

W11/28HE Consultation on proposed changes to the teaching funding mechanism for higher education in Wales - Submission from Higher Education Wales (HEW)

1. About Higher Education Wales

Higher Education Wales (HEW) represents the interests of Higher Education Institutions (HEIs) in Wales and is a National Council of Universities UK. HEW's Governing Council consists of the Vice-Chancellors of all the HEIs in Wales. HEW provides an expert resource on the Welsh Higher Education sector.

2. About this response

This paper provides a response to the consultation paper published by the Higher Education Funding Council for Wales (HEFCW) on 22 July 2011 setting out proposals for changes to the funding mechanisms for higher education in Wales in 2012/13 and 2013/14. The proposals follow from the changes to the tuition fee regime from 2012/13 which were first outlined by the Welsh Government (WG) on 30 November 2011 for full-time undergraduate (FTUG) provision (later detailed in its remit letter to HEFCW dated 16 March 2011) and on 21 June 2011 for part-time provision. The consultation also responds to a number of proposals contained in the UK Government's White Paper on Higher Education published in June 2011 which would have a potential impact for teaching funding in Wales.

Higher Education Wales recognises the challenges faced by the Funding Council in developing funding mechanisms for Wales that will enable us to deliver our shared vision of the sector's critical role in promoting social justice and supporting a buoyant economy in the light of significant budget reductions and transition to the new fee regime. We welcome the Funding Council's consultation which contains five separately identified proposals with a set of questions for each; we have responded directly to each of these in addition to making a number of general comments. In view of the timing and timescales of the consultation, we recognise that there are a number of points raised in our submission that ideally we would like further opportunity to discuss with our members and the Council and we would be more than willing to continue our dialogue to clarify and address any issues raised in this response to assist the Council in its task.

3. General comments

The Council has identified its funds available for teaching (after payment of the fee grants) at £122M for 2012/13 with a reduced amount for 2013/14, compared to £260M in 2011/12¹. This would appear to represent a significantly larger reduction than the 35%

¹ HEFCW Circular W11/12HE Strategic Implementation Allocations 2011/12, Table 1

reduction previously indicated by the Welsh Government². As tuition fee assumptions are not explicit in the circular, and the other calls on funding are also not detailed it is hard to comment on the allocation of funding between teaching and other purposes i.e. to take a 'whole system' view of funding as advocated by the Welsh Government in its remit letter. This level of funding, however, clearly presents significant challenges in dealing with the issues raised by this circular.

The planning assumptions for the new fee and funding regime contain significant uncertainties for example in relation to fee levels (for both Welsh-domiciled and other students), fee grant payable by HEFCW, and future funding allocations for higher education. If there is significant variance between current assumptions and the amount available for teaching funding/PIF, there may be a need to revisit the mechanisms to deliver a more balanced prioritisation of different activities. We would regard it as useful to address the scope and mechanisms for dealing with such contingencies more explicitly in further discussion and the presentation of the finalised teaching funding mechanism.

We welcome in particular the Council's attempts, which are evident in this circular, to identify a model which is simple and cost-effective in operation and to reduce as far as possible the additional burden on institutions in coming to terms with and implementing new funding mechanisms from an operational perspective. We also appreciate the care that has been taken in contingency planning for 2012/13 in respect of part-time fees should the new legislation proposed by the Minister not be in place in time. In this respect we are mindful of the significant changes in the funding models that have already taken place recently, and the potential for further change in the near future. We welcome the Council's attempts to ensure that, at the same time as providing effective leverage for future change and delivery of *For Our Future* objectives, the transition is managed so that no institution is faced with undue financial risk on account of the translation of its existing profile to the new funding model.

4. Proposal 1 – The future of 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 credit-based funding system for FTUG students?

The current proposal offers an opportunity to dispense with the complexities of the credit-based system, given that a headcount would form the basis of the student number quotas and the allocation of premia, and would be welcomed in principle by a number of our members. In practice, however, there are number of consequences, some operational, some more fundamental which would need to be addressed:

Funding for continuing students: In 2012/13 institutions would be able to charge new FTUG students the new fee levels agreed in their fee plans, but should not charge

² Welsh Government, Statement on Higher Education Strategy, Leighton Andrews, Minister for Children Education and Lifelong Learning, 30 November 2010.

continuing students above 2011/12 levels (subject to inflationary uplift)³. Under this proposal, there would be no grant for continuing students, unlike arrangements for transition in England. Both new and continuing students, however, would be eligible for premium payments. For some institutions the discontinuation of funding for continuing students is seen as a very significant issue. We would welcome clarification at this stage about the levels of discontinued funding involved, assumptions about the extent to which these are offset by additional fees (it is assumed that institutions will still be able to distribute overall funding internally as they see fit), and likely distributional impact for different institutions (see comments on the subject cost premia). An alternative approach would be to continue grant for continuing students - but we understand that the grant would have to be at significantly reduced rates if it is to be operated within the constraint of the overall level of funding available to support teaching. Our current view is that it would be preferable to extend funding for continuing students for at least one or possibly two years, and that this should take precedence over the proposed premia funding.

Subject costs: A consequence of moving from grant-based to fee-based funding is that fee levels do not, in general, reflect the costs of different subjects. High cost and low-cost subjects alike are subject to a maximum fee of £9K. This obviously has significant financial implications for institutions with a comparatively high-cost subject base, particularly in the short-term, and provides a future incentive to institutions to maximise their revenue through reducing costs or shifting provision towards lower-cost subject areas. In the current system, the credit-based approach compensates for differences in costs (and applies weighting for priorities) between subject areas by applying different levels of grant for different academic subject categories. This ranges from just over £1,867 per full-time equivalent student (i.e. for 120 credits) for social science to £11,658 for FTE for clinical medicine and dentistry at undergraduate level in 2011/12. Programmes of study with the same subject categorisation at programme-level can have significantly different cost structures based on their composition at module level: the operation of the credit-based system also enables these differences to be reflected in the funding model. Under the proposed system from 2012/13, cost compensation will be managed through the use of subject premiums, targeting generic 'high cost' subjects only (see further below). The level of overall funding available for teaching presents significant challenges in recognising the differentiation in costs, however, and it is noted that whichever option HEFCW chooses (use of premium funding or continuation of the credit-based system at reduced rates) it appears that the current range differentiation cannot be funded. We would advocate that, whatever method is used to compensate for different subject costs, the mechanism should ensure that unnecessary financial instability for institutions is avoided in the transition, and that effective incentives for course development are provided for an appropriate range of subjects not just a select number of areas.

Prior qualifications: In paragraph 9 the circular usefully draws attention to the fact that most students holding first degrees are unlikely to qualify for the FTUG fee grant under the new regulations. We would welcome further discussion of the implications of this issue, noting that it could have future implications for institutions particularly in the light of future demographic forecasts and that the introduction of the equivalent or lower

³ Welsh Government, Guidance on fee plan approval and enforcement, 28 March 2011

qualification (ELQ) rule in England was the subject of much contention. In relation to the proposed teaching mechanism we would welcome in particular the assumptions about the impact of this for institutions to be more explicitly identified.

Operational & technical issues: There are also a number of operational/technical issues that need consideration:

- *Transition arrangements:* In line with our general comments, a number of institutions are concerned at this proposal on grounds of the administrative/operational burden of implementing further change. For such institutions the potential benefits to be gained, at least in the short-term, from their perspective is outweighed by this consideration.
- *Internal use of data:* Credit level detail is also currently used by institutions in their internal systems for allocation/cost attribution. For some institutions, particularly in the short-term, this could present an added challenge in changing to new methods.
- *Data implications:* Related to this, it would be useful to further clarify the data reporting changes required by this proposal. It is assumed that it would be possible to continue to collect and present existing information with modest changes to the HESES/EYM templates to allow for continuity of data for a transitional period. It is not clear, however, at present whether in the short term the transition would therefore be adding to the complexity of data returns or helping to simplify it as intended.
- *Redistribution of provision:* We would welcome further exploration of how a mechanism for controlling the distribution/redistribution of provision would work, if at all, in a model based on both headcount for FT/PGCE and credits for PT/PGT in the transitional period and for a fully fee-based funding model in the longer term.
- *Accredited Prior Experiential Learning (APEL):* Credit for prior learning can currently be awarded for part of a year (i.e. specific modules) and the credit-based system ensures that grant is awarded for that part. There is currently some concern about how this could operate in practice under the new fee regime without a credit-based funding system and in particular for the transition period.

On balance, our view is that there may be merit in using a student number based model in the longer term, but if the substantive and operational issues cannot be adequately addressed it would be preferable to continue the credit-based model in the short term.

5. Proposal 2 – 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 credit based funding method in the short term?

In the short-term, i.e. in absence of the new regime being implemented in time for 2012/13, we favour HEFCW's proposal to ring-fence funding for part-time and postgraduate taught provision as a minimum and to continue to use the existing credit-based mechanism for allocation. This appears to be a practical solution that will relieve

pressure on the sector in coming to terms with and implementing a temporary mechanism. There may also be a need to consider additional interim measures to ensure that part-time provision is not unfairly disadvantaged during the transition to longer-term funding solution (see next section).

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

In Wales there has been a decline in part-time activity in recent years at undergraduate level in particular. Enrolments at postgraduate level have, on the other hand, increased for full-time study and stayed more or less the same in part-time mode since 2004/05 on latest figures.⁴ Yet in policy terms, the increase of flexible part-time provision remains central to sector strategy for promoting greater employer engagement, responsiveness to industry and increase of income from the private sector as advocated in particular by the Leitch agenda and Gibson Review, and embraced by the Welsh Government in *Skills that Work for Wales* and *For Our Future*⁵.

The Welsh Government outlined its proposals to cap the fee levels for part-time funding at £7K and provide Welsh-domiciled students with entitlement to a non-means-tested loan and grant to meet the up-front cost of their tuition fees.⁶ When implemented, any institutional funding previously ring-fenced for part-time would then be used for fee grants. The rationale in setting a lower maximum level for part-time fees expressed by the Minister in his statement was to encourage more learners to enter higher education on a part-time basis. For both part-time and postgraduate provision there remains uncertainty at the present time about how the changes to the fee regimes in both Wales and the wider UK for full-time undergraduates will impact on demand. The impact of a restriction on fee grant eligibility for those who already hold degrees is also likely to be far more significant for part-time students than full-time. As a result the current proposals, which also replace the per capita funding which favoured part-time provision, would appear to mean that the level of resource for part-time provision will be lower than for full-time. There are also indirect consequences arising from the full-time undergraduate funding regime for the distribution of resource between institutions that also need to be considered: providers who specialise in part-time provision (particularly the OU in Wales which is solely part-time) will not be as well placed to attract additional fee income from students from the rest of the UK.

There are clearly significant issues about the level of funding that can or should be attached to part-time provision in the new system and HEW will look forward to contributing to a more detailed consultation on this. As part of this we would also

⁴ See for instance WG Statistical Bulletin SB12/2011 'Students in HEIs – Wales 2009/10'.

⁵ Leitch (Chair), 'Prosperity for all in the global economy – world class skills', Final Report (Dec 2006); Gibson (Chair), 'Commercialisation in Wales – A Report by the Independent Task and Finish Group' (2007); Welsh Assembly Government, 'Skills that Work for Wales – a skills and employment strategy and action plan', (July 2008); Welsh Assembly Government, *For Our Future – The 21st century Higher Education strategy and plan for Wales* (Nov 2009)

⁶ WG Press announcement "Minister outlines future of part-time fees" 21 June 2011

welcome an opportunity for the sector to engage in consultation on the future student finance support arrangements for part-time students proposed by the Welsh Government, including the eligibility of students who already hold degrees. In planning overall allocations for future years we regard it as important that the outcomes of detailed discussions on the future part-time fees and funding regime are not prejudiced by current decisions on teaching funding allocations.

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?

The Council’s proposal is based on a desire to reduce unnecessary effort and complication in operating the full model used in previous years for PGT students only. The main drawbacks that we can see to using the previous years’ data arise from payments being in lag of performance. Given the upward trend for PGT recruitment at the moment, this means that funding will not recognise increases in the short term – and if the funding mechanism changes again, possibly not at all. The lag effect can mean that funding does not provide the same level of incentive for recruitment as a system based on more immediate reward. As a short term solution (i.e. one year) this may be pragmatic, although there are some institutions who remain concerned by this, but we are less convinced of the merits of using the previous year’s data in the longer term.

6. Proposal 3 - Strategic allocation by formula

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

In general, we would favour the majority of funding to be allocated through formula. In the past the clarity and stability provided by formula funding has been helpful to facilitate planning of activities and financial forecasting and avoided the costs of bidding systems and special funding allocations. The main impediment to this proposal follow from consideration of the point raised in our general comments: an approach which was wholly formulaic could have unforeseen consequences where there is high volatility in the overall level funding allocated through formula.

7. Proposal 4 – Allocation of Public Investment Fund

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

The current premia are consistent with sector policy as articulated in *For Our Future* in compensating institutions for these activities/additional costs. In the short-term, simple continuation of this may help transition from one funding regime to another. It is noted that the per capita payment is discontinued: this will primarily impact on the balance of income in favour of full-time over part-time.

It is likely that the impact of the new fees regime will have a differential impact on different subject areas and activities, which will need to be closely monitored. The advantage of a premium system in this context is that it can be relatively easy to refocus

priorities. It can be argued that premia are, however, less suited to dealing with complexity – the current grant model, for instance, is more suited to dealing with detailed variation at subject/mode level (see comments on subject premium below). In terms of providing an incentive system, the level of premium has to be substantial to provide leverage for significant change in institutional behaviour e.g. in recruitment activity. Should the level of funding available for the premia be reduced the list of priorities may need to be revisited to ensure that premia remain effective.

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

We agree that the proposed new premia for priority subjects/policy areas and expensive subjects are appropriate and necessary in supporting *For Our Future* priorities. In the short-term in particular, there is a great need to reduce risk arising from the implementation of the new fee regime and removal of grant in compensating for the variance of costs for different subject areas. Based on the cost assumptions contained in W11/12HE, there are some subjects which would appear to be unviable based on the current fee-based model since assumed costs exceed £9K: we would agree that these, and other subjects which fall below reasonably attainable fee levels, should be mitigated as a first priority. Beyond that we would welcome as balanced a mitigation of costs (see discussion above) as remaining funding allows – for instance, through the introduction of a simplified banding scheme.

For the priorities relating to Science in particular, HEFCW may wish to be mindful of the proposals of the Chief Science Adviser for Wales (CASW)⁷. HEW is currently also preparing a response to that consultation. In advance of that, however, we welcome the indications that there may be further investigation and consideration of the interventions required from a public funding perspective in the new funding regime, based on a more detailed consideration of individual subject markets' ability to meet the needs of employers and industry (e.g. drawing on HE specific labour market information) and the strategic criteria identified. In the meantime, with regards to science, we would welcome a focus on STEM, probably interpreted so as to include social science, an area of comparative strength in Wales and identified as an important base for policy development in the Welsh Government's 'Climate Change Strategy for Wales' (2010).

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

The key issue to address under this heading from our perspective is support for continuing students (see above).

8. Proposal 5 – Control of student numbers 2011/12 and implications for funding in 2012/13

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

⁷ Prof J Harries, 'Science for Wales – a strategic agenda for science in Wales' (July 2011).

We agree that any penalties incurred, should be pro rata to their level of over-recruitment. Penalties out of proportion to the impact of infringement would not be appropriate given the need for many institutions to implement new or modified institutional controls to manage recruitment levels in the new system. We would like to see further consultation on the detail of the proposed mechanism. For sake of clarity, this should not be used to adjust variations in Grant-In-Aid received or other adjustments to sector funding which are not incurred directly as a consequence of the over-recruitment of Welsh-domiciled students.

Questions 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?

Higher Education Wales will be responding directly to the BIS White Paper on HE in England and the related technical consultation, and is still in the process of consulting with institutions on this issue. In evaluating this proposal it is clear that the Council will need to weigh the comparative priority of AAB-related measures in furthering For Our Future objectives against the potential impact for Wales if the proposals are adopted in England. The HEFCE/BIS Plan is predicated on a cut in the student number cap across the board which would create the resource for an AAB and ‘core and margin’ proposal – i.e. they take away (top slice) before they ‘free up’ more places. At this stage, we would welcome further clarification on how these proposals might work in Wales. For instance, are there versions of this proposal that could potentially remove the risk to institutions of adverse fluctuations in recruitment of AAB students? We would also welcome some further clarification of the premiums that would be attached. Should institutions and the Council conclude that the potential cross-border issue is sufficiently significant, we would welcome further evaluation of the full range of options available to address recruitment. For instance there may be further opportunities to collectively address publicity and communications issues, and high-profile well-promoted national scholarships for top students could also be effective.

We would of course be happy to discuss any of the issues and views raised in this paper.

**4 SEPTEMBER 2011
HIGHER EDUCATION WALES**