

The Funding Gap

2005/06



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Introduction

1. This report is the third 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. Several different calculations were presented in the two earlier reports. 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. The GIA figures (which show grant passing through the funding councils) have been compared with figures based on the amount of funding passing through (actually received by) institutions. In previous reports, further analysis, including detailed analysis for groups of institutions, has been undertaken to examine specific issues.
4. Those more detailed and specific institutional analyses did not, in the end, add much to the sector level picture. In this latest report, therefore, we confine ourselves to sector level analysis only. However, two additional analyses, at sector level, are included this year:
 - a breakdown into revenue and capital funding; and
 - estimates of the funding gap on a financial year basis (all earlier work being on an academic year basis only), which allows us to provide figures for FY 2006-07 for Wales and England only.
5. The time series for the funding gap has been reworked to include a more accurate adjustment of Access and Hardship funds in England (see Annex A paragraph 2). This leads to a reduction in each year's funding gap of between £440,000 and £756,000.

Summary of Findings

6. The main findings from the analysis undertaken (see paragraph 9 and Annex A for information on methodology) are:
 - In AY 2005/06, there was little change in the grant in aid per fundable FTE in Wales (Table 1)
 - The funding gap with England increased to £70 million for AY 2005/06 (Table 2)
 - The financial year funding gap for FY 2006-07 is estimated to be £67 million – an increase of 3.6 per cent on FY 2005-06 (Table 3)
 - Over half (52 per cent) the funding gap with England related to capital (Table 4)

- There is little difference (70p) in the grant in aid per head of population in Wales and England (Table 5)
- The funding gap for AY 2005/06 was £65 million based on grant in aid per funded FTE (Table 6)
- As in earlier years, the HE sector in Wales had lower income, on the four measures monitored, than England and Scotland in AY 2005/06 (Table 7)
- The grant received by institutions in Wales per fundable FTE implies a funding gap of £69 million in AY 2005/06 (Table 8)

Methodological Issues

7. The report uses the same two methods as were adopted for the previous reports. These are a top down approach based on the total GIA allocated to the funding councils in the year in question; and a bottom up approach based on the funding received by the higher education institutions. 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 bottom up approach aggregates data from institutions' Higher Education Statistics Agency (HESA) returns.
8. The methods and sources are broadly as in previous years 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 of each table.
9. 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 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
 - 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 fundable students above the available number of 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. For Wales and England, 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 (bottom up) calculation of the funding gap 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 for all provision, both HE and FE. FE FTEs of students enrolled at Scottish HE institutions are included in the Scottish denominators.

- Exclusions from Higher Education Statistics Agency (HESA) Data
The HESA Finance Record 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 grant-in-aid.
- Capital
Some analysis has been carried with capital excluded or shown separately. Whereas in previous years, deferred capital grant was included in the HESA based estimates, this year the funding gap based on HESA data has been calculated for revenue funding only. The funding gap due to capital is added to provide the full estimate of the funding gap.

Findings

10. Wales continues to fall behind the other countries in Britain in terms of the amount of government funding per student. Between the academic years 2004/05 and 2005/06, there was negligible growth in the grant in aid per full-time equivalent student in Wales with the funding rising to £5158. This level is well below that for England at £6045 or Scotland at £7078. Both these countries had considerably greater growth at 6.6 per cent and 11.1 per cent respectively over the year to 2005/06. Since 2000/01, the growth per student FTE has been only 20 per cent in Wales compared with approaching 40 per cent in England and Scotland. Wales and England were funded at comparable levels until 2001/02 but Scotland has been better funded consistently over the six 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 2005/06

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

11. Since 2002/03, the funding gaps for Wales with both England and Scotland have increased steadily. The gap with England had tended to increase by about 55 per cent each year but the funding gap in the year to 2005/06 rose by 73 per cent - rising to nearly £70 million. 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. (Table 2)

Table 2: Funding Gaps with England and Scotland: AY 2000/01 to 2005/06

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

Based on

End of Year FTEs Wales and Scotland; HESES England (col 1+2 for HEFCW and HEFCE ie drop out not excluded)

Funding Council Accounts with Adjustments for Access and Hardship (excluded for HEFCE)
and OST SRIF (added for HEFCW)

12. Analysis on a financial year basis suggests that there may be some stabilisation of the funding gap with England at around £65 to £67 million per year. The 2006-07 estimate is nearly £67 million. It does not show any erosion of the funding gap. In financial year terms, the gap has continued to grow, albeit more slowly. (Table 3)

Table 3: Grant in Aid and Funding Gap: FY 2001-02 to 2006-07

	2001-02 £	2002-03 £	2003-04	2004-05 £	2005-06 £	2006-07 £
Wales: Grant per FTE	4,601	4,671	4,832	5,101	5,130	5,352
England: Grant per FTE	4,497	4,783	5,180	5,523	5,960	6,201
Funding Gap	-7,389,066	8,207,410	25,711,636	31,634,391	64,224,864	66,563,598

2006-07 estimate for Wales is provisional

13. For the first time, the analysis considers separately the funding gaps due to capital and revenue grant in aid separately. The gap with England can be attributed almost equally between revenue and capital with a slightly higher weight (at £36 million) on capital. The gap with Scotland is largely due to revenue. (Table 4)

Table 4: Grant in Aid Separately for Revenue and Capital AY 2005/06

		Grant in Aid £000s	Fundable FTEs	Grant per FTE £	Funding Gap for Wales £
Wales	Revenue	377,736	78,498	4,812	
	Capital	27,150		346	
England	Revenue	5,969,912	1,140,330	5,235	33,220,434
	Capital	923,121		810	36,395,794
Scotland	Revenue	876,682	137,183	6,391	123,913,169
	Capital	94,331		688	26,827,657

14. 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 our previous two years of analyses, the grant in aid per head of population was compared and showed a slightly higher level of funding on this basis in Wales. However, 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. (Table 5)

Table 5: Grant in Aid per Head of Population: AY 2005/06

	Grant in Aid £000s	Mid Year Population	Grant per Head £	Funding Gap for Wales £
Wales	404,886	2,965,900	136.5	
England	6,893,033	50,762,900	135.8	-2,150,328
Scotland	971,013	5,116,900	189.8	157,940,465

15. 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. While this is true, the effect is small, with the funding gap being reduced to £65 million when the comparison is made with funded numbers in Wales and England using the numbers which meet each council's own criteria for funding (see Annex A paragraph 6 for details). (Table 6)

Table 6: Grant in Aid per Funded FTE: AY 2005/06

	Grant in Aid £000s	Funded FTEs	Grant per funded FTE £	Funding Gap for Wales £
Wales	404,886	70,243	5,764	
England	6,893,033	1,031,284	6,684	64,613,184

Based on col 4 of HESES
Excludes PGR students

16. The levels of income on four measures (HE grant, teaching grant, all grant+fees and all income) have been monitored in this and our preceding two reports, using HESA data. Wales has been consistently below the other countries on all measures and, except for teaching grant, has shown lower levels of growth between 2004/05 and 2005/06. (Table 7)

Table 7: Grant and Income per FTE by Country: AY 2005/06 and 2004/05

		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	2005/06	£5,060	£3,624	£6,419	£10,149
	2004/05	£4,813	£3,470	£6,250	£9,782
	% increase	5.13%	4.44%	2.70%	3.75%
England	2005/06	£5,411	£3,755	£7,077	£11,335
	2004/05	£5,091	£3,675	£6,682	£10,643
	% increase	6.29%	2.18%	5.91%	6.50%
Scotland	2005/06	£6,578	£4,646	£8,014	£12,829
	2004/05	£6,218	£4,487	£7,558	£12,120
	% increase	5.79%	3.54%	6.03%	5.85%

Based on

HESA Student and Finance Records

OU included within English figures

FE FTEs in Scottish denominators and in denominators for Grant and Fees and All Income figures for all countries

17. The bottom up analysis using HESA data presents some difficulties because of the funding it excludes (see paragraph 9 above) and the inclusion of the Open University as a single institution. It has generally produced estimates of the gap slightly below those based on grant in aid. The HESA based analysis has, however, been useful in that it provides an alternative approach which can be used to validate the figures based on grant in aid.
18. Before our first report was produced in Autumn 2005, it had been thought that structural differences between the sectors in Wales and England, in particular the presence in England of some very research intensive institutions, would lead to a much smaller funding gap if they were excluded from the figures for England. What we have found in practice, however, is that to a large extent the structure of the sector in Wales, with a higher proportion of FTEs in Wales than in England studying at moderately research intensive institutions, appears to offset this effect, leading to funding gaps which are not greatly below those based on analysis of the whole sector in both Wales and England. In previous years, comparisons using more detailed institutional groupings have shown a range of values for the funding gap with the largest differences being around £9 million below those based on sector wide comparisons. This suggests that the funding gap might be as low as £60 million if the structural differences were to be reflected fully in the estimates.
19. As said in paragraph 4 above, extensive bottom up analysis, using HESA institutional data for subgroups of institutions, adds little to our understanding of the funding gap at the sector level. Therefore, only one HESA-based analysis to estimate the funding gap, aggregating the institutional returns to produce country totals for England, Scotland and Wales, is presented this year. The Open University is excluded from this analysis because the data cannot be

disaggregated. The outcome is slightly below the GIA estimate, at £69 million for the gap with England and £140 million for Scotland. (Table 8)

Table 8: HE Grant per Fundable FTE and Funding Gaps: AY 2005/06

	HE Grant excluding Capital per Fundable HE FTE £	HE Fundable FTEs at HEIs	Funding Gap with Wales excluding Capital £	Funding Gap for Wales with Capital £
Wales	4,896	73,585		
England	5,339	1,048,473	32,544,797	68,940,591
Scotland	6,437	129,971	113,372,983	140,200,670

Based on
HESA Student and Finance Records
OU excluded

Conclusions

20. We conclude that:

- The funding gap with England has grown further in AY 2005/06.
- The estimates suggest a value in the range £60-£70 million and around £140-£150 million with Scotland for 2005/06, but with the important caveat previously noted about Scotland.
- There is some evidence to suggest a slow down in 2006-07 in the rate of growth of the funding gap with England, with a gap of £67 million for the 2006-07 financial year.
- Even to maintain the funding gap at this level will require increases in the GIA in line with English increases, or a slower rate of increase in the numbers of students at institutions in Wales than in England.

METHODS OF ANALYSIS AND SOURCES OF DATA

Analysis based on GIA

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 six years from 2000/01 to 2005/06. 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 Council's 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 Hardship and Access funds and the way initial teacher training is funded. The grant to English HEIs directly from the TDA is added (for QTS only).
2. In previous years, the element of Access and Hardship funding related to PGCE was not excluded because it was shown as Other Grant Income rather than Access Funds in the HEFCE accounts. The 2007 accounts show this funding under Access Funding and the PGCE amount has now been excluded for all years. This leads to slightly lower estimates of the funding gap for each year in Tables 1-6.
3. The Supplementary Income Stream (SIS) for 2006-07 is excluded from the Welsh GIA because it is a one-off compensation for 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 introduced this year, 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 drop-outs 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 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 dropout 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 2005/06 (based on 2004/05 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.

Analysis Based on HE Grant Allocated to Higher Education Institutions

7. The second main method of analysis starts with the grant received by each institution as shown in the HESA Finance Record for 2005/06. This reflects the figures shown in the institutional financial statements. The HESA Finance Record 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 grant-in-aid used in the first set of comparisons. HESA's instructions for the classification of grant are given 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 is not reported separately for HEIs).
8. HESA student data for 2005/06 are used for the calculation of home and EU fundable FTEs. The HESA record assigns a student as fundable 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 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.
9. 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
10. A similar method to that adopted for GIA is used to calculate the funding gap. The differences between the grant per fundable HE FTE for Wales and England (or Scotland) for 2005/06 based on HESA data are calculated. These figures provide the basis for the estimation of the funding gap between the countries. The method involves taking the value for Wales from the value

for England (or Scotland) and multiplying the outcome by the number of fundable FTEs in Wales.

11. The main differences between the estimates based on Grant in Aid (GIA) and those based on HESA data are: the GIA includes all funding (except running costs) while the grant reported by institutions in the HESA Finance Record includes only that which is allocated directly for HE in higher education institutions; the amounts shown in HESA 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. The different treatment of capital has a large effect on the estimates. The second HESA based table (Table 8) excludes capital. It is necessary to add the estimate of the funding gap due to capital from Table 4 to provide a full estimate of the funding gap. The Open University is also excluded from this table because the 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; the Welsh figures can be assumed to be reasonably accurate because they have been audited. However, some uncertainty is introduced by the need to convert Welsh credit values to FTEs and to exclude the FTEs of dropouts. 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 comparisons 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, 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 the 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 non-fundable in the English funding data; he/she might be shown as fundable for part of the year in the Welsh funding data 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 is calculated on a financial year basis. The TDA figures 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

Table 8: HE grant per fundable FTE is calculated as in Table 7 but capital funding is excluded. The Open University (shown under England in Table 7) is also excluded. The funding gap is calculated as the difference between Wales and either England or Scotland in the HE recurrent grant excluding capital (from the HESA Finance Record) per fundable FTE multiplied by the number of fundable HE FTEs in Wales derived from HESA student records. The funding gaps due to capital from Table 4 are added to give a full estimate of the funding gaps with England and Scotland.