

July 2007/23

Funding/operations

Report on outcomes

This report is for information only

This document sets out the decisions we have made following the consultation announced in HEFCE 2007/02. It also summarises the responses we received to the consultation.

Review of the teaching funding method

**Outcomes of second consultation on
changes to the method from 2008-09**

Review of the teaching funding method: outcomes of second consultation

To Heads of HEFCE-funded higher education institutions
Heads of HEFCE-funded further education colleges
Heads of universities in Northern Ireland

Of interest to those responsible for Finance, planning

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Enquiries to Tom Sastry
e-mail: t.sastry@hefce.ac.uk
tel: 0117 931 7397

Anna Sherratt
e-mail: a.sherratt@hefce.ac.uk
tel: 0117 931 7236

Executive summary

Purpose

1. We are reviewing the way that we allocate funding for teaching in order to ensure that it remains fit for purpose in a changing higher education environment. This document sets out the decisions made following our second consultation announced in HEFCE 2007/02, 'Review of the teaching funding method: second consultation on changes to the method'. Annex A provides an analysis of consultation responses.

Key points

2. The consultation received a very positive response, with almost all of the proposals achieving at least 70 per cent agreement. Following the consultation, we have made the following decisions:

- a. To introduce targeted allocations to contribute towards the additional costs of foundation degrees, accelerated and intensive courses, old and historic buildings and part-time study.
- b. To support flexible study patterns by counting, for funding purposes, the modules completed by students that complete less than their initial study intentions for the year.

- c. To work with the sector to use data from the Transparent Approach to Costing for Teaching, known as TRAC(T), to understand the total cost of sustainable teaching.
3. Changes to the teaching funding method agreed as a result of this consultation will be implemented in 2008-09 and 2009-10 (see timetable on page 9 for details).

Action required

4. No action is required.

Background

5. We began to review our teaching funding method in 2005, to ensure that it remains fit for purpose in a changing higher education (HE) environment. In the first cycle of the review we are addressing the funding context that has emerged following the introduction of variable tuition fees. The second review cycle will respond to the outcomes of the Government's review of fee regulations in 2009. Overall, we are looking to develop a more strategic approach to funding, which will support educational priorities that might be compromised in an increasingly market-based system.

6. Our second consultation on the teaching funding review (HEFCE2007/02) returned to a number of issues left outstanding from the first consultation (HEFCE 2005/41) – namely, details of the new targeted allocations, flexible study patterns and the further development of the Transparent Approach to Costing for teaching, known as TRAC(T).

7. This consultation received a very positive response, with almost all proposals achieving at least 70 per cent agreement. After analysing the consultation responses, we have decided to proceed with the consultation proposals. Our plans for implementation are set out below. An analysis of consultation responses is provided in Annex A.

Targeted allocations

8. From 2008-09, we will replace premiums with a system of targeted allocations¹. These are streams of funding designed to support important or vulnerable features of higher education, in accordance with key policy initiatives. The key difference between targeted allocations and premiums is that the targeted allocations will fall outside the tolerance band². This means that changes in student profile will have a much more direct and immediate effect upon grant levels. The new system will also make it easier for institutions to determine how much of their grant is associated with a particular targeted allocation.

9. In our second consultation, we set out the details of the new targeted allocations. We explained that there will be both *variable* and *fixed* allocations. Variable allocations recognise costs that vary according to volume of activity; fixed allocations recognise fixed costs. We proposed to introduce targeted allocations to contribute towards the additional costs of the following areas of provision:

- part-time undergraduate study
- foundation degrees

¹ The introduction of the new system of targeted allocations was agreed in 2006, as a result of our earlier consultation 2005/41.

² The tolerance band is the 5 per cent range of permitted variance between assumed and standard resource. The existence of the tolerance band means that institutions can vary, to some extent, their student profile without financial consequences. Further information on the tolerance band, and HEFCE's distribution of funding for teaching, can be found in HEFCE 2007/20.

- accelerated and intensive provision
- old and historic buildings.

Responses to the proposal

10. At least 70 per cent of respondents agreed with the proposals to introduce targeted allocations to recognise the additional costs of part-time undergraduate study, foundation degrees and accelerated and intensive provision.

11. Around 45 per cent of institutions agreed with the proposal to introduce a targeted allocation to contribute towards the additional costs of old and historic buildings; a roughly equal number of respondents expressed disagreement.

Outcomes

12. In the light of this response, we will implement the following changes to the teaching funding method for academic year 2008-09:

- We will convert the existing part-time premium into a targeted allocation based on the existing cash equivalent sum, pro-rata to part-time undergraduate full-time equivalent (FTE) student numbers. This will be a *variable* allocation, which will track student numbers. Postgraduate taught (PGT) students will not attract the part-time allocation, as we already assume that the additional fees charged by institutions meet the extra costs of part-time PGT students. This will maintain the current level of resource for PGT students – it does not represent a substantive change in our treatment of PGT students³.
- We will convert the foundation degree premium into a targeted allocation, based on the existing cash equivalent sum pro-rata to the relevant student FTEs. This will be a *variable* allocation, which will track student numbers. If future resources are forthcoming, we will explore whether this allocation could be extended to include similar forms of provision.
- We will create a targeted allocation to recognise the costs of accelerated and intensive provision. This will replace the long-course premium and will be based on the existing cash-equivalent sum pro-rata to the relevant subject-related FTE. This will be a *variable* allocation, which will track student numbers.
- We will convert the old and historic building premium into an allocation based on its present cash value. This will be a *fixed* allocation, which will not depend upon student numbers. Given the mixed response to this proposal, we will keep this allocation under review.

13. The new targeted allocations are intended to provide long-term support for expensive or important areas of provision. In 2008-09, their funding will reflect the level of the antecedent premium. From 2009-10, the HEFCE Board will determine their funding annually, on the basis of

³ Further information on our treatment of PGT part-time students in the funding method is found in the Frequently Asked Questions that accompany the 2007 consultation, available on our web-site under Learning & teaching/Funding.

changes in student numbers and our priorities, while remaining mindful of the need to preserve stability.

14. The funding for targeted allocations may also be reviewed in future when TRAC(T) gives us a better understanding of the additional costs associated with certain features of HE. As with the premiums, however, the targeted allocations are only intended to contribute towards these costs – we do not usually intend that they meet the entire additional cost of the provision involved.

Outstanding issues

Small and specialist institutions

15. We are reviewing our support for small and specialist institutions. This review, overseen by an expert panel and chaired by Dame Janet Ritterman, will examine current definitions of small and specialist institutions and advise which features of institutions and provision should be recognised through targeted allocations. The panel will contact every institution that receives the small or specialist premium and report to the HEFCE Board by the beginning of 2008, in order to influence funding for 2008-09. Further information on the review can be found on our web-site, under Learning & teaching/Funding/Teaching funding review.

London weighting

16. London weighting will remain within the tolerance band and will not be converted into a targeted allocation. We believe that this is the best way of recognising the complicated connection between London costs and student numbers. We are aware that higher education institutions (HEIs) are often involved in complex partnership arrangements that operate across regional boundaries, and that this leads to some anomalies in allocating London weighting. We are looking to resolve this and expect any change to be reflected in funding from 2008-09.

Flexible study patterns

17. We know that students sometimes need to change their pace of study. For instance, students sometimes switch from full-time to part-time study, withdraw from a course, take a break or enrol at another institution. We believe that it is important to give students the opportunity to study flexibly, at a pace that suits them. This will contribute towards our efforts to widen participation, provide lifelong learning opportunities and encourage employers to engage with higher education.

18. In our allocations to universities and colleges, we do not currently count, for funding purposes, students that do not complete their initial study intentions for the year. This may be a barrier to institutions that want to provide flexibility for their students. In our 2007 consultation, we proposed to count, for funding purposes, the modules completed by students that do not complete their initial study intentions, provided that these amount to at least 20 credits.

19. To count the volume associated with flexible study, we plan to use data submitted by HEIs through their Higher Education Statistics Agency (HESA) return. Further education colleges (FECs) do not currently have a mechanism for submitting this data to us. We will work with the Learning and Skills Council (LSC) to remedy this as soon as possible. In the interim, we will assume, for funding purposes, that non-completing students in FECs complete credit amounting

to a sector-wide average. This interim measure will ensure that this proposal does not place FECs at an unfair disadvantage.

Responses to the proposal

20. This proposal received a very positive response, with 70 per cent of respondents in agreement. Many institutions welcomed our decision to recognise the costs associated with students that complete less than their initial study intentions. Others agreed that this proposal will remove barriers to flexible study and widening participation.

21. Some doubts and queries were also raised (see Annex A). We have tried where possible to address the concerns in our plans for implementation, set out below.

Outcomes

22. In view of the responses to the consultation, we will implement the following measures:

- a. From 2009-10, we will use HESA data to count, for funding purposes, the modules completed by students that complete less than their initial study intentions for the year. A student must complete a minimum of 20 credits (0.16 FTE) to attract funding. We will consider reviewing this threshold in 2011, after the proposal has been in operation for two years.
- b. We will calculate a sector-wide average of credit completed by students that complete less than their initial study intentions. We will use this, in the short term, when calculating the funding for flexible study in FECs. We will also work with the LSC and FECs to determine how best colleges can return equivalent data – we aim to enable this to take place as soon as possible.
- c. To control the extent to which this measure leads to a redistribution of funding between institutions we will cap the extent to which any individual institution can benefit financially from this proposal. The HEFCE Board will determine the cap in January 2009, once we have viewed the data submitted to HESA.
- d. We will continue to monitor and benchmark retention rates through the higher education performance indicators, and will review whether the flexible study measure has a negative impact on retention. It should be noted that it will remain more cost-effective for institutions to retain their students, particularly given that students who do not complete their initial study intentions will not attract targeted allocations.

Further development of TRAC for teaching

23. In 2005, we consulted on a proposal to introduce a national framework for costing teaching, based on TRAC. Over 80 per cent of respondents supported this idea. Since February 2006, we have been working to develop TRAC for teaching. In spring 2007, over 85 per cent of English and Northern Irish HEIs submitted TRAC(T) pilot data on subject-related costs. This exercise will be repeated in early 2008, and the resulting data will be used to inform a review of the price group weightings in the summer of 2008.

24. In the second consultation, we proposed to benchmark TRAC(T) data to better understand the total costs of sustainable teaching. In this context, we consider teaching to be sustainable if it

is both excellent and efficient, and appropriately funded to maintain these qualities in the long term. This information is likely to play an important role in HEFCE's submissions to future spending reviews.

Responses to the proposal

25. This proposal received a strong degree of support, with 77 per cent of respondents expressing agreement. A number of respondents also took this opportunity to offer more general thoughts about TRAC(T) (see Annex A). These comments will be addressed through the TRAC(T) steering group and the TRAC strategy group.

Outcomes

26. Given this strong level of support, we will implement the proposal to use the TRAC(T) data to understand the total cost of sustainable teaching. This process will be overseen by the TRAC strategy group. This is a sector-wide group whose remit is to consider strategic issues around the use and development of TRAC. Further information on the TRAC strategy group can be found on our web-site, under Finance and assurance/ Transparency review.

Financial implications

27. The implementation of the flexible study proposal and the new system of targeted allocations will cause some institutions to change their position in the tolerance band. When an institution moves below, or further below, -5 per cent as a result of these changes, we will provide migration funding to bring them either to -5 per cent, or to their previous position (whichever is lower). If an institution moves above +5 per cent as a result of these changes to the funding method, we will engage in discussions with them, with a view to bringing them back within the band. This could involve either a change to their student profile, or reductions in grant.

28. In 2008-09, the funding associated with each targeted allocation will reflect the antecedent premium⁴. From 2009-10, the level of funding associated with each allocation will be determined annually by the Board, in view of student numbers and any changes to our priorities.

⁴ This only applies to the allocations for part-time study, foundation degrees, accelerated and intensive provision and old and historic buildings already agreed by the HEFCE Board. As noted above, our support for small and specialist provision is currently under review, and we are not yet able to predict the level of funding associated with any allocation to support this form of provision.

Timetable

29. The following table sets out changes to the teaching funding method agreed through the first and second consultations.

Funding round	Recognising flexible study patterns	Targeted allocations	TRAC(T)
2006-07			First round of data collection on subject costs Work begins to understand total costs of sustainable teaching
2007-08	HEIs encouraged to record more detailed data on volume of student activity through HESA returns	Existing system of premiums in operation Review of small and specialist institutions completed	Second round of data collection for subject costs
2008-09		New system of targeted allocations introduced	Review of price groups and their weightings
2009-10	Flexible study volume count affects funding		Any changes to price groups affect funding

Annex A

Analysis of responses to HEFCE 2007/02

Overview

1. The consultation document HEFCE 2007/02, 'Second consultation on changes to the method' was published in January 2007. We modelled the effects on institutions of the proposals and made the results available on our web-site, along with answers to some frequently asked questions. In March we held four consultation events in London and Leeds and subsequently published a report of the events on our web-site.
2. We asked for formal responses to the consultation to be made through a web-based form, which asked six specific questions and also invited general comments.
3. We received responses from:
 - 108 HEIs
 - 13 directly-funded FECs
 - one indirectly-funded FEC
 - one non-departmental public body
 - 20 other organisations, such as subject associations and other representative bodies
 - three individuals.
4. The responses included a small number of letters and other comments on, or expressing concern about, our proposals. Responses from HEIs covered a majority of those that we fund, while responses from FECs covered a very small percentage. Responses from other organisations were predominantly from subject association or discipline related bodies, along with some government organisations and other funders.
5. In this analysis, references to proportions for or against a particular proposal mean 'among those that responded'. The format of the questions included a tick-box option ('strongly agree', 'agree', 'neither agree nor disagree', 'disagree', 'strongly disagree') plus unlimited space to provide comment. It is important to stress that in general, respondents provided more comments when they wanted to express why they disagreed with a particular proposal than why they agreed with it, or had no preference. Often where disagreement was expressed it was not disagreement on principle but rather that the respondent had an alternative approach in mind. The qualitative comments in this analysis can at times therefore present a more negative picture than is reflected by a quantitative analysis of numbers of respondents agreeing or disagreeing to a proposal.

Question 1 Do you agree that we should create a variable targeted allocation to contribute to the additional costs of part-time undergraduate students?

6. The proposal to create a variable targeted allocation for part-time undergraduates received a very positive response with around 70 per cent of respondents either agreeing or strongly agreeing. Many respondents noted that this proposal will provide the same level of transparency for part-time provision as currently enjoyed for widening participation. Others welcomed the fact that there will now be a direct relationship between changes in student numbers and changes in funding, and felt that this was a more effective mechanism for recognising these differential costs.

Question 2 Do you agree that we should create a fixed targeted allocation for old and historic buildings?

7. Some respondents in favour requested that we change either the focus or the size of the allocation. A few argued that it should recognise work-based learning and flexible programmes. Others felt that the premium did not fully recognise the costs of part-time provision, and should be increased. A number of institutions argued that the targeted allocation should also apply to PGT part-time students

8. The proposal to create a fixed targeted allocation for old and historic buildings elicited mixed views from respondents with almost the same volume in favour as against (around 45 per cent). Approximately 10 per cent of respondents were undecided.

9. Of those in favour, reasons cited ranged from the additional costs of these buildings, to their relationship to the student experience and the UK's HE 'brand'. A number of institutions welcomed the fact that the proposal would divorce the allocation from student numbers. A few respondents in favour argued that the allocation did not meet the additional costs of these buildings and should be increased. Those who opposed the proposal argued that old and historic buildings should not be a priority for HEFCE, or that this priority should not be addressed through the teaching funding method.

10. A few institutions requested that HEFCE formally review the support given to old and historic buildings. There were a range of reasons for this. Some institutions felt that they had old and historic buildings that should be included and others felt that there were other types of building that should be included. Some respondents argued that a review should result in the removal of support altogether.

Question 3 Do you agree that we should create a variable targeted allocation to contribute to the additional costs of foundation degrees?

11. The proposal to create a variable targeted allocation to contribute to the additional costs of foundation degrees was welcomed by around 70 per cent of respondents who either agreed or strongly agreed to the question.

12. In general, this question elicited very little comment. However, a significant number of respondents felt that while support for foundation degrees was welcome, there are other forms of provision that meet the needs of employers and generate additional costs such as sandwich placements and accredited prior experiential learning.

13. Among those who agreed with the proposal, a few respondents felt that the allocation was an insufficient recognition of the additional costs of foundation degrees and that the allocation should be recalculated once the additional costs have been explored through TRAC(T). A few institutions queried whether there was any robust evidence that foundation degrees actually cost materially more than standard undergraduate provision.

Question 4 Do you agree that we should create a variable targeted allocation to contribute to the additional costs of accelerated and intensive provision?

14. The proposal to create a variable targeted allocation to contribute to the additional costs of accelerated and intensive provision was welcomed by around 75 per cent who either agreed or strongly agreed.

15. Again, this proposal elicited very little comment. A small number of respondents questioned whether the level of the allocation was sufficient, and a similar number questioned whether all forms of accelerated and intensive provision generates additional costs. A small number of respondents argued that the new allocation should only apply to PGT provision, as intensive undergraduate provision is undesirable. In contrast, some respondents argued that the flexible and intensive undergraduate provision should be regarded as a priority, and that this allocation should therefore exclude PGT provision. A very small number of respondents argued that it is important that HEFCE remains assured of the quality of any new provision that might be encouraged by this allocation.

Question 5 Do you agree with our proposal to count for funding purposes the modules completed by students who complete something other than their initial study intentions?

16. This proposal received a very positive response, with 71 per cent of respondents agreeing or strongly agreeing. Many commented that it will provide fairer funding treatment of non-completing students. Others agreed that it will help institutions deliver flexible provision that meets the needs of students and employers. Most agreed that data collection should be voluntary, and that we should count for funding purposes modules completed, rather than credit awarded.

17. A number of respondents (including some in favour) raised concerns or doubts. Some suggested that it may cause institutions to decrease their efforts to retain students. Others argued that it may encourage institutions to change the structure of their curriculum, in order to ensure that each student attracts the maximum amount of funding. A number of respondents suggested that further modelling and consultation would be required before this proposal could be implemented. A few respondents agreed with the proposal only on the condition that additional funds to support it are provided by the Government.

18. The majority of respondents welcomed the existence of a threshold for funding the modules that students complete even though they do not complete their initial study intentions, although there was some disagreement about what the threshold should be. Some argued that 15 credits would be more appropriate than the 20 credits proposed. A smaller group thought that the threshold should be higher, or set as a proportion of the student's initial study intentions. Many respondents agreed that a cap should be placed upon the redistribution of funding – although some emphasised that its level should be chosen carefully, in order to ensure that the benefits of the proposal are not lost.

19. As an interim measure, we proposed to apply a sector-wide average to the non-completions reported by further education colleges. A number of colleges expressed concern about this, arguing that patterns of retention may differ between HEIs and FECs. One college

suggested that we should collect the data directly from colleges, while others urged us to ensure that the data be collected through the Individualised Learner Record as soon as possible.

Question 6 Do you agree with our proposal to benchmark the actual costs of teaching submitted by institutions, in order to understand the total costs of HE teaching in England?

20. We proposed to moderate the TRAC(T) subject-related costs through benchmarking, in order to remove outliers. This proposal received a very strong level of support, with 77 per cent agreeing or strongly agreeing. Many respondents commented that this would provide a good first step in understanding the total cost of sustainable teaching. A few commented that outliers should be removed only with caution, as they represent part of the variability of costs. Several respondents emphasised the need for transparency in the benchmarking process, and for the results to be shared with institutions.

21. Many respondents used this opportunity to make more general comments about TRAC(T). Some commented that they are fully supportive of TRAC(T), and believe that the data will play an important role in future spending reviews, and in the review of the cap on fees. Others noted that since TRAC(T) is based on historic costs, the data will tend to reflect the funding currently available, rather than the true cost of high-quality teaching. A few respondents expressed enthusiasm for a more in-depth costing exercise, which would separate costs from expenditure and explore the link between costs and quality.

22. A significant number of respondents expressed concern that the TRAC(T) data collected in 2008 would not be robust enough to inform funding. Some argued that a review of the price group weighting should not be based on a one-year snapshot, particularly given the variability in costs following the introduction of variable fees. A few respondents stressed the need to ensure consistency in the TRAC(T) data by issuing more explicit guidance.

Question 7: Do you have any further comments?

23. A large number of respondents left this section blank. From those that did respond to this question, the following themes emerged:

a. **Concerns about the new system of targeted allocations:** A small number of institutions took this opportunity to reiterate their concerns about the introduction of the new system of targeted allocations. These concerns focus on the belief that the new system of allocations will introduce more volatility, complexity and vulnerability to the method. Some also suggested that this new system will amount to an erosion of 'core grant'. A few respondents requested that HEFCE monitor the impact of the new system of allocations.

b. **Small/specialists review:** Some institutions from the specialist sector used this section to welcome the planned review of funding for small and specialist institutions. Key points raised in relation to this review were the need to involve institutions in the review process, and the need for consultation on any subsequent proposals.

c. **London:** Some institutions from within London queried why we are not planning to convert London weighting into a targeted allocation. Some institutions within London also

requested that HEFCE look into increasing the level of differential funding provided for institutions in London, as they felt the current weighting does not meet the additional costs of operating in London.

d. **Funding for science, technology, engineering and mathematics (STEM)**

subjects: A number of organisations representing science-based disciplines used this section to raise wider issues about the funding of STEM subjects. The recent allocation of £75 million to some of these subjects was welcomed. However, some respondents argued that HEFCE could do more to support vulnerable STEM subjects. Some argued that we urgently need to revisit funding for subjects in price band B. One organisation suggested that institutions should be funded for unlimited recruitment in STEM subjects; another argued that the number of institutions operating in these subjects should be managed in order to ensure a stable and viable volume of provision.

e. **Employer engagement:** A few respondents commented on HEFCE's employer engagement policy and in particular on the provision of co-funded additional student numbers. A number of institutions queried whether institutions will be able to secure the recommended financial contribution from employers.

f. **Unit of resource:** A few institutions used this space to make the case that HE as a whole is under-funded and that HEFCE should focus on arguing this point to the Government, rather than making alterations to the funding method.

List of abbreviations

FEC	Further education college
FTE	Full-time equivalent
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HESA	Higher Education Statistics Agency
PGT	Postgraduate taught
TRAC	Transparent Approach to Costing