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Cylchlythyr

Circular

Changes to the teaching funding mechanism 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 the changes to the funding system for higher education in Wales, following a consultation with the sector which was set out in Circular W11/28HE.

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Introduction

- 1 This circular sets out the changes to be made to the funding system for higher education in Wales, following a consultation with the sector which was set out in HEFCW circular W11/28HE.
- 2 The changes respond to the Welsh Government's (WG's) policy on tuition fees from 2012/13 and the expectations on HEFCW to develop an appropriately focussed method of allocation of residual funding after the payment of fees.

Background

- 3 Paragraphs 3 - 7 of circular W11/28HE set out the Minister's expectations in terms of the allocation of our teaching funding as a result of the new fee regime in place in Wales from 2012/13 and provides the context against which these funding changes have been developed.
- 4 On the 21 June 2011 the Minister published his intention in terms of part-time (PT) undergraduate fees levels and PT student support. We are exploring with WG officials the detailed implications of these arrangements. Although they will have an impact on the parts of these changes which relate to PT provision, following sector representation to WG, we are now working on the assumption that these PT arrangements will be delayed until 2013/14.
- 5 Institutions should note that, whereas the current HEFCW teaching funding method does not take the previous qualifications of students into account in the calculation of funding allocations, this is not the case for the student finance arrangements. Therefore most students already holding first degrees, with some exceptions, are unlikely to qualify for the full-time undergraduate (FTUG) fee grant. More information about the exceptions to this can be found in the WG fee grant regulations (statutory instrument 2011 No. 886 (W. 130) The Assembly Learning Grants and Loans (Higher Education) (Wales) (No. 2) Regulations 2011) www.legislation.gov.uk/wsi/2011/886/made.

The Development of a new funding mechanism

- 6 The consultation circular (W11/28HE) was published in July 2011 with responses scheduled for 5 September. All HEIs and 3 other external bodies replied.
- 7 This circular lists the consultation questions, provides a synopsis of the responses and, taking account of those responses, outlines specific mechanisms for the establishment and allocation of a Public Investment Fund (PIF), which we will be introducing from 2012/13.

Outcomes - New funding mechanism

8 General Points

- 8.1 As well as responding to the specific questions posed in the consultation, there were a number of recurring general points made that have been, where possible, addressed in the construction of the new mechanism.
- 8.2 Anxiety was expressed at the uncertainty over the levels of PIF funding available in 2012/13 and 2013/14, and the possible instability and fluctuation of funding as we move from the “old” funding system to the “new.” Particular reference was made to the damaging effect on research-led institutions that this could have in a “critical REF period”, and to the fact that students with a first degree or equivalent are not eligible for fee grants, which may cause fluctuation in overall projected income streams from fee grants, and from HEFCW funding.
- 8.3 A recurring theme throughout the responses was the need for very careful transition mechanisms to be put in place to try to ensure that there are no major fluctuations in funding while moving from one regime to the other.

Our intention:

Transition Arrangements

- Recognising that any destabilisation of an institution would have a direct impact on the student experience, we will aim to provide transitional funding support for any institutions suffering immediate and significant financial difficulties as a result of the movement between funding regimes. Total funding from all sources will be included in the assessment of institutional financial vulnerability before any additional support is offered. This provision will be made from within the Strategic Development Fund, will be limited and will be allocated only in specific circumstances, following a process of strategic engagement with the relevant institutions, to include discussions regarding the changes required to respond to *For our Future* priorities.

Research Funding

- In order to guard against adverse consequences related to the upcoming Research Excellence Framework (REF), and to honour the Council’s commitment to support for Postgraduate Research (PGR), we aim to protect Quality Research (QR) and PGR in cash terms in 2012/13.

Consultation Proposals – Outcomes

9 The future of funded credit-based funding for Full-time Undergraduate (FTUG) and PGCE students

Question 1) – Are there any unintended consequences in developing the PIF allocation method, moving away from a funded credit-based funding system for FT UG and PGCE students?

- 9.1 There was general sector support for moving away from a funded credit based system for new students. However, cases were made for the retention of funded credit-based funding for continuing students, as those students not in receipt of premium funding would not otherwise attract any HEFCW support.
- 9.2 Concern was also raised as to how the Accreditation of Prior Experiential Learning (APEL) would be addressed in a system which has moved away from a funded credit-based funding system for FT UG and PGCE students.

Our intention:

Future of funded credit-based funding

- Given that the Minister has directed us to concentrate funding on priority *For our Future* activity, it is important that any HEFCW funding is sharply focussed. Therefore, we will no longer operate a funded credit-based system for FT UG and PGCE students (new entrants and continuing) from 2012/13. We will, however, continue to encourage the use of credit in curriculum design and for APEL. Although funding will not be credit-based, there will still be a requirement to collect and record credit-based data as some parts of the new method will still require recording of credit at module level and module-based data are required for performance monitoring.

10 Continued funding of part-time and postgraduate taught students

Question 2a) – Should HEFCW protect PT and PGT funding at a sector level, and continue to fund them through the current funded credit-based funding method in the short term?

Question 2b) - Should HEFCW continue to fund PT and PGT activity, and linked premia, through the funded credit-based funding method, subject to the timetable for implementation of the new fee arrangements for PT undergraduate?

Question 2c) – When the PT undergraduate fee arrangements are in place, can you identify any difficulties, should PGT allocations be

based on the previous year's funded credits rather than operating a full model for PGT students only?

- 10.1 There was substantial support for the proposal to protect PT and PGT at sector level prior to the introduction of the new PT fees arrangements, although it was noted that protection should not necessarily be set at 2011/12 levels, and that any amount set aside should be subject to the usual teaching grant fluctuations (i.e. efficiency gains).
- 10.2 As noted above, support was also expressed for protection for "continuing" FTUG students. However, this does not take into account the Minister's remit regarding the PIF and the scale of teaching funding reductions, which mean that this is simply not an affordable option.
- 10.3 Responses to this question highlighted an anxiety amongst those institutions most active in the PT market as to the timing of the introduction of the PT fee arrangements, suggesting that, given all the current perturbations, it might be wise to delay the introduction until 2013/14.
- 10.4 In a context where the PT undergraduate fee arrangements were in place, the only major element of the current teaching model that would remain would be PGT funding and we consider that it would be inappropriate to retain the model for just this element. In the main, there was agreement that this proposal would reduce the burden and complexity associated with the data for PGT. However, concern was raised at the lack of dynamism in this approach, and the threat that if an institution wished to reshape its PGT provision, it might not be funded at the appropriate level. It was suggested that it would not allow for PGT growth.

Our intention:

Funding of part-time and postgraduate taught students

- We will protect PT and PGT funding at a sector level, subject to application of normal efficiency gains, and continue to fund them through the current funded credit based funding method (including current premiums and per capita) in the short term.
- Once the PT undergraduate fee arrangements are in place (assumed to be 2013/14), so that the current model ceases to be operable, PGT allocations will be based on the previous year's funded credits. We will consider how growth may be accommodated in the mechanism, should any funded growth be available in future years.

11 **Strategic allocation by formulae**

Question 3) – Are there any impediments to the proposal that the PIF be allocated strategically through formulae?

- 11.1 The consultation responses did not reveal any impediments and there was unanimous agreement that the PIF should be allocated through formulae.

Our intention:

Strategic allocation by formulae

The PIF will be allocated strategically through formulae.

12 **Allocation of Public Investment Fund for FT UG and PGCE**

Question 4a) – Do you support the continued use of the current funding method premia in allocation of the PIF?

Question 4b) – Do you agree that two additional areas of premium that are proposed are appropriate and necessary?

Question 4c) - Do you see any adverse consequences that might arise from premia funding being allocated with respect to and applying to all FTUG students, irrespective of whether they are under the new or old regime?

- 12.1 There was significant support for the use of current premia in the allocation of PIF. However, representation was made for the balance of funding “pots” between premia to be considered very carefully, as although they do align completely with *FoF* priorities, some of these areas, such as widening access, are also now being supported through the fee plan process and therefore might need less funding support through PIF than the support given through the premium allocations in 2011/12.
- 12.2 The consultation responses revealed significant support for an *expensive subject* premium and a *priority subject* premium. There was widespread acknowledgement that an *expensive subject* premium was essential to ensure the viability of certain provision.
- 12.3 There was disagreement about what areas of provision should actually be included, particularly in the *priority subject* areas, and the responses included a wide range of possible additions and deletions to/from our initial indicative list.
- 12.4 In terms of the *expensive subject* premium, particular cases were made for Clinical Medicine/Dentistry and Conservatoire training, both of which

subjects would attract substantially less funding per student under the new regime than they currently attract through HEFCW's teaching funding method and the fee element.

- 12.5 In terms of the allocation of PIF to continuing and/or new entrants, some respondents argued that, if premia are to function as incentives as well as contributing to the extra costs of provision in these areas, then they should apply to all students. Others suggested that areas like "access and retention" should be covered within the fee planning process and do not need any additional funding.
- 12.6 There was concern about protecting as much funding as possible for continuing students, as they do not attract a fee grant and, if a continuing student were not to attract any premia, they would not then attract any funding from HEFCW at all.

Our intention:

Allocation of Public Investment Fund

- The current funding method premia will be used in the allocation of the PIF and we expect to utilise current formulae. In addition, the funding allocated via each premium will be informed by the extent to which the desired behaviours can be driven instead through fee plans.
- In 2012/13 the current premia (Access and Retention, Disability and Welsh Medium) will be applied to all cohorts of both FTUG and, where applicable, FT PGCE students.
- For the purpose of modelling we will initially use premium levels currently in operation in 2011/12. This may change depending on affordability.
- We will apply two additional areas of premium in the allocation of PIF, an *expensive subject* premium (Science, Technology, Engineering, Medicine, Dentistry and Conservatoire Performance Element) and a *priority subject* premium (Modern Foreign Languages (MFL) and Maths). Taking into account Ministerial guidance and using the priorities set out in *FoF*, we will decide the priority subjects to be included, on an annual basis.
- To concentrate funding for students not attracting a fee grant, recognising that there will be no normal teaching funding, the *priority subjects* premium will only be allocated to continuing FTUG students.
- In order to protect the funding resources in Clinical Medicine/Dentistry and Conservatoire Performance Element, within the overall *expensive subject* premium, we will apply a higher rate to those two areas. Initial modelling on the higher rate will be in the region of the difference

between current funding from HEFCW plus fee, and the new maximum fee grant amount of £9,000. This may change depending on affordability.

- As noted above, the *expensive subject* premium will be allocated at differential rates, with a standard rate being allocated to continuing students only, recognising that the fees of up to £9,000 charged by institutions for new entrants are comparable to the current resource. The higher rate for Clinical Medicine/Dentistry and Conservatoire Performance Element will however be allocated to all students in these areas, recognising that the maximum £9,000 fee for new entrants is lower than the current funding resource.
- In addition, to recognise those continuing students who might potentially not otherwise attract any funding from PIF, the per capita element of the current funding method allocation will be maintained for continuing FTUG students, and as part of the PT/PGT protection (Question 2b refers) only.

13 **Control of student numbers 2011/12 and implications for funding in 2012/13**

Question 5a) – Do you agree with the proposed approach to the penalty arrangements for the control of student numbers?

- 13.1 WG has made it clear that HEFCW's Grant-in-Aid will need to be reduced if there is any over-recruitment (and this would be separate from any reduction which might arise for any other budgetary reasons).
- 13.2 There was unanimous agreement in the consultation responses that any reduction to HEFCW's grant as a result of over-recruitment of FT UG and PGCE new entrants in 2011/12 should entail reductions in individual institutions' PIF allocations for 2012/13 pro rata to the level of over-recruitment, so that the consequences fall on the institutions that triggered the funding reduction.

Our intention:

Control of student numbers

- We will apply any reduction to sector PIF allocations by reducing allocations for 2012/13 for individual institutions that have over-recruited pro rata to the level of over-recruitment in 2011/12.
- Recognising that subsequent penalties of this nature become less effective as the level of HEFCW funding decreases, over-recruitment penalties applying from 2012/13 recruitment onwards will also result in a reduction of the following year's maximum student number, at an institutional level.

- All fee plans contained commitments to operating within HEFCW maximum student numbers. Therefore the ultimate sanction if an institution continues to over-recruit could be a decision by HEFCW to not allow the institution to charge a fee over the basic amount because of its breach of the fee plan.

14 **English White paper – core/margin and AAB+ implications and proposals for Wales**

Question 5b) - “What do you see as the benefits and disadvantages of the key elements of the English White Paper (as noted in i) and ii) above) being introduced in Wales?”

- 14.1 This question explored possible approaches which might be adopted to ensure that we are able to continue to use funding to support key priorities.
- 14.2 The question related specifically to two particularly relevant elements being taken forward on fees and funding in England. We were keen to explore the potential benefits and disadvantages of similar processes being introduced in Wales.

The key elements are:

- i) Unrestrained recruitment of students scoring the equivalent of AAB or above at A-level, essentially removing them from the cap.
 - ii) Creating a flexible margin of a percentage of student places for allocation only to those institutions with an average fee below or at an agreed level (in England £7,500).
- 14.3 Reactions were mixed. The proposals for unrestrained recruitment of AAB students evoked responses that this could lead to elitism, and militate against Wales’ widening access agenda. However, it was also recognised that if England were to adopt this approach, it might increase competition for Welsh AAB students with potential impact on cross-border flows.
- 14.4 The core and margin approach also prompted much debate about the effect a similar Welsh approach might have on driving fees down in Wales. Some institutions were concerned that the £9k fee was necessary to meet all their fee plan commitments and to ensure the quality of provision required. There was a suggestion that core/margin could potentially re-establish the old University/Polytechnic divide. However, there was also concern as to what might happen if England were to adopt the approach and Wales did not. Wales would then have higher fees than England for similar provision and this could reduce cross border recruitment.

- 14.5 It was broadly accepted that the main outcome of this approach would be to release fee-grant funding back to HEFCW, so that it could be used strategically to support the areas of priority identified. It was seen as essential that HEFCW had adequate discretionary funding in 2013/14 onwards to ensure a continued stream of Public Investment Funding.
- 14.6 We consider it essential that we retain the capacity to invest in strategic priorities through the PIF in order to deliver the full range of *For our Future* objectives. This requires a means of managing the cost of fee grants within the context of the overall resource that will be available to the sector. We will continue to explore a range of possible approaches to achieve this but the most effective intervention in the short term is likely to be the use of student number controls related to fee levels – a core and margin approach.
- 14.7 A core and margin approach on its own would encourage a reduction in average fee grant costs across Wales and better enable us to invest in policy priorities, but would not secure the competitiveness (financial and reputational) of any institutions that need to match their fees to the higher fee end of the English market. Indeed, it would weaken them by reducing their student numbers. This, too, would not be consistent with Welsh policy priorities: a strong Welsh HE system requires institutions which are able to compete with the best in the UK. We have also made clear our aspiration to secure at least one institution in Wales which is demonstrably world class¹. Against this background, and in the light of sector reactions to the AAB proposal, we have examined other approaches that would augment a pure formulaic core and margin approach, and thereby enable us to secure funding for supporting strategic objectives, but still provide a means for HEIs to recover student numbers lost through core/margin if they can persuade us of their contribution to policy priorities. In this context, we are particularly interested in supporting those policy priorities which would not otherwise be supported through the fee plan arrangements and which contribute to positioning the Welsh HE system strongly within the UK and internationally.

Our intention:

English White paper – core/margin and AAB+ implications and proposals for Wales

- We are minded to introduce a core/margin approach in Wales, tailored to address the concerns raised by the sector and designed to respond to Welsh Government priorities, with a view to introduction from 2013/14. Further development of these proposals is in train. We intend to publish

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http://www.hefcw.ac.uk/documents/news/press_releases/2010%20Press%20Releases/22%2012%2010%20The%20future%20shape%20of%20higher%20education%20in%20Wales%20-%20English.pdf

further details by early 2012 but, in order to assist institutional planning in the meantime, we outline here our current thinking.

- We intend that the core/margin approach would involve a top-slice on the maximum student number across the sector, excluding the following: Medicine, Dentistry, STEM and MFL subjects, ITT (QTS) provision and Conservatoire Performance Element provision. Those numbers would be reallocated to institutions on a basis yet to be determined, but which is likely to include a formulaic element favouring those charging an average fee below or at a specified average fee level and with a quality level that we consider acceptable, as well as a bid based element reflecting criteria that address key *For our Future* priorities, especially those priorities which might not otherwise be supported via fee plan arrangements.
- We are currently modelling with a target average fee level of around £7,500 but the actual level to be used, the scale of the top-slice and the balance between formulaic and bid-based allocation remain to be determined. In determining these parameters, our aim will be to secure sufficient changes to fee levels to enable future PIF investment in the full range of Welsh Government priorities.
- HEFCE intend to introduce their two new elements in 2012/13, but we believe that in Wales it is more appropriate, now, to wait until 2013/14. This will enable institutions to assess the emerging situation and to prepare their fee plans for 2013/14 in the light both of developments in England and of further guidance from us on our new approach to funding. Delay until 2013/14 will also enable us to issue maximum student numbers for 2012/13 sooner than if we were to introduce further process changes for that year, because we would not need to allow time for further development work for 2012/13.

Next steps

- 15 This circular sets out the initial outcomes which have been agreed in principle by the Council. Final decisions on the levels of funding will depend upon further modelling in the light of more up to date data and the outcome of the annual budget debate. We intend to notify the sector by early 2012 of the further details of the process to be adopted for the core/margin and *FoF* priorities approaches for the maximum student number. We aim to finalise the details of the processes for implementation of these approaches in time for the submission of institutional fee plans for 2013/14.
- 16 We expect to publish the headline assumptions about the grant for 2012/13, including confirmation of the levels of funding in January 2012. The final arrangements will be included in the recurrent grant circular for 2012/13 to be published in March or May 2012.

- 17 Institutions' financial forecasts were submitted before we issued Circular W11/28HE setting out our assumptions on how much teaching grant might be available in 2012/13. The assumptions which most institutions made in their forecasts were more optimistic than ours. This circular provides some further guidance on how that funding will be allocated. In the light of both pieces of further information, institutions will no doubt wish to re-write their financial forecasts. If any institution believes that there is a material impact on its present financial position it should resubmit its forecasts. We would be grateful for any re-submitted forecasts by 9 December 2011.

Equality impact assessment

- 18 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.
- 19 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. The outcome of this EIA is available on request. However, we recognise that this circular contains a number of proposals which may alter in the way they are taken forward. We may therefore need to conduct further assessments as proposals are modelled, developed and implemented, and subsequently included in the recurrent grant 2012/13 publication.

Further information

- 20 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).