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Cylchlythyr

Circular

Changes to the funding system for higher education in Wales

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To: Heads of higher education institutions in Wales
Principals of directly-funded further education colleges in
Wales
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This circular sets out changes to the funding system for higher education in Wales from 2011/12, following a consultation with the sector (Circular W10/27HE) and the publication of initial proposals set out in Circular W10/37HE.

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Lywodraeth Cynulliad Cymru
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Introduction

- 1 This circular sets out changes to the funding system for higher education in Wales from 2011/12, following a consultation with the sector (Circular W10/27HE)¹ and the publication of initial proposals set out in Circular W10/37HE.
- 2 The changes 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.
- 3 Final arrangements for 2011/12 will be confirmed in the grant allocations circular 2011/12.

Background

- 4 Our remit letter 2010-11² noted in relation to the *For our Future* Strategy that:
- 5 *'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 next 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'.

- 6 Following consultation/involvement and the development and publication of initial proposals, this circular sets out agreed changes to the funding system, which take account of further modelling and proposal development. All budget lines have been scrutinised to ensure that each funding stream

¹ All numbered circulars can be found under 'publications' on our website, www.hefcw.ac.uk

² http://www.hefcw.ac.uk/about_he_in_wales/wag_priorities_and_policies/annual_remit_letter_hefcw.aspx

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. Through this process, as agreed by Council, all grant funding has now been transferred to the Strategic Implementation Fund.

- 7 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. (Circulars W10/16HE and W10/28HE refer). Our actions to achieve that goal are embedded in a number of funding streams, which will take an increasingly regional approach to allocation.

Principles

- 8 In confirming funding changes, we have taken account of the principles stated in our initial proposals circular, namely that any funding system in Wales needs to:
- support Welsh Assembly Government 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 Following the format of the consultation and the initial proposals, this circular sets out agreed changes to the funding method against the main themes within the HEFCW Corporate Strategy, and the measures laid out within it. It also reports on actions taken in response to some of the initial proposals.

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.

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.

We proposed:

- a) An increase in the current Communities First (CF) premium

- b) Continuation of a UK 'postcode premium' with a lower rate than the CF premium
- c) Consideration of a premium based on the Assembly Learning Grant with a lower rate than the CF premium
- d) Funding regional Reaching Wider Partnerships and Widening Access Strategies more explicitly against CF from 2011/12
- e) Retaining support for non-traditional qualifications through the arrangements for widening access strategies
- f) Retaining support for disabled students through a Disability Premium
- g) Introducing a new retention premium based on the retention of widening access students, as part of a single approach to recruitment and retention.

10 We have completed extensive modelling on the three premia suggested above ((a), (b) and (c)): Communities First; 'postcode'; and Assembly Learning Grant, together with the retention element (g). These Access and Retention premia have been modelled on the basis of a lower sum for first year students and a slightly higher amount for those in subsequent years to reward retention. They cover full and part-time students. Those on one year courses who complete or partially complete are funded at the higher level, those that don't complete at the lower level. Our modelling also recognised that the proportion of widening access students within an institution will impact on the extent of support required, as with the funding method we already use for Widening Access Strategy allocations. Items (d) and (e) above have been taken forward in our guidance on Widening Access and Reaching Wider Strategies (W11/41HE and W11/01/HE). We will retain the current arrangements for the Disability Premium ((f) above) at £220 for eligible enrolled students in 2011/12.

Agreed changes:

- 11 To recognise the proportion of widening access students within an institution, calculations for the following premia will take into account the proportion of Communities First students – our key target area - within each institution in the following way: those institutions with less than 15% Communities First (band 2) gain a lower premium than those institutions with greater than 15% (band 1) based on 2009/10 HESA data. The premia for 2011/12 will be set at the following rates:
- A Communities First premium, band 1 to be at £465 in the first year and £480 in subsequent years (eg a total of £1425 for a 3 year UG student); band 2 institutions will gain £285 per CF student in the first year and £300 in subsequent years

- A participation premium based on the HEFCE POLAR³ young participation data, overlaid with mature entrants' participation, at £150 for the first year and £165 for continuing students
 - A new premium based on the Welsh Assembly Learning Grant (means-tested) at £105 and £120 for continuing students
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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.

We proposed:

- h) Building action to improve NSS performance more explicitly into guidance on Learning and Teaching Strategies to enhance the student experience

Action taken:

- 12 *Learning and Teaching and Widening Access Strategies 2011/12 – 2013/14: Initial Guidance (W10/41HE)*, published 1 December 2010, made clear the need for actions to improve NSS performance. Further supplementary guidance is due for publication in April 2011.
 - 13 No further actions are planned to underpin **Measure 4** (Welsh medium) beyond those already agreed for the implementation of the Coleg Ffederal/Coleg Cymraeg Cenedlaethol. No additional action is planned to support **Measure 5** (overseas students) through the funding method in the context of the substantial financial benefits which already accrue to institutions arising from overseas students and in the light of recent strong performance against this measure.
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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.

We proposed:

³ <http://www.hefce.ac.uk/widen/polar/guide/>

- i) Continuing to fund employability through Innovation and Engagement strategies, Learning and Teaching strategies and GO Wales, providing funding to support work placement and experience schemes

Action taken:

- 14 Circular W10/41 HE (as above) covers employability issues. Guidance on Innovation and Engagement Strategies is due for publication later in February 2011. GO Wales is presently two thirds of the way through its current ESF-funded phase to the end of 2011. The Wales European Funding Office (WEFO) has invited proposals from HEFCW for a further phase from January 2012 onwards.
- 15 No additional action is planned to support **Measure 7** (UHOVI) beyond the current substantial investment in the Universities Heads of the Valleys Institute.

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.

We proposed:

- j) Introducing a part-time premium on the unit of funding
- k) Considering mainstreaming the Part-time Fee Waiver through the funding method
- l) Embedding current 'Graham' funding support for part-time provision into Widening Access and Innovation and Engagement strategies

Agreed changes:

- 16 In terms of item (j) above, we have modelled a part-time premium at various levels and have agreed a premium of 5% on the unit of funding. With regards to item (k), given likely changes to the support arrangements for part-time students, we propose minimal changes to the Part-time Fee Waiver arrangements, rather than a full mainstreaming at this stage. However, this approach will be kept under review in the light of forthcoming fee support arrangements. We will base the funding for 2011/12 on the estimate and actual payment data for 2010/11 and include the allocations within the grant allocations circular, rather than in separate correspondence, as previously. The allocations to be paid to institutions in 2011/12 will be based on new figures to be submitted at the end of the calendar year 2011. We will therefore implement the following:
 - A part-time premium of 5% on the unit of funding

- The grant allocations circular to include indicative Part-time Fee Waiver allocations based on previous year estimates
 - Actual Part-time Fee Waiver allocations for 2011/12 to be based on figures submitted in-year
- 17 In relation to item (I), the 'Graham' funding to support part-time provision has been embedded in the budget lines supporting Widening Access and Innovation and Engagement Strategies. The guidance covering Widening Access has been published (W10/41HE, as above). The guidance for new Innovation and Engagement Strategies will be published later in February 2011.
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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

We proposed:

- m) Increasing funding for Innovation and Engagement (I&E) Strategies by around 10% to £7.25m
- n) Determining the formula for funding I&E strategies taking account of issues arising from the consultation

Action taken:

- 18 The budget for I&E strategies has been increased by 10% on the final 2010/11 funding allocation. One of the aspects considered in the consultation was whether there was a need to further incentivise spin-out (or 'spin-off') companies. The sector response did not favour further ring-fencing as spin-out activity is already covered in the I&E funding formula.
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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).

We proposed:

- o) Increasing the volume threshold for quality research (QR)
 - p) Introducing a quality threshold
 - q) Considering ceasing to fund 2* and possibly 3*
 - r) Discontinuing the Research Activity Survey (RAS) from 2011/12
 - s) Considering whether to retain the link between QR and funding for postgraduate research students through the Postgraduate Research (PGR) funding stream
 - t) Not pursuing the option of incentivising Research Council income through QR allocations
- 19 Our Corporate Strategy includes the objective of securing sustainable research excellence by consolidating funding around strong research-active institutions. In our Circular on *Initial Proposals for Changing the Funding System for HE in Wales (W10/37HE)* we indicated that we were considering the above options for achieving this.

Agreed changes:

- 20 **Focusing QR funding on internationally excellent and world-leading research** – Given increasing funding pressures on the Council's budgets, we will in future focus the available research funding on supporting the highest quality research – internationally excellent (3*) and world-leading (4*). To that end, from 2011/12, we will no longer include 2* research in the QR funding formula. At the same time, we will also adjust the weightings for 3* and 4* research from the present level of 3 and 7 respectively to 1 and 3. This latter will further focus the available resources on the highest quality research and will bring our weightings into line with the steeper weightings for 3* and 4* adopted in England last year.
- 21 **Introducing a sustainability threshold** – From 2011/12, we will introduce a new combined quality and volume threshold. This will help ensure that funding is provided to units which both undertake high quality research, and have a sufficient volume of staff to be sustainable in the longer term. It will have the effect of removing some of the weaker units from the QR funding formula entirely. The threshold will be calculated by multiplying the volume of staff at 3* and 4* in each 2008 RAE submission by the revised quality weightings (1 for 3* and 3 for 4*), summing the outcomes to produce a single score, and then applying a cut-off point for funding. We intend to use this approach to redirect around £2.25 million of QR funding. Although this approach will take account of both quality and volume, we will nevertheless also retain the existing volume threshold at 3 Category A FTE of classified work (1* and above) within the overall QR formula for 2011/12.
- 22 **PGR Funding** – Eligibility for funding to support the training of postgraduate research students (PGR) is currently restricted to those

units which qualify for QR funding. We will retain this link between eligibility for QR and PGR funding under the revised QR funding arrangements. Consequently, those units which are no longer included in the QR funding formula from 2011/12 will at the same time also cease to be eligible for PGR funding.

- 23 Action has already been taken to cease the Research Activity Survey ((r) above). We will not be pursuing the incentivising of Research Council income through QR allocations ((t) above).
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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).

We proposed:

- u) Using funding levers to assist in meeting this target
- v) Removing 'floors' and 'ceilings' from strategy allocations (eg learning and teaching)

Action taken:

- 24 Our Initial Proposals circular indicated that we would be publishing further guidance on the structure of the sector before the end of 2010. The HEFCW statement on the *Future Shape of Higher Education in Wales* was published on 22 December.⁴ Drivers to support the statement are now being taken forward, including through fee planning arrangements.
- 25 Floors and ceilings will be removed from Widening Access, Learning and Teaching and Innovation and Engagement Strategy funding. New three year cycles of funding in these areas commence in 2011/12. Funding for Initial Teacher Training (ITT) Strategies, which cover transitional ITT reconfiguration developments and are already approved to 2011/12 within a previous funding cycle, provide a floor allocation for two institutions which will continue in the current cycle.
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Underpinning Theme: Governance

⁴ http://www.hefcw.ac.uk/news/press_releases/press_releases.aspx

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.

- 26 No additional action proposed. In the absence of HEFCW capital funding, further consideration is being given to the means by which carbon management will be incentivised in future.
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Other Proposals

We proposed:

- w) Removing the GDP-related supplement (the formal ‘safety net’) which provides funding to institutions with greater than average reductions in grant from year to year where this has been because of HEFCW action
- x) Putting in place a sum for transitional funding to support institutions, following a process of strategic engagement, where the changes result in significant reductions in funding
- y) Removing the separation of full-time undergraduate provision into degree and non-degree within the funding method.
- z) Mainstreaming funding for Erasmus students into the teaching funding method.

Agreed changes:

- 27 Action has been taken on points (w) – (x) above. A sum of around £5m has been included within the Strategic Development Fund as potential transition funding to support institutions. This will replace the previous ‘safety net’ arrangements and will be available following a process of strategic engagement, where the changes we propose result in significant reductions in funding.
- 28 Institutions have been informed of HEFCW’s intention to remove the separation of full-time undergraduate provision into degree and non-degree provision and also to identify full-time franchise provision separately in the funding method. The redistribution exercise in summer 2011 will provide an opportunity for collecting this data separately. This will be implemented for 2012/13 funding.
- 29 In relation to (z) above, arrangements for the support of Erasmus students will be further reviewed in the light of the detailed tuition fee proposals, as yet to be determined. Rather than full mainstreaming at this stage, we therefore propose minor changes to this budget line, based on previous year estimates published within the grant allocations circular.

Next steps

- 30 The final arrangements will be included in the grant allocations circular for 2011/12 to be published in March 2011.
- 31 The introduction of new tuition fee support arrangements in Wales will have implications for HEFCW's formulaic funding methods. This may require further amendments to be made from 2012/13. . Subject to sufficient information being available, we would hope to develop such changes, consulting as appropriate, in summer 2011 to inform the 2012/13 funding round.

Equality impact assessment

- 32 We are committed to making equality a core issue in developing and implementing policies and services, and evaluating and refining them 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.
- 33 We have conducted an equality impact assessment (EIA) on the proposals set out in this circular to ensure that we do not discriminate and that we are doing all we can to promote equality and good relations between different groups. Please consult the HEFCW website, www.hefcw.ac.uk for further information about equality impact assessments.

Further information

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