

The Funding Gap

2006/07



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Introduction

- 1 This report is the fourth in a series which considers the funding levels in Wales in relation to those in England and Scotland. The primary focus of the analysis is to monitor the funding gap between Wales and England.
- 2 The main analysis in each has been based on the grant in aid (GIA) received by each funding council and the numbers of fundable students. This has allowed time series of GIA per fundable full-time equivalent (FTE) to be established for each country starting in 2000/01. The reports have then shown the corresponding funding gaps, based on the amount of additional funding required to enable students in Welsh higher education institutions (HEIs) to be funded at the same level as England and Scotland. Beyond this analysis, further GIA based analysis has enabled presentation of conclusions on GIA per head of population and GIA per funded FTE.
- 3 Analysis based on the amount of funding passing through (actually received by) institutions is also included. In the first two reports, further analysis, including detailed analysis for groups of institutions, was undertaken to examine specific issues.
- 4 There are no changes to the methodology apart from a minor amendment relating to the notional cost of capital adjustment. Given the small overall difference this change makes to the level of the funding gap, revisions have not been made to figures for previous years. The way that GIA is split into revenue and capital has been revised and figures for both 2005/06 and 2006/07 are included in this report. The methodology is described in Annex A.

Summary of Findings

- 5 The main findings from the analysis undertaken (see paragraph 8 and Annex A for information on methodology) are:
 - Overall, taking into account the different analytical approaches detailed below, and their intrinsic limitations, the funding gap with England for AY 2006/07, at £55-£66 million, is similar to that for 2005/06, possibly slightly reduced, and with an increased share of the gap driven by differences in capital spending.

In more detail:

- In AY 2006/07, there was an increase in the GIA per fundable FTE in Wales of 5.7 per cent in cash terms, compared to 2005/06. (Table 1)
- The funding gap with England decreased to £66 million for AY 2006/07, compared to £70 million in 2005/06. (Table 2)

- The financial year funding gap for FY 2007-08 is estimated to be £69 million – an increase of 4.4 per cent on FY 2006-07. (Table 3)
- Around a half (51 per cent) of the funding gap with England related to capital. This has increased from AY 2005/06 when it accounted for 40 per cent of the funding gap. (Tables 4 and 4a)
- There is a small difference (£1.60) in the GIA per head of population in Wales and England, however, this has increased from AY 2005/06 when the difference was 70p. (Table 5)
- The funding gap with England for AY 2006/07 was £55 million based on GIA per funded FTE. (Table 6)
- The HE sector in Wales continues to have lower income, on the four measures monitored, than England and Scotland in AY 2006/07. (Table 7)

Methodological Issues

- 6 The report uses the same method as was adopted for the previous reports for the top down approach based on the total GIA allocated to the funding councils in the year in question. Further analysis is also carried out on the funding received by the higher education institutions (HEIs). The top down approach draws on data from the published accounts of the funding councils and returns of fundable numbers to the councils by institutions while the analysis based on funding received by HEIs aggregates data from institutions' Higher Education Statistics Agency (HESA) returns.
- 7 The methods and sources are broadly as in previous years, with some amendments, and the same caveats apply. This information is set out in detail in the earlier reports with an updated extract provided at Annex A. Annex A also includes information on the methods of calculation for each table.
- 8 The main methodological issues are set out below.
 - Grant in aid
It has been necessary, as in previous reports, to adjust the GIA used in the main analysis to ensure comparability between the three countries: TDA funding (for QTS) is added to the HEFCE grant to give the GIA for England; access and hardship funding within the funding shown as GIA in the accounts for HEFCE is subtracted as the equivalent funding is shown separately in Wales; and Science Research Investment Fund (SRIF) funding from OST is added to the HEFCW GIA to bring the figure in line with other countries.
 - Exclusions from HESA
The HESA Finance Statistics Record (FSR) excludes any funding top-sliced by the funding council before allocation to institutions, treats capital in terms of the release of deferred capital grants and excludes HE at further education colleges, unless delivered on a franchised basis, so does not sum to the total GIA. Figures for Wales and England include

funding for HE provision only, whilst the figures for Scotland include funding for both HE and FE as this cannot be separated out.

- Full-time equivalent fundable students
Fundable, rather than funded, FTEs are used for the main analyses because, while all fundable students are classified as funded in England, there are fees only students (ie there are more students who meet the fundability criteria than there are funded places) in both Scotland and Wales. The FTEs are converted to a common basis for the three countries but this process requires some estimation. HE students in both higher and further education institutions are included in the analysis based on GIA with the FTE figures being drawn from the councils' funding data returns.

The HESA based analysis includes only HE FTEs at HE institutions, including those franchised to FE colleges. The Scottish figures are on a slightly different basis because Scottish HEIs are funded by the Scottish Funding Council for all provision, both HE and FE. Therefore FE FTEs of students enrolled at Scottish HE institutions are included in the Scottish denominators.

- Capital
Analysis has been carried out with capital shown separately. The elements of GIA that are regarded as capital have been revised since last year's analysis to better count capital in a consistent way across all three countries. As this causes a change in the proportion of the gap due to capital, figures for both 2006/07 and 2005/06 on the revised basis are presented in the report.

Findings

- 9 Wales remains behind the other countries in Britain in terms of the amount of government funding per student. Between the academic years 2005/06 and 2006/07, there was some growth in the GIA per full-time equivalent student in Wales with the funding rising to £5,450 from £5,158, and the rate of growth was higher than for England (5.7 per cent compared to 4.0 per cent). However, this level is still well below that for England at £6,287 or Scotland at £8,040. Scotland had considerably greater growth at 13.6 per cent over the year to 2006/07. Since 2000/01, the growth in GIA per student FTE has been only 27 per cent in Wales compared with 45 per cent in England and 58 per cent in Scotland. Wales and England were funded at comparable levels until 2001/02 but Scotland has been better funded consistently over the seven year period. However, the comparisons with Scotland are less secure than those with England because of fundamental differences between the funding of higher education in Scotland and elsewhere in Britain. (Table 1)

Table 1: Grant in aid per fundable FTE: AY 2000/01 to 2006/07

	2000/01 £	2001/02 £	2002/03 £	2003/04 £	2004/05 £	2005/06 £	2006/07 £
HEFCW	4,307	4,649	4,687	4,942	5,138	5,158	5,450
HEFCE + TDA	4,327	4,601	4,908	5,285	5,672	6,045	6,287
SFC	5,087	5,401	5,643	5,946	6,369	7,078	8,040

- 10 Between 2002/03 and 2005/06, the funding gaps for Wales with both England and Scotland have increased steadily. The gap with England increased by between 55 per cent and 73 per cent each year rising to nearly £70 million by 2005/06. This increase is partly a reflection of the inclusion of the Open University in Wales for the first time in 2005/06. The effect of including the Open University is estimated to be an increase in the funding gap of around £9 million. However, in 2006/07, the gap between Wales and England narrowed slightly to around £66 million, a 5.6 per cent decrease compared to 2005/06. The estimated gap between Wales and Scotland continued to rise, reaching over £200 million in 2006/07. (Table 2)

Table 2: Funding gaps with England and Scotland: AY 2000/01 to 2006/07

	2000/01 £	2001/02 £	2002/03 £	2003/04 £	2004/05 £	2005/06 £	2006/07 £
Wales and England	1,395,358	-3,402,678	16,349,630	25,384,334	40,158,382	69,616,228	65,748,091
Wales and Scotland	54,819,741	53,662,916	70,724,163	74,215,585	92,688,833	150,740,855	203,255,651

Based on:

End of year FTEs for Wales and Scotland; HESES FTEs for England (columns 1+2 for HEFCW and HEFCE, ie drop out not excluded).
Funding council accounts with adjustments for access and hardship funds (excluded for HEFCE) and OST SRIF (added for HEFCW).

- 11 Tentative analysis carried out for the first time last year on a financial year basis suggested that some stabilisation might be emerging of the funding gap with England and this conclusion is now supported by the relatively small changes seen for the 2006/07 academic year (£4 million decrease) and the 2007-08 financial year (£3 million increase). The 2007-08 financial year estimate is just over £69 million. (Table 3)

Table 3: Grant in aid and funding gap: FY 2001-02 to 2007-08

	2001-02 £	2002-03 £	2003-04 £	2004-05 £	2005-06 £	2006-07 £	2007-08 £
Wales: Grant per FTE	4,601	4,671	4,832	5,101	5,130	5,357	5,584
England: Grant per FTE	4,497	4,783	5,180	5,523	5,960	6,201	6,457
Funding Gap	-7,389,066	8,207,410	25,711,636	31,634,391	64,224,864	66,231,305	69,158,878

- 12 As last year, the analysis considers separately the funding gaps due to capital and revenue GIA. The analysis has been revised since last year to count GIA for capital on a more consistent basis for the three countries. For 2005/06, the gap with England could be attributed on a 60:40 split between revenue and capital, however, for 2006/07, the proportion of the gap attributable to capital is higher, accounting for just over 50 per cent of the gap. The gap with Scotland remains largely due to revenue. (Tables 4 and 4a)

Table 4: Grant in aid separately for revenue and capital: AY 2006/07

		Grant in aid £000s	Fundable FTEs	Grant per FTE £	Funding gap for Wales £	Proportion attributable
Wales	Revenue	392,654	78,470	5,004		
	Capital	34,975		446		
England	Revenue	6,247,589	1,153,066	5,418	32,513,936	49%
	Capital	1,002,289		869	33,234,156	51%
Scotland	Revenue	995,303	140,157	7,101	164,587,349	81%
	Capital	131,536		938	38,668,303	19%

Table 4a: Grant in aid separately for revenue and capital: AY 2005/06

		Grant in aid £000s	Fundable FTEs	Grant per FTE £	Funding gap for Wales £	Proportion attributable
Wales	Revenue	369,349	78,498	4,705		
	Capital	35,819		456		
England	Revenue	5,969,912	1,140,330	5,235	41,607,434	60%
	Capital	923,121		810	27,726,461	40%
Scotland	Revenue	876,682	137,183	6,391	132,300,169	88%
	Capital	94,331		688	18,158,353	12%

- 13 In the past, it has been argued that the gap in funding is an effect of having a higher proportion of students relative to the population in Wales than in England. In the first two years of analyses, the GIA per head of population was compared and showed a slightly higher level of funding on this basis in Wales. By 2005/06, the funding per head of population was very similar in England and Wales, with a much higher level per head in Scotland. This pattern is also seen for 2006/07, with the difference between Wales and

England being relatively small and the difference between Wales and Scotland much higher, and growing compared to previous years. (Table 5)

Table 5: Grant in aid per head of population: AY 2006/07

	Grant in aid £000s	Mid year population	Grant per head £	Funding gap for Wales £
Wales	427,628	2,980,000	143.5	
England	7,249,877	51,092,000	141.9	-4,770,848
Scotland	1,126,839	5,144,200	219.1	225,141,626

- 14 It has also been suggested that the Welsh grant per fundable FTE is lower because of the fees only students enrolled beyond the agreed number of funded places. Last year, the effect was small, with the funding gap being reduced to £65 million when the comparison was made with funded numbers in Wales and England using the numbers which meet each council's own criteria for funding. For 2006/07, the reduction is greater, however, the gap calculated this way is still large at £55 million. (Table 6). Although this method provides a closer approximation to the funded numbers for each country, the estimates of funding per FTE are not on comparable bases so the difference between the two does not provide a robust method of estimating the funding gap. See Annex A, paragraph 5 for details.

Table 6: Grant in aid per funded FTE: AY 2006/07

	Grant in aid £000s	Funded FTEs	Grant per funded FTE £	Funding gap for Wales £
Wales	427,628	69,388	6,163	
England	7,249,877	1,041,995	6,958	55,151,807

Based on column 4 of HESES. Excludes PGR students.

- 15 The levels of income on four measures (HE grant, teaching grant, all grant plus fees and all income) have been monitored in this and our preceding three reports, using HESA data. Wales has been consistently below the other countries on all measures and showed lower levels of growth for all measures than either England or Scotland between 2005/06 and 2006/07. (Table 7)

Table 7: Grant and income per FTE by country: AY 2006/07 and 2005/06

		HE grant per fundable HE FTE	HE teaching grant per fundable taught HE FTE	All grant and fees per FTE	All income per FTE
Wales	2006/07	£5,148	£3,774	£6,933	£10,680
	2005/06	£5,060	£3,624	£6,419	£10,149
	% increase	1.7%	4.1%	8.0%	5.2%
England	2006/07	£5,666	£4,002	£7,740	£12,264
	2005/06	£5,411	£3,755	£7,077	£11,335
	% increase	4.7%	6.6%	9.4%	8.2%
Scotland	2006/07	£7,087	£4,922	£8,692	£13,894
	2005/06	£6,578	£4,646	£8,014	£12,829
	% increase	7.7%	5.9%	8.5%	8.3%

Based on HESA Student and Finance Statistics Records.

The Open University is included within the English figures.

FE FTEs in all Scottish denominators and in denominators for grant plus fees and all income figures for all countries.

- 16 This analysis using HESA data presents some difficulties because of the funding it excludes (see paragraph 8) and the inclusion of the Open University as a single institution within the English figures. It has generally produced estimates of the gap slightly below those based on GIA, though the relatively small increase in the HE grant per fundable HE FTE seen for Wales between 2005/06 and 2006/07 suggests the gap is greater for 2006/07.
- 17 The HESA based analysis provides an alternative approach which can be used to validate the figures based on GIA. However, the possibility of income being deferred and so not shown in the year it was allocated and the potential differences in the counting of FTEs highlighted in Annex A, paragraph 8 mean that this analysis is not as robust as the GIA analysis. Therefore, an overall estimate of the gap using these data is not presented in this report.

Conclusions

- 19 We conclude that:

- The estimated funding gap with England has decreased slightly in AY 2006/07, and increased slightly on a financial year basis in FY 2007-08.
- The estimates suggest a value in the range £55-£66 million and around £200 million with Scotland for AY 2006/07, but with the important caveat previously noted about the difficulty of reliable comparison with Scotland.
- There has been a marginally higher increase in the GIA per fundable FTE in Wales compared to England. To close the gap with England, at this rate of change, would take at least 10 years.
- Overall, taking into account the different analytical approaches detailed below, and their intrinsic limitations, the funding gap with England for AY

2006/07, at £55-66 million, is similar to that for 2005/06, possibly slightly reduced, and with an increased share of the gap driven by differences in capital spending.

Methods of analysis and sources of data

Analysis based on grant in aid

- 1 For the GIA based analysis, the total grant in aid income, excluding running costs, from the sponsoring bodies in Wales, England and Scotland is compared with the total number of fundable HE FTEs for the seven years from 2000/01 to 2006/07. The grant in aid is the amount shown in the published financial statements but converted to an academic year basis for the majority of the analysis. This approach ensures that all income allocated, including any that was announced after the grant letter, is taken into account, provided it is shown in the accounts. Certain sources of variation are adjusted to a common basis for all countries. This is necessary because of the different treatments of sources of income such as the Science Research Investment Fund (SRIF) and access and hardship funds and the way initial teacher training is funded. The grant to English HEIs directly from the TDA is added (for QTS only). No adjustment is made for the notional cost of capital. In previous years, this was deducted from the GIA figures.
- 2 ITT Provider Funding is counted in the grant to English HEIs from the TDA. There are other streams of funding allocated by the TDA which may be comparable to funding allocated by HEFCW, however, these are small in comparison to the Provider Funding and it is not straightforward to identify the exact amounts allocated to HEIs. Therefore, they are not included in the analysis. If these streams of funding were to be included, the funding gap between Wales and England would increase, but not significantly.
- 3 The 2006/07 academic year Supplementary Income Stream (SIS) allocations paid out in 2006-07 and 2007-08 are excluded from the Welsh GIA because the funding is a one-off compensation for the forgone fee income relative to England.
- 4 Fundable, rather than funded FTEs, are used for the main analyses because, while all fundable students are classified as funded in England, there are fees only students (ie fundable students above the available number of funded places) in both Scotland and Wales. For the financial year analysis, FTEs are weighted (1/3 to 2/3) for the two academic years that fall within the financial year.
- 5 All students who meet the criteria for funding in their own country are included if they were enrolled on the census date or predicted to enrol before the end of the year. The rules here are broadly similar in the three countries. Differences between how non-completions are treated for funding purposes means that adjustments cannot be made for students who failed to complete the year of the course; any such adjustments would lead to comparisons which are influenced by the policy decisions on those students who could be counted as fundable by the councils. This leads to a slightly higher number of FTEs being included in the analysis than would be counted as fundable in either England or Wales. TDA FTEs are added to HEFCE's figures. The most

accurate enrolment figures available have been used. For Wales and Scotland, end year finalised figures are used. For England, Higher Education Early Student Statistics (HESES) data are used as HEFCE does not undertake a separate end year data collection. The funding gap is calculated as the difference between the GIA per fundable HE FTE in England (or Scotland) and Wales multiplied by the number of Welsh FTEs.

- 6 Two alternative bases for estimating the funding gap are also presented:
 - The first method is a comparison of GIA per head of population. It uses the mid year populations based on census data.
 - In addition, there is an analysis based on funded numbers. For this analysis, the FTEs for both England and Wales are based on enrolments after adjustment for non-completion using the methods which apply for funding purposes in each country. For England, TDA numbers are added to the HEFCE FTEs to give the numbers actually counted in the funding allocations (HEFCE and TDA separately). HEFCW funded credit values for 2006/07 (based on 2005/06 HESES capped to align with Assembly target numbers) are converted into FTEs as for the main analysis. Although this method provides a closer approximation to the funded numbers for each country, the estimates of funding per FTE are not on comparable bases so the difference between the two does not provide a robust method of estimating the funding gap.
- 7 The estimate of the funding gap is also presented broken down into revenue and capital components. For the purposes of the analysis presented in this report, capital GIA is that allocated to the funding councils to be distributed as capital and includes all money for SRIF funding.

Analysis based on HE grant allocated to higher education institutions

- 8 The second method of analysis starts with the grant received by each institution as shown in the HESA FSR for 2006/07. This reflects the figures shown in the institutional financial statements. The HESA FSR excludes any funding top-sliced by funding councils before allocation to institutions, treats capital in terms of the release of deferred capital grants and excludes HE at further education colleges, unless delivered on a franchised basis, so does not sum to the total grant in aid used in the first set of comparisons. The coding manual for the record can be found at www.hesa.ac.uk. The analysis is based on HE students and funding only - FE funding and students at HEIs are excluded from the calculations (except for Scotland where funding relating to FE provision is not reported separately for HEIs).
- 9 HESA student data for 2006/07 are used for the calculation of home and EU fundable FTEs. Students are returned as fundable on the HESA Student Record according to funding council definitions. The FTE of the student includes all activity during the year but not all activities may be fundable. For example, repeat modules are not fundable in Wales but are included within

the FTE of an otherwise fundable student. More significantly, students who drop-out part way through the year are included within the HESA FTE for the part of the year for which they were studying. In England, anyone who drops out is excluded from the numbers which count for the purposes of calculating funding; in Wales, those who partially complete (e.g. one semester only) are counted for funding purposes though those who do not complete all required assessment activities are excluded. Counting the HESA fundable FTEs provides a common basis for comparisons but it does not reflect exactly the definitions adopted in England or Wales.

- 10 The HESA-based analysis compares Wales, England and Scotland at a sector level. Several different statistics are calculated to enable comparisons of teaching grant, all grant plus fees and all income as well as the total grant.
- 11 The main differences between the analysis based on GIA and that based on HESA data are: the GIA includes all funding (except running costs) while the grant reported by institutions in the HESA FSR includes only that which is allocated directly for HE in HEIs; the amounts shown in the HESA analysis exclude HE in FE colleges and all top-sliced funding; capital is shown as the release of deferred capital grant rather than the full amount allocated. It should be noted that although the Open University is funded by each of the three countries included in the analysis, funding received by the Open University cannot be disaggregated and assigned to each country separately.

Accuracy of the Data

- 12 While the funding data are consistent with the audited accounts, there are minor issues surrounding the conversion of the grant in aid from financial to academic years and some rounding of the HESA figures. However, it is thought that these factors are unlikely to have introduced significant uncertainty into the calculations.
- 13 More serious uncertainties surround the fundable student numbers and their conversion to full-time equivalents (FTEs):
 - For the GIA based calculations in Tables 1-6, the measure of activity is based on finalised figures for Wales and Scotland. However, some uncertainty is introduced by the need to convert Welsh credit values to FTEs, and to exclude the FTEs of dropouts in Table 6. The English figures are based on the Higher Education Student Early Statistics (HESES) return. This involves making predictions. However, HEFCE statisticians have indicated that the figures at a sector level provide good estimates.
 - For the analysis based on allocations to HEIs, HESA data are used. These are recorded at the year end on an individual student basis using common definitions. However, it must be anticipated that the figures include errors particularly for the Welsh student FTEs as, unlike HEFCE, which uses FTEs for funding purposes, HEFCW has not placed particular emphasis on improving the accuracy of these figures. There

may be quite large errors for individual institutions but the impact is less when the whole sector is under consideration.

- 14 It is worth noting that the FTEs used are the FTEs of home and EU higher education students, generally including postgraduate research students, which are fundable for mainstream activities. The funding council concerned may not count part or all of the activity of these students as fundable. For example, if the student drops-out during the year without completing all assessment processes, he/she would be shown as fundable in the HESA data but would be excluded from the English funding calculations; he/she may only be fundable for part of the year in the Welsh funding model if a semester had been completed. The volume as measured by these FTEs does not correspond exactly with the definitions used by either funding council but provides a common basis for calculating the funding per fundable FTE.

Methods of calculation for individual tables

- 15 The methods used for each table are summarised below.

Table 1: GIA is adjusted as set out in paragraph 1 above and transformed to an academic year basis by taking two thirds of the financial year plus one third of the following financial year amounts. GIA per fundable FTE is calculated by dividing the adjusted GIA by the fundable FTE for each country for each academic year.

Table 2: the Funding Gap is calculated as the difference between the Welsh GIA per fundable FTE and that for England or Scotland (as in Table 1) multiplied by the fundable students at Welsh HEIs.

Table 3: GIA per fundable FTE calculated on a financial year basis. The TDA funding and all the FTEs are weighted using one third of the previous academic year's figures to two thirds of the relevant year's figures to give estimates of financial year figures. The funding gap is calculated as the difference between Welsh and English GIA per weighted fundable FTE multiplied by the weighted Welsh fundable FTEs.

Table 4: the GIA per fundable FTE and the funding gap are calculated separately for revenue and capital using the same methods as for Tables 1 and 2.

Table 5: GIA per head of population is calculated by dividing the GIA by the mid year population estimate; the funding gap is the difference between the Welsh and English or Scottish GIA per head multiplied by the mid year population of Wales.

Table 6: GIA per funded FTE is calculated as GIA divided by the number of FTEs which are regarded as funded. The funding gap is difference between the GIA per funded FTE in Wales and England multiplied by the number of funded FTEs in Wales.

Table 7: Four sector-wide comparisons including all institutions are calculated using HESA data:

- i) HE grant per fundable HE FTE (ie excluding FE)
- ii) HE teaching grant per fundable taught HE FTE (ie excluding FE and PGR)
- iii) All grant and fee income per FTE (no exclusions)
- iv) Total income of institutions from all sources (public and private) per FTE (no exclusions)

FE FTEs at HEIs are also included within the Scottish denominators
For these comparisons, the supplementary income stream allocations are excluded from the grant figures and included in the fee income and total income figures.