2.5m less the Communities First element)); Disability (for those students who are in receipt of the Disabled Students' Allowance (£220); and Welsh medium (for those studying some element of their course through the medium of Welsh)(34% on the unit of funding). *Premia* recognise the additional costs which may result from the recruitment of students falling into these *'harder to reach'* categories and they encourage institutions to recruit students from such groups by rewarding them with additional funding within the teaching funding method.
 - f. We also allocate *'per capita'* funding, a sum of money per student to recognise the costs of administration, etc. This also serves to supplement funding for part-time students, since the sums available are identical for part-time and full-time students.
12. The term *'efficiency gain'* is also used extensively. We use two forms of efficiency gain in calculating grant allocations. The *'implied efficiency gain'* is calculated by comparing the actual recurrent financial year budget for HEFCW for the next year, with that of the current year. Building in a GDP deflator factor to bring all prices to an equivalent value,

a decrease between this year and the next would be considered to be the implied efficiency gain (ie the amount of decrease in funding which would have to be realised through efficiencies). The '*applied efficiency gain*' is a calculation which is applied to our budgets (currently only teaching) to release additional money for reallocation. This is the efficiency gain discussed in this circular.

Increasing the Strategic Use of Core Funding

13. HEFCW can adopt various mechanisms to increase the strategic use of core funding:
 - (i) We can consider how to place efficiency gains on funding which is allocated on the basis of teaching and research activity to liberate funding for strategic uses. As noted in paragraph 4 above, Council has already designated research as an area for strategic support. As a result, an additional efficiency gain was placed on the teaching grant to reward research performance with an additional £2m in 2009/10. Council has also agreed additional actions to support widening access and Welsh medium provision. In general, for every £1m we wish to liberate for strategic use, we need to impose an additional 0.4% efficiency gain on the 'teaching' grant.
 - (ii) An additional mechanism is to increase the use of premia to reward institutions which are following WAG/Council priorities in terms of student recruitment. This allows us to steer funding within the teaching core grant.
 - (iii) Council could be more strategic in agreeing specific proposals for additional programmes and initiatives or in re-approving current streams of funding (eg those set out in paragraph 11d). In general, each of these proposals is considered separately by Council, together with a case for funding. The opportunity is already available for these proposals to be challenged. Given the likelihood of future cuts in funding, funding for such programmes will be increasingly under pressure.
 - (iv) We can also scrutinise further the current funding method to see whether additional funded places can be liberated to support strategic developments. As noted in paragraph 5 above, we introduced this in a small way in 2008/09 but with limited impact as yet.
14. In the majority of cases of the strategic use of funding, this is a redistribution of funding away from formula approaches to support specific institutions or groups of institutions. It is not generally intended that the funding should be top-sliced for uses outside of the sector, except when clear benefits accrue for the provision of HE in Wales more generally.

Proposed changes to the funding method.

15. In the light of the considerations above, officers have been formulating proposals for consultation with the sector. We are obliged under section 66(1) of the 1992 Further and Higher Education Act to consult on changes to the funding method.
16. The timing for the introduction of any changes to the funding method will depend on the content and timing of the publication of the Assembly's response to the recommendations in the Jones review, and the ease and speed that transitional arrangements, if required, can be implemented.

Our proposals are as follows:

- (i) To increase student funded numbers available for strategic allocation we propose to remove the recovery element in the model.
- (ii) Premium funding is 'core funding' within the 'teaching' grant. Its purpose is to reward institutions for recruitment patterns which meet Welsh Assembly Government priorities by recognising that there may be additional costs to this. It is part of the 'block grant', ie not controlled. Despite this, the use of some premium funding is currently tied to specific deliverables. This has proved difficult to monitor. As we are moving to differentiate more clearly between 'core' and 'strategic' funding, we propose to break the link between premium funding and specific deliverables. In taking this forward, we may wish to place more emphasis on WAG priorities within the teaching grant (eg through increasing the premium amounts).
- (iii) A further area of ambiguity is the 'per capita' funding. At present this is a pro rata sum against student numbers from a fixed total quantum, rather than a set amount per student. A concern has been raised in the sector that the amount per student can vary year on year. We therefore propose that a set sum should be identified per student (part-time and full-time) as the per capita element, based on the sums which have been allocated via the pro rata allocations over the last few years. Subject to the grant settlement, this will work out at around £50 per student, compared to £48 per student in 2009/10.
- (iv) We propose to continue to increase funding for core priorities as previously agreed. In preparation for this, we have asked HEIs to prepare their financial forecasts for 2009/10 on the basis of a 2% efficiency gain for teaching and 0% for research. However, efficiency gains will increase if our grant-in-aid is subject to further reductions.
- (v) We propose a reduction in funded credit allocations across the sector. This would liberate funded credits which would then be

available for strategic allocation. This would remove both funding and credits from the method (ie it would not need the imposition of an efficiency gain or lower the unit of funding). We would then allocate these through a separate process, either bidding or separate allocation, to meet strategic priorities. We recognise that institutions would be likely to increase recruitment of non-funded numbers if that happened but such over-recruitment would need to be controlled by institutions so that it did not impinge on quality, or significantly increase the financial impact on Welsh Assembly student support budgets. Given that the total allocation for teaching is almost £280m, a small percentage reduction in that allocation could realise significant additional numbers for strategic reallocation.

- (vi) The majority of premium funding is directed at widening access priorities. At a time when additional funding is being directed to research through an efficiency gain on teaching funding, those institutions which perform better against widening access indicators may gain lower funding. To stimulate an increased emphasis on recruitment to widening access cohorts, we will consider increasing substantially the amounts payable. The priorities may need to be altered in the light of the response to the Jones' Review but a significant increase in the premiums would place an imperative on institutions to recruit from these cohorts, to access Council funding.
- (vii) At present, formula funding is allocated to individual institutions using a standard mechanism. Our remit letter requests that we take a more regional approach to our funding. Already, additional funding streams are being made available to support strategic developments in the Heads of the Valleys, Deeside, South West Wales and supporting HE/FE links. We propose to increase our regional approaches to funding. This could mean increasing funding for certain institutions at the expense of others to support increased provision in particular areas or to take account of other priorities.
- (viii) In considering our remit to review the balance between recurrent and strategic funding streams, one of the aspects to be considered is the number of academic subject categories and funding cells used in recurrent funding allocations.

Institutions are invited to comment on the proposals, identifying any practical considerations which the Council should take into account in implementing the proposed changes to the funding method in.

Involving our stakeholders

17. 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) should 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.
18. 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 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 / responses to

19. Any queries should be directed to Celia Hunt or Leanne Holborn (tel 029 2068 2224 or 029 2068 2259; email celia.hunt@hefcw.ac.uk or leanne.holborn@hefcw.ac.uk
20. Responses to the consultation should be addressed to Rachel O’Gorman, rachel.ogorman@hefcw.ac.uk.

Glossary

Grant-in-aid	Core grant	Block grant (recurrent)	Strategy and Initiative Funding
<i>Totality of WAG funding, including:</i>	<i>Funding within HEFCW's remit to distribute to HEIs:</i>	<i>Grant payable to institutions which is not controlled:</i>	<i>Funding tied to specific deliverables</i>
HEFCW Running costs	Block grant	Teaching (including premia and per capita payments)	Funding for strategies (3M, L & T, WA, ITT)
WAG-controlled funding streams, Reaching Higher/One Wales, including the Reconfiguration and Collaboration Fund.	Strategy/Initiative Funding	Research (QR, PGR, etc)	Capital funding
			Strategic Development Fund
			Funding to support other initiatives and programmes
			Strategic Funded Numbers