

Cylchlythyr | Circular

Maximum fee grant arrangements 2013/14

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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 outlines the fee grant capping arrangements that will be put in place from 2013/14, based on a total tuition fee grant maximum per institution, and the penalties associated with exceeding this maximum.

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Introduction

1. This circular outlines the fee grant capping arrangements that will be put in place from 2013/14, based on a total tuition fee grant maximum per institution, and the penalties associated with exceeding this cap.

Background

2. The prospect of establishing a ceiling on full-time (FT) undergraduate (UG) and Postgraduate Certificate in Education (PGCE) student numbers was first identified in the 2005/06 institutions' *Financial Memorandum part 2: Annual schedule for the financial period 1 August 2005 to 31 July 2006* which outlined the funding and associated funded numbers for the academic year 2005/2006.
3. This alerted institutions to the fact that the demand led nature of the student finance budget could well result in financial implications for the Assembly Government budget arising from recruitment of FT UG and PGCE students over and above HEFCW funded places. At this point, the Assembly Government sought to explore how to move towards an agreed mechanism by which there might be collective management of the risks, and asked HEFCW to discuss the issue with Higher Education Wales and prepare advice on the matter. In advance of any conclusions being reached, institutions were asked to bear these developments in mind when recruiting students and to act with appropriate prudence.
4. These initial discussions led to Circular W06/26HE – *Proposed arrangements for establishing a ceiling on full-time undergraduate student numbers*, which informed the sector that, although there would be no specific ceiling on recruitment for FT UG and PGCE students, there was an expectation that institutions would continue to act prudently in respect of future recruitment patterns. This expectation was reiterated annually in the institutions' *Financial Memorandum part 2* and in the Recurrent Grant circular.
5. From 2010-11 HEFCW was remitted to take the necessary measures to ensure that institutions minimise the recruitment of students beyond agreed numbers. In the light of that remit letter request, and to determine a suitable mechanism to apply from 2011/12, we issued circular W10/11HE, *Establishment of a ceiling in full-time undergraduate student numbers from 2011/12*. This stated our intention to consult the sector and seek views on a proposed mechanism for managing numbers. On 14 July 2010, the Minister for Children, Education and Lifelong Learning announced that he had approved the introduction of measures to manage FT UG and PGCE student numbers from the 2011/12 academic year. His officials wrote to HEFCW's Chief Executive indicating that Ministers would need to pass on any additional costs in the Student Finance budget incurred as a result of the over recruitment of students in any given year, by a readjustment to HEFCW's grant in future years. The

arrangements for capping were published in circular HEFCW W10/33HE and have remained essentially unchanged, albeit refined in certain respects, since.

6. During the summer months, the sector made representation that we investigate alternative ways of controlling student numbers to allow greater flexibility without placing additional cost pressures on the Welsh purse. Following extensive dialogue with the sector, we have established a new method for capping to be in force from 2013/14. A summary of the responses is attached at Annex A.

Capping Arrangements from 2013/14

7. The original capping arrangements for 2013/14 are set out in circular W12/14HE. Essentially, a maximum student number per institution is given, based on FT UG and PGCE students from the UK (home) and the European Union (EU) in their first and second years at the institution, that have completed the year. Institutions would have been expected to keep recruitment within 2 per cent of this number or face penalties that would be applied to both funding and maximum numbers for the subsequent year. The maximum numbers were calculated using 2012/13 maximum numbers which had been reallocated in a strategic reallocation process based on average fee levels and institutions' engagement with a number of Welsh Government priorities.
8. However, in practice, it is the fee grant cost that we wish to control, and not student numbers. We will now move to an approach which specifies a maximum fee grant income for each institution, rather than a maximum student number. This will allow institutions flexibility in the number of students they recruit. However, if recruitment at an institution means that the associated fee grant income would exceed the institutional maximum, institutions will have to either reduce the fees that they are charging to bring the total income of fee grants at their institution back within their maximum or accept a financial penalty.
9. We will be calculating the maximum income of FT UG and PGCE fee grants for each institution, based on their declared (and approved) fee levels for 2013/14, as returned on their fee plans, the domicile mix of their students and their maximum student number for 2013/14.
10. This approach will not constrain the recruitment of Welsh and EU domiciled students, nor students from the rest of the UK, but will constrain the associated fee grant income. Indeed HEFCW will expect institutions to at least maintain their numbers of Welsh domiciled students, and will be monitoring this closely. Likewise this approach will not constrain the recruitment of students from the rest of the UK.

Methodology

Calculation of maximum fee grant

11. We will calculate the maximum fee grant using the average tuition fee level returned on the fee plans for 2013/14; the maximum student number for 2013/14 published in circular W12/14HE, with any subsequent amendments; the proportion of FT UG and PGCE completed new entrants that are Welsh/EU returned on Table 4b of the 2012/13 Higher Education Statistics Early Survey (HESES) return (circular W12/31HE); and the forecast proportion of FT UG and PGCE completed new entrants that are Welsh/EU for 2013/14 collected from institutions in an exercise carried out in November 2012.

12. The maximum fee grant per institution will be calculated as follows:

Average 2013/14 tuition fee minus £3,575, multiplied by the sum of:

- The new entrant part of the 2013/14 maximum student number multiplied by forecast proportion of 2013/14 new entrants that are Welsh/EU, and
- The continuing students part of the 2013/14 maximum student number multiplied by HESES proportion of 2012/13 new entrants that are Welsh/EU

A 95 per cent take-up of the fee grant by students will be assumed, therefore this calculated value will be multiplied by 0.95 to set the maximum fee grant for each institution.

13. We are not able to finalise this calculation yet as HESES data will not be verified until early January 2013. As we receive each institution's signed off HESES data, we will notify them of their maximum fee grant for 2013/14. A complete summary of the maximum fee grant by institution will be published in the grant circular in March 2013.

14. It should be noted that the existing arrangements for control of student numbers remain in place for 2012/13 (see HEFCW circular W11/41HE). If institutions recruit over their maximum number in 2012/13, a number penalty as well as a financial penalty may be applied. Any number penalty will be applied to the 2013/14 maximum number and will therefore effect the calculation of the maximum fee grant for 2013/14. Interim monitoring of recruitment in 2012/13 will be carried out using HESES 2012/13 data and adjustments to the 2013/14 maximum student number will be made on a provisional basis where there is over-recruitment and will be included in the above calculation. Additional adjustments may be made after the end of the 2012/13 academic year once 2012/13 HESA/LLWR data are available.

Level of tolerance

15. A level of tolerance will be applied when we come to monitor the maximum fee grant against the actual equivalent fee grant to each institution. This will be 5 per cent. This means that if the relevant fee grant received by an institution in 2013/14 is no more than 5 per cent above the maximum, no penalty will be applied.

Monitoring the maximum fee grant

16. We will monitor the maximum fee grant using data received from the Student Loans Company (SLC). The amount of relevant fee grant paid through the SLC to each institution will be calculated and compared to the maximum fee grant plus the tolerance. Monitoring will be done at the end of the academic year once we have end of year data for 2013/14.

Penalties

17. A penalty will be applied to each institution that fails to keep within its maximum fee grant plus tolerance. This penalty will aim to both recover the additional expenditure and to act as an incentive for institutions to manage this process effectively.
18. Should an institution exceed their maximum fee grant income, an approximate number of students, to which the overspend relates, will be calculated, using their average tuition fee grant and the amount by which they have exceeded the maximum (both taken from end of year SLC data). That number will be multiplied by the average fee, calculated as £3,575 plus the average tuition fee grant taken from SLC data, and the whole amount reclaimed from the institution.
19. To facilitate this, the following clause will now be inserted into institutions fee plans, which will be sent to institutions and should be signed and returned by 31 January 2013.

“In submitting this plan for approval, the institution commits:

to avoid exceeding the maximum fee grant income; and,
to reimbursing HEFCW on request in respect of fee grant income which exceeds the maximum fee grant income for the institution, according to the penalty arrangements set out in HEFCW circular W/12/38HE.”

Fee plans 2013/14

20. The fee plans for 2013/14 have already been approved but, if HEIs think that these arrangements necessitate a change to those plans, HEIs may revisit them, and submit any new versions, by 31 January 2013.

Responses and further information

21. Any revision to the 2013/14 fee plans, along with the signed version with the new clause should be submitted to HEFCW by **Thursday 31 January 2013**. They should be addressed to Craig Brett (craig.brett@hefcw.ac.uk; postal address – Higher Education Funding Council for Wales (HEFCW), Linden Court, The Orchards, Ilex Close, Llanishen, Cardiff CF14 5DZ).
22. Any queries arising from this circular should be directed to Leanne Holborn (direct line 029 2068 2259; email leanne.holborn@hefcw.ac.uk).

Equality impact assessment

23. 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.
24. 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.

Capping consultation responses –Collated responses

Question 1 - Are there any unintended consequences of the proposed process?

The answers to this question centred very much around the implications of the previous Strategic Reallocation of Numbers (SRON) process, rather than focussing on the consequences of these new proposals. Institutions were concerned that it may affect their ability to deliver the widening access and Welsh Medium agendas, but that seemed to be contrary to our comments that we would not expect their Welsh domiciled numbers to reduce.

There was representation made that these new arrangements “rewarded” institutions that chose to keep their higher fees at the maximum during the SRON exercise, as they could now recover any lost numbers through the recruitment of students not linked to the Welsh-purse. However, there was significant concern about the consequences if these proposals were not implemented, given the current market position.

Question 2 - Are there any unintended consequences in using the Fee plan information as proposed?

A minority of institutions were concerned that the fee plans were designed and drafted for a different purpose and therefore were resistant to them being used to obtain the average fee. However, in the main institutions agreed with this proposal although they would like the opportunity to revisit their plans should the new capping arrangements be agreed for 13/14.

Question 3 – We have proposed to use institutions’ own forecast proportions of Welsh/EU as these are the most up to date estimates of proportions available and are assumed to have been calculated based on past trends and future plans. However, let us know if you have any other suggestions, bearing in mind that institutions will be able to revise these forecasts at verification.

Most of the sector pointed out the changing environment and market since their forecasts were put together. They were content that the data be used as long as they have the chance to revisit and amend the data as required to reflect the accurate picture for recruitment in 12/13.

Question 4 - What level of tolerance would make controlling the budget in this way manageable for institutions?

There was no consistency in the responses to this question, with answers ranging from 20% to 2%. There was a suggestion that the tolerance level may move from being higher in the first year and then gradually reducing.

One institution was particularly concerned at the potential penalties for under-recruitment and its compounded effect for those with reduced fee income and then low recruitment.

Question 5 - Do you have any alternative suggestions?

There was very little response to this question except for the suggestion that we reclaim any numbers that institutions are unlikely to recruit to so that they can be reallocated back to the sector by a bidding or reallocation exercise.

General Points –

Although some responses commented on the speedy consultation period and the lack of adequate time, overall the proposals were welcomed and strongly supported. Although it was accepted that there was no perfect solution, there was comment that the proposed process was creative and sensible.

It was clear that institutions were committed to working with HEFCW to deliver a stable and sustainable funding basis but that they needed a decision on any new capping arrangements as soon as possible.

Some institutions were keen to point out that the proposals would not save money and would not tackle the financial problem of supporting students studying out of Wales. However, in the main the proposed mechanism was considered to be sensible and workable, benefiting the sector in providing greater flexibility to deal with changes in the student market.