July 2009/25 Core funding/operations Consultation

Responses should be made online by Wednesday 14 October 2009 This consultation seeks comments on proposals to withdraw from 2010-11, possibly phased over a number of years, the following three targeted allocations from recurrent teaching funding: old and historic buildings, accelerated and intensive provision of postgraduate taught subjects in price band D, and foundation degrees.

Review of teaching funding

Consultation on targeted allocations



Review of teaching funding: Consultation on targeted allocations

То	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Other relevant stakeholders
Of interest to those responsible for	Senior management, Finance, Governance
Reference	2009/ 25
Publication date	July 2009
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Executive summary

Purpose

1. This consultation seeks comments on proposals to withdraw from 2010-11, possibly phased over a number of years, the following three targeted allocations from recurrent teaching funding:

- old and historic buildings
- accelerated and intensive provision of postgraduate taught subjects in price band D
- foundation degrees.

Key points

2. We propose to withdraw or phase out from 2010-11 three targeted allocations as part of a package of measures to achieve efficiency savings required of higher education by the Government. We seek comments on whether there are compelling counter-arguments to our proposals; and if not on how we should implement the proposals to enable institutions to manage the impact. A summary of consultation questions is at Annex A.

Action required

3. Responses to this consultation should be made by **Wednesday 14 October 2009**, using the online form available on the web with this document at <u>www.hefce.ac.uk</u> under Publications.

Introduction

4. Targeted allocations are streams of recurrent funding that are provided within the block grant, but outside the mainstream teaching grant and which therefore fall outside the tolerance band calculation. The three targeted allocations we are consulting on form part of a system of targeted allocations that was implemented from 2008-09. That system was developed following consultations on our teaching funding method held in 2005 (HEFCE 2005/41: 'Review of the teaching funding method: consultation on changes to the method') and 2007 (HEFCE 2007/02: 'Review of the teaching funding method: second consultation on changes to the method'). The system of targeted allocations replaced premiums which had previously applied, within the tolerance band, to certain elements of mainstream teaching funding. Targeted allocations, and their operation outside the tolerance band, were conceived as a means for HEFCE more effectively to promote, support and protect features of higher education (HE) which we and the sector consider important in terms of policy and strategy.

5. The funding provided by targeted allocations is additional: that is, some institutions receive extra funds above their mainstream teaching grant to contribute to the additional costs of certain aspects or features of their HE provision. When we introduced the targeted allocations we said we would review them periodically. This was to ensure that the targeted allocations reflected changes in policy and strategic priorities. A list of current targeted allocations is at Annex B.

Discussion and proposals for consultation

6. Apart from our commitment to periodically review all targeted allocations, the immediate context for the proposals in this document is set out in a letter of 6 May 2009¹ to HEFCE from the then Secretary of State for Innovation, Universities and Skills. That letter advised that we should assume a requirement on the higher education sector to make cashable efficiency savings of about £180 million in academic year 2010-11, spread across recurrent resources for teaching and recurrent resources for research that are outside the science and research ring-fenced budget. The exact requirements for savings will be confirmed in the annual grant letter to HEFCE, which we expect to receive by January 2010.

7. The Secretary of State's letter asked HEFCE to bear in mind, when considering how to achieve savings:

 the absolute priority of protecting and enhancing the quality of teaching and research, whilst sustaining progress in widening participation and the New University Challenge

¹ This can be read at <u>www.hefce.ac.uk</u> under News/HEFCE News archive/7 May 2009

- that 10,000 additional student numbers would be available for 2010-11 and that the additional funding in respect of these should be used to support innovative developments in higher education which reflect national economic priorities
- the impact of reduced inflation assumptions.

8. The HEFCE Board agreed in May 2009 to reduce the provisional allocations to institutions we had announced in March 2009 by £65 million in respect of core funding for teaching in 2009-10: this in-year reduction is being applied pro-rata to every element of recurrent teaching grant. Our planning assumes that this saving will be consolidated into our teaching funding allocations for 2010-11. When combined with reduced inflationary assumptions in that year, and a planned reduction of recurrent resources for research of £16 million (which was also agreed provisionally by the Board in May) we anticipate total savings for 2010-11 of £121 million. That leaves an estimated £59 million additional savings still to be achieved.

9. We know that delivering efficiency savings will be challenging for the sector. But we are also aware that we should not repeat the apparently simple and fair approach to making reductions that we adopted for 2009-10, which was taken in order to implement savings at short notice. Making pro-rata percentage reductions to funding is an indiscriminate instrument which has the potential to distort institutions' decision-making. Therefore, we are making focused proposals to withdraw some targeted allocations. We realise that, though these allocations are widely spread among the sector, their withdrawal will have differential effects on institutions. We believe that this disadvantage is outweighed by the relative weakness of the case for retaining them and the increasingly distorting effect that they have on the funding system as a whole.

10. As well as the imminent need to make additional savings of £59 million for the 2010-11 academic year – to which we expect teaching funding to make a substantial contribution – we want to take steps to prepare for possible further savings that higher education may be required to deliver in future years. Against this backdrop, we are looking critically at all areas in which we invest funding: this includes reviewing funding we provide to bodies that do not directly deliver teaching and research, as requested by the Secretary of State. In reviewing the scope to make savings from teaching funding we have paid particular attention to the targeted allocations, since they are explicitly intended to enable us to reflect changing policy and ensure that funding is focused on aspects of provision and features of HE that are of the highest priority.

11. We could make savings in other ways. For example we could implement in 2010-11 a deeper pro-rata reduction to all teaching allocations than that agreed for 2009-10. Or we could look more fundamentally at the basis for calculating the mainstream teaching grant, and assess the operation of the tolerance band in particular, to judge whether they provide scope for saving money. Although we remain open to suggestions (see paragraph 29) we are not inclined to do either of these at this stage, for three reasons:

a. As indicated in paragraph 9, we consider a pro-rata reduction across all teaching allocations to be a blunt instrument, which we should use only as a last resort; the Board agreed to do this for the 2009-10 in-year adjustment when timing prevented us from exploring and consulting on other options.

b. We need to achieve savings from 2010-11, which allows insufficient time for a thorough review and consultation on fundamental aspects of the teaching funding method. We intend to undertake a longer-term review of the mainstream teaching funding method after the planned publication this autumn of the Government's HE Framework and alongside the Government's fees and funding review. To feed into our own review, we will publish in the autumn data from a survey of unregulated fees that we conducted this year; and information about relative subject costs, based on a review of the most recent TRAC (T) data.

c. We should consider making changes from targeted allocations first. The targeted allocations, and the premiums that preceded them, were introduced during a period of sustained growth in public funding for teaching. However, the changing context demands that we consider whether compelling arguments remain for retaining all of the targeted allocations in a period of likely sustained constraints on public funding for HE.

Consultation question 1

Do you agree that we should review targeted allocations to reflect both changing policy and strategic priorities?

12. In reviewing all targeted allocations, we have identified three where the rationale now is less compelling than when they were introduced. And in the context of the Secretary of State's request to make efficiency savings, we also believe these allocations are now less of a priority for investment than other allocations. We are therefore proposing withdrawal, possibly phased over a number of years, of the targeted allocations for: old and historic buildings; accelerated and intensive provision related to postgraduate taught (PGT) students in price band D; and foundation degrees.

13. Of the other targeted allocations, we consider that none offers such compelling reasons for withdrawal or phasing out at this stage. Some have only recently been introduced following consultation; for example, the allocation for teaching enhancement and student success was the subject of sector consultation last year and has been subject to recent reductions in funding. Others have recently been reviewed: the widening participation methodology was subject to consultation last summer; and adjustments to and withdrawal of some institution-specific allocations were made for 2009-10 following a thorough review by an external review group². Some targeted allocations provide additional support to areas of

² Review of exceptional funding for institutions – see www.hefce.ac.uk under Learning & teaching/Funding/Developing policy/REFI

continuing government priority and strategic priority for the higher education sector, for example, the allocations for widening participation and very high cost vulnerable science. Others (for example, contributions towards clinical consultants' pay, senior academic GPs pay and NHS pensions) are allocations following transfers of sums to HEFCE by Government to explicitly recognise employers' additional costs. Although the proposals we are making in this consultation are confined to three particular targeted allocations, we intend to keep all of them under review.

14. Annex C details the funding that each institution receives from each of the three targeted allocations listed in paragraph 12: these sums are additional to their formula-based, mainstream recurrent grant for teaching. We propose that, unless there are compelling reasons for not doing so, each of these allocations is withdrawn, possibly over a number of years, in order to contribute to savings of £59 million a year from 2010-11 and to ensure we act strategically.

15. Withdrawing the three targeted allocations, as proposed, would have differential effects on institutions, depending on how much of their funding is derived from these allocations; we are aware that institutions' responses to the proposals might reflect such impacts. We have not provided modelling of possible effects, because we are not making firm proposals to withdraw allocations in one year or phase them out by specific amounts over given time periods. Rather, we seek views on how we should implement the proposals if we decide to proceed. In responding to these proposals, institutions should bear in mind that whether or not we phased the withdrawals, we would in any case apply moderation funding, as we usually do, to mitigate hard-to-manage reductions in any institution's recurrent grant in one year.

16. Paragraphs 17-24 discuss each targeted allocation. For each, investment in that area is less compelling now than when the targeted allocation was established, especially in view of current budgetary constraints. Respondents to this consultation who have a different view are invited to put forward compelling arguments to maintain investment in these targeted allocations. Clearly, if we maintained investment in these areas, we would need to make savings from other parts of the recurrent grant for teaching. We therefore also welcome views from respondents on other areas of teaching funding that could contribute to the £59 million efficiency savings that we need to make next year.

Old and historic buildings

17. This allocation, introduced originally as a premium in 1997-98, was intended to recognise high running and maintenance costs of historic buildings. It became a targeted allocation in 2008-09. While the Universities of Oxford and Cambridge have the largest allocations, a number of other institutions receive over £1 million through this allocation. In 2009-10 we will distribute approximately £40 million as a targeted allocation for old and historic buildings.

18. When we consulted in 2007 on reviewing the funding method for teaching (HEFCE 2007/02), we noted in the context of our proposal to introduce targeted allocations that HEFCE is not the only source of income for higher education; and that in a time of pressure on public finances it was open to question how high a priority should be given to targeted support for old and historic buildings within the teaching funding method. We indicated that further changes to the funding for HE, such as increases in private contributions, might further affect the priority for recognising high cost historic buildings through a targeted allocation. Our decision in 2007 was to transfer the premium into the system of targeted allocations for the short term, undertaking to keep it under review.

19. Having reviewed this allocation in recent months, we propose that it should be withdrawn or phased out, for three reasons:

- We make significant capital investments to all institutions to support them in maintaining their estates. By 2010-11, we will have invested £2,813 million since 1998 on capital for learning and teaching, of which £284 million was invested in 'poor estates'.
- b. Neither the eligibility criteria, nor the data informing allocations have been reviewed since 1998; other, more modern buildings may also have high running and maintenance costs. Institutions might counter therefore that we should review the eligibility criteria rather than withdraw the allocation. We are not persuaded that reviewing the criteria for this allocation and thereby, possibly extending eligibility for it is viable in view of the need to make savings.
- c. We have applied this allocation for buildings through the teaching grant while recognising that buildings are used for other purposes, including research. Now that the teaching budget is under particular pressure and the research budget has been relatively protected, it is no longer reasonable to provide this funding through the teaching grant at the expense of other priorities.

Consultation question 2

What compelling arguments are there to maintain the targeted allocation for old and historic buildings?

Consultation question 3

If we were to withdraw the targeted allocation for old and historic buildings, what mitigating actions might we take to help institutions manage the impact?

Accelerated and intensive provision for postgraduate taught provision in price band D

20. This allocation, originally the long-course premium, aimed to recognise the additional costs of students on accelerated or intensive courses that last for 45 weeks or more within

one academic year. It is predominantly attributable to postgraduate taught masters programmes: this is where most of the funding goes. In 2009-10 we will distribute approximately £69 million as a targeted allocation for accelerated and intensive provision.

21. Price group A students do not attract this funding. The relatively higher weighting for price group A in the mainstream method already recognises the costs associated with long clinical courses. However, nearly £24 million is being provided for PGT students in price group D, which include, for example, business and law, where we know fee income is relatively high. We provide no funding for PGT students in this price group in the mainstream teaching funding. It is therefore inconsistent to fund this provision through this targeted allocation. We propose that the allocation for PGT provision in price band D should be withdrawn, possibly over a number of years. However, we consider that the targeted allocation for accelerated and intensive provision at postgraduate level in subjects in price bands B and C, (which include STEM subjects) and for intensive provision at undergraduate level should remain a strategic priority.

Consultation question 4

What compelling arguments are there to maintain the targeted allocation for accelerated and intensive provision related to postgraduate taught students in price band D subjects?

Consultation question 5

If we were to withdraw the targeted allocation for accelerated and intensive postgraduate taught provision in price band D, what mitigating actions might we take to help institutions manage the impact?

Foundation degrees

22. The foundation degrees targeted allocation was originally introduced as a premium to recognise the additional costs associated with partnership arrangements with employers, and because these new qualifications were an area of high government priority where we would be allocating significant additional student numbers. The premium became a targeted allocation from 2008-09. In 2009-10 we will distribute £24 million via this targeted allocation.

23. The allocation has resulted in some anomalies. For example, it means that we provide a higher rate of funding for foundation degrees for classroom assistants than we do for those wishing to qualify as teachers (PGCE/CertEd/DTLLS qualifications).

24. Aside from anomalies, we see persuasive arguments for reviewing this targeted allocation now. We are already close to meeting the 2010-11 government target of 100,000 foundation degree students (there were some 88,000 in 2008-09). We have also provided a strong incentive for the further expansion of foundation degrees through the exemption they have from the equivalent or lower qualifications (ELQ) policy. Furthermore, to the extent that

they widen participation, foundation degrees secure additional funding for widening access and improving retention. Finally, we know that partnerships with employers are not restricted to foundation degrees; and through our employer engagement strategy we are taking steps to encourage closer links and partnerships between HE and employers. Against this background, we argue that foundation degrees do not warrant the same level of support that they once did.

Consultation question 6

What compelling arguments are there to maintain the targeted allocation for foundation degrees?

Consultation question 7

If we were to withdraw the targeted allocation for foundation degrees, what mitigating actions might we take to help institutions manage the impact?

Withdrawing or phasing out the targeted allocations

25. In total the elements of funding on which we are consulting account for approximately £88 million in 2009-10. If we assume that these allocations are used to secure most or all of the £59 million efficiency savings still required for 2010-11, we would need to significantly reduce investment in all of them.

26. To summarise the points raised in the preceding paragraphs: it is not obvious for us to support old and historic buildings through the teaching grant, especially in view of our wider approach to capital and estates investment; it is inconsistent to provide a targeted allocation for PGT price band D provision that is not funded in the mainstream method; and the allocation for foundation degrees has brought us close to target, such that we consider foundation degrees no longer warrant additional support. Additionally, foundation degrees are currently exempt from the ELQ policy; and insofar as they widen participation, they secure allocations for widening access and improving retention. These arguments point to a withdrawal – possibly phased over a number of years – of the three targeted allocations.

27. We consider that the withdrawal of these targeted allocations in 2010-11 would enable us to secure all of the £59 million of efficiency savings required in that year. If we phased the withdrawal over a number of years, it is likely that savings would need to be made from elsewhere in the teaching grant.

28. Though these specific proposals have been influenced by the imminent need to make savings, the review of targeted allocations we undertook has been instructive. In reviewing the rationale for each one, we have identified those where the arguments to support continued investment, or investment at the current levels, are not as strong as they were and not as strong as arguments to support other elements of our teaching funding.

29. There may be other arguments that we have not considered, or effects that we have not anticipated. We have focused first and foremost on a strategic approach to reducing funding, identifying streams of funding that were established to support specific priorities. As noted in paragraph 11, there may be other ways we could make savings, or areas we could reduce, even if those means did not take the strategic approach we have proposed in this consultation. (For example, a simple flat rate percentage cut across all institutions could be used to reduce funding.) We therefore welcome views on other areas of recurrent teaching funding or other mechanisms we could use to secure the efficiency savings required by the Secretary of State.

Consultation question 8

Apart from the proposals in this paper, what other approach could we take in the short term to reducing recurrent funding for teaching to secure the efficiency savings requested by the Secretary of State for 2010-11?

Responses to the consultation

30. Responses to the consultation should be made by Wednesday 14 October 2009, using the online form on the HEFCE web-site with this document at <u>www.hefce.ac.uk</u> under Publications.

31. We will publish an analysis of responses to the consultation. We expect to do this early in 2010. Additionally, all responses may be disclosed on request, under the terms of the Freedom of Information Act. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. This includes information provided in response to a consultation. We have a responsibility to decide whether any responses, including information about your identity, should be made public or treated as confidential. We can refuse to disclose information only in exceptional circumstances. This means responses to this consultation are unlikely to be treated as confidential except in very particular circumstances. Further information about the Act is available at www.informationcommissioner.gov.uk.

Next steps

32. The consultation responses and outcomes arising from them will be considered by the Board at its meeting in November 2009. Any proposed changes to teaching funding for 2010-11 that are agreed at that meeting will be announced shortly afterwards. However, final decisions on recurrent funding for 2010-11 will not be made until the Board has considered the grant letter from the Secretary of State for Business, Innovation and Skills, which is due in January 2010.

Annex A

Summary of consultation questions

Responses to the consultation should be made using the online form on the HEFCE web-site with this document at <u>www.hefce.ac.uk</u> under Publications (see paragraph 30).

Question 1

Do you agree that we should review targeted allocations to reflect both changing policy and strategic priorities?

Yes/No

Comments

Question 2

What compelling arguments are there to maintain the targeted allocation for old and historic buildings?

Question 3

If we were to withdraw the targeted allocation for old and historic buildings, what mitigating actions might we take to help institutions manage the impact?

Question 4

What compelling arguments are there to maintain the targeted allocation for accelerated and intensive provision related to postgraduate taught students in price band D subjects?

Question 5

If we were to withdraw the targeted allocation for accelerated and intensive postgraduate taught provision in price band D, what mitigating actions might we take to help institutions manage the impact?

Question 6

What compelling arguments are there to maintain the targeted allocation for foundation degrees?

Question 7

If we were to withdraw the targeted allocation for foundation degrees, what mitigating actions might we take to help institutions manage the impact?

Question 8

Apart from the proposals in this paper, what other approach could we take in the short term to reducing recurrent funding for teaching to secure the efficiency savings requested by the Secretary of State for 2010-11?

Annex B

Sector summary of targeted allocations for 2009-10: name of each allocation and sum allocated

Annex C

Breakdown by institution of sums allocated in 2009-10 for each targeted allocation discussed in this consultation

These annexes may be downloaded from the HEFCE web-site under Publications with this report.

Annex D Glossary and abbreviations

ELQ

Equivalent or lower qualifications

Foundation degrees

Two-year higher education qualifications. They offer flexible and accessible ways of studying for degree-level skills that are in demand among employers.

ΗE

Higher education.

HEFCE

Higher Education Funding Council for England.

HEI

Higher education institution – a university or college of higher education.

Old and historic buildings

Non-residential buildings constructed before 1914, which have been owned by a higher education institution since at least 1 April 1998.

PGT

Postgraduate taught.

SIVS

Strategically important and vulnerable subjects.

Tolerance band

This is the range from +5 per cent to -5 per cent of the standard resource. Standard resource is a notional calculation of what an institution would get if teaching grant was calculated afresh each year. It is proportional to each institution's full-time equivalent students weighted both by price group and London weighting.

TRAC

Transparent Approach to Costing – a national framework for costing in higher education.

TRAC(T)

The Transparent Approach to Costing for teaching.