

Cylchlythyr | Circular

HEFCW review of teaching funding: Conclusions

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To: Heads of higher education institutions in Wales
Principals of directly-funded further education institutions
in Wales
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This circular provides the conclusions of our review of teaching funding and the outcomes of consultation circular [W22/39HE](#).

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Introduction

1. This circular provides the conclusions of our review of teaching funding and the outcomes of consultation circular [W22/39HE](#).
2. **Annex A** provides detail on the stage three consultation outcomes. **Annex B** provides a summary of proposals considered during all stages of the funding review and the resulting outcome or decision.

Background

3. Circular [W22/39HE](#) provided a consultation on the impact of proposed changes to our teaching funding methodology as stage three of our teaching funding review. This consultation followed a programme of analysis, data modelling and engagement with stakeholders in [stage one](#) and [stage two](#) of the funding review.
4. During stage one of the review, we set out to gather views on a set of principles which we would use in the design and development of our teaching funding methodology, including a new credit-based funding model for teaching. We consulted on those principles as well as seeking views on priorities for HEFCW's teaching funding more broadly. Stage two of the review consulted on a new credit-based model for teaching funding, which included a set of cost groups intended to replace the existing academic subject categories. We also consulted on changes to our incentivisation premia and amendments to the way we use data in our funding processes. The outcomes of stage one and stage two of the funding review informed stage three, which focused on the application of the new methodology in modelled scenarios based on 2022/23 teaching funding allocations. This modelling was shared with institutions on an individual basis, including an anonymised analysis of the impact on the sector as a whole.
5. Our intention was that institutions should have the opportunity to consider and provide feedback on the impact of our proposals, which had generally been supported up until that point, and to identify any ways in which the model could be amended. The implementation of the new credit-based model could potentially allow HEFCW's funding to be allocated using more up to date evidence and new cost groups, in order to continue to support the sector as a contribution to teaching delivery costs. Institutions had also indicated, in the stage two consultation responses, that they would not fully support our proposals without seeing the impact on their individual funding allocations.

Stage three consultation outcomes

6. We received ten responses to the consultation, which closed in December 2022. All of the responses received were from HEFCW-funded institutions. A summary of the response detail and a list of respondents can be found at **Annex A**.
7. A number of responses thanked us for our work to develop the models included in the consultation.

8. Some responses welcomed the new model or provided useful suggestions for amendments to the different variations of the model. However, other responses urged caution against HEFCW implementing the model given that if it was run as proposed, without additional funding being available, it resulted in a significant shift of funding from undergraduate full-time to undergraduate part-time provision which would have a differential and potentially significant impact on the sustainability of some provision in the sector.
9. Several responses suggested that HEFCW should delay implementation of the proposals and raise it as an issue for consideration by the new Commission for Tertiary Education and Research (CTER).
10. Some responses also suggested that HEFCW should consider implementing the new cost groups in the existing funding model to replace the existing academic subject categories, as a way to move to a more up to date model without causing disruption to the whole HE system before the transition to CTER.

Consultation questions and conclusions

Question 1: Do you have any comments on the extraction of EYM data used in the models, for example, relating to the method of estimating non-completed credits for modules where the outcome is not yet known?

Six institutions provided responses to this question. Of the six responses, the majority (four) were in favour of the method used to extract data used in the models. A further response supported the logic of the methodology but noted some challenges regarding non-completion data. The remaining response did not support the proposal.

Conclusion: We will finalise the method of data extraction in the credit-based model as outlined in the consultation, however, we have taken the decision not to implement the credit-based model at this time.

Question 2: Do you have any comments on the credit-based models that include potential adjustments to the proposed credit based model as an interim measure, and the effect these have on the allocations?

Responses to this question provided useful information on the potential impact on institutions of the five proposed funding models (using the mapped data and scenario modelling shared with institutions at the beginning of the consultation period). Whilst some responses supported the models in principle, several responses suggested that the implementation of any of the models could result in a negative impact on the sector and the potential financial de-stabilisation of provision at individual institutions, at a time when institutions were already facing unprecedented financial challenges. One response suggested that none of the models offered an acceptable compromise for addressing the historic and sustained perceived under-funding of part-time provision.

Conclusion: Having taken account of the consultation responses and feedback received from institutions during our engagement events, we have taken the decision not to implement the new credit-based model at this time.

Question 3: Are there other adjustments that could be made to the proposed credit-based model that you think we should consider in making our decision about implementing the model?

Responses to this question provided suggestions for amendments to the model which we should consider before making a decision on implementation. We have considered these suggestions at length. However, none of these suggestions would mitigate the challenges posed by the available budget when considering whether or not to implement the new credit-based model. We considered whether it would be possible to introduce the new cost groups in our existing funding methodology; however, we are unable to do this at this stage because it would be unaffordable across all modes and could potentially lead to inconsistencies and less transparency in the funding allocations.

Conclusion: We will provide these suggestions to CTER along with the consultation outcomes and the credit-based model.

Question 4: Are there any unintended consequences arising from our proposal to implement the model to our current timetable?

We received seven detailed responses to this question, with some references to issues raised in response to question two and with responses largely focused on the impact of implementation of the changes rather than the timetable. The remaining three responses did not identify any unintended consequences arising in relation to the timetable. One response suggested that given the current cost pressures in institutions, implementing a model that would materially undermine the financial stability of provision in the sector would be of concern. This was echoed by several other responses which suggested that HEFCW should not proceed with the changes given the existing financial challenges faced by the sector ahead of the transition to CTER.

Conclusion: We noted no significant issues relating to the timetable, however we have taken the decision not to implement the new credit-based model at this time.

Question 5: How will the new credit-based method support your institution to contribute to the delivery of Welsh Government's [Programme for government](#)?

We received nine detailed responses to this question. The remaining response indicated no impact. Of the nine detailed responses, five suggested that the expected reduction of income following implementation of the new methodology would not support institutions to contribute to the delivery of Welsh Government's Programme for government or other Welsh Government priority areas. Responses suggested that there were potential negative impacts in relation to research and innovation, as well as the delivery of Welsh medium provision. Two responses suggested that the new methodology could have a positive impact on the ability of

institutions to contribute to the Programme for government. The remaining two responses indicated the impact would largely be neutral.

Conclusion: We will provide the responses to this question as evidence to CTER along with the consultation outcomes and the credit-based model. As above, we have considered the impact of the models on institutions and have taken the decision not to implement the new credit-based model at this time. We will continue to engage with and support institutions during the transition to CTER to ensure, where possible, that the sector is sufficiently able to contribute to Welsh Government priorities for higher education.

Question 6: Are there specific issues relating to funding for Welsh Medium provision, which you have not raised previously, that we should take account of when considering the outcomes of the review of the additional costs of Welsh Medium study and the implications for funding?

One response suggested that the proposed credit-based model could have a potentially significant adverse impact on areas with relatively buoyant Welsh medium provision so the impact of any additional funding made available through, for example, a Welsh Medium premium, would likely be negligible in this wider context. One response suggested that there may be a risk to the provision of Welsh medium delivery in areas that may become unfunded in the future, should the new methodology be implemented at the existing budget levels. The remaining responses did not identify any further issues relating to funding for Welsh Medium provision.

Conclusion: We have noted the issues raised in relation to the funding of Welsh Medium provision and will continue to work in partnership with the Coleg Cymraeg Cenedlaethol on this. The outcomes of the review of the additional costs of Welsh Medium study will be available imminently (see para 17 for further information).

Question 7: Will our proposals have any effect (either positive or adverse), on opportunities for persons to use the Welsh language and/or treating the Welsh language no less favourably than the English language. If so, how could the proposals be amended to ensure positive effects (or increased positive effects) on these areas?

Responses generally indicated a neutral effect (neither positive nor negative) on opportunities for persons to use the Welsh language and/or treating the Welsh language no less favourably than the English language. Responses also indicated that institutions would await the outcomes of the London Economics review of the additional costs of Welsh Medium study before commenting further.

Conclusion: No further action proposed. We expect institutions to continue to meet their responsibilities in relation to the Welsh Language.

Question 8: Do these proposals have any positive or negative impacts or unintended consequences in terms of equality and diversity and the Well-being of Future Generation (Wales) Act's seven wellbeing goals, Sustainable Development Principle and five ways of working?

One response suggested that a methodology which could leave institutions in a financially poorer position would have a negative impact on their ability to invest in innovative ways to respond to these areas. One response suggested that part-time HE was a crucial enabler of a wellbeing economy, aligned with the mission of the Well-being of Future Generations (Wales) Act 2015, which would allow people to stretch themselves and to reach their potential. A sustainable funding model would allow providers to plan and design provision in a more long-term, sustainable, and collaborative way. One response suggested that implementing the proposals (considering the additional burden this would provide during the transition, especially with the expected timescales in place) would be difficult and could add to already stretched workloads, and provide a negative impact on staff wellbeing. The remaining seven responses did not identify any impacts as a result of the proposals, though two of these responses indicated that a further impact assessment/modelling exercise at institutional level would need to be done once the final model had been selected.

Conclusion: We have noted the issues raised in relation to question 7 and question 8 and updated our impact assessment. We will keep our impact assessment under review to help safeguard against discrimination and promote equality. We will continue to engage with and support institutions during the transition to CTER to ensure that the sector is sufficiently able to take positive action in relation to equality and diversity, and the Well-being of Future Generation (Wales) Act's seven wellbeing goals, Sustainable Development Principle and five ways of working. We have recently committed to 'working in the spirit' of the socio-economic duty of the Equality Act 2010 and will continue to reflect on this commitment as it relates to our work on funding.

Conclusions

11. The scenario modelling provided to institutions as part of the stage three consultation, based on the total credit-based teaching funding available in 2022/23 without the assumption of additional funding in 2023/24, demonstrated some significant shifts in funding between providers and between undergraduate modes of study, which affected all providers. Feedback from institutions during our consultation process indicated that institutions would not support significant shifts in funding across the sector, for example from full-time undergraduate higher cost subjects to part-time undergraduate provision, in an already challenging financial environment. Contributory factors included cost of living pressures, rising inflation and rising staff costs. Feedback also indicated that some institutions did not consider that the full-time, undergraduate fee level of £9k provided sufficient income to fully support some areas of provision in the context of rising costs and these areas were therefore perceived to be under-funded. We understand that helpful discussions on these issues between the sector and Welsh Government are ongoing.
12. Our modelling and analysis work has demonstrated that, in order to implement the new credit-based funding model fully, we would need to be in receipt of additional funds from Welsh Government, or be required to accept substantial shifts in funding between providers and between undergraduate modes of study leading to potential destabilisation of some provision, which could go against other policy

intentions such as supporting expensive and higher costs subjects. Initial work to inform our review of teaching funding, prior to stage one of the funding review, was undertaken in the context of expected increases to HEFCW's budget, in line with recommendations from the [Diamond Review](#). In addition, HEFCW is due to be replaced by the Commission for Tertiary Education and Research by April 2024, and therefore there is limited time to manage a major change before a new body becomes responsible for the funding and regulation of post-16 provision in Wales.

13. Given these factors, at its January 2023 meeting, HEFCW's Council decided that we should not implement the new credit-based teaching funding method in 2023/24. This was based on the potential negative impact on some parts of the sector in an ongoing environment of challenge and pressures due to external factors, including but not limited to: cost of living challenges, Brexit, legacy issues from the Covid-19 pandemic, cross-border challenges, and under-performance in student recruitment in some areas.
14. We have considered ways in which we might implement elements of the new teaching funding methodology within the current budget levels. These are outlined in **Annex B** and will be reflected in the funding assumptions document due to be circulated to HEFCW funded institutions in spring 2023. However, our capacity to make changes is limited, as noted above, without causing unnecessary turbulence in the sector or potentially affecting institutional sustainability.
15. We will otherwise retain all existing teaching funding streams with no changes to allocation methods for the 2023/24 academic year. Confirmation of the 2023/24 funding allocations will be provided in summer 2023.
16. We welcome the ongoing engagement of institutions with our review process and are grateful for their thoughtful and informative responses to our consultations.

Review of additional costs for Welsh Medium study

17. In March 2022, we commissioned London Economics (LE Wales) to undertake a new review of the additional costs of Welsh Medium study. LE Wales was asked to undertake research on the cost of Welsh medium provision in Welsh higher education institutions and to determine whether there are additional costs associated with the delivery of Welsh medium higher education provision at HEFCW-funded institutions in Wales (or where this is provided on their behalf), and, if so, what these costs are and how they differ to those for English medium provision. LE Wales was asked to compare the costs to the findings of the 2005/06 study, to evaluate any differences in the cost of delivery and to reflect on reasons for the differences. LE Wales was asked to make evidence-based recommendations to HEFCW for possible approaches to the funding of Welsh medium HE provision in the future, including identifying, as appropriate, a suitable uplift amount for use in a Welsh medium premium.
18. The final report was submitted to HEFCW in November 2022 and considered by the Council at its March 2023 meeting. We worked closely with the Coleg Cymraeg Cenedlaethol on the scope and specification for the work, including

identifying priority areas for the institutional survey. We will continue to engage with the Coleg on the outcomes of the report.

19. We asked the HEFCW Council at its March 2023 meeting to consider recommendations for ways we can adapt the method of allocation for the Welsh Medium premium for 2023/24 to take account of the outcomes of the report. Please see circular [W23/08HE](#) for more information.

Access and retention premium

20. In the [stage two consultation](#) we sought views from institutions on amendments to the access and retention (A&R) premium, further to the changes made as part of stage one which were implemented for the 2022/23 academic year (see Annex B). The amendments consulted upon were two-fold: to expand the premium to include full-time undergraduate provision in addition to part-time undergraduate provision; and to increase the relative difference in funding rates between the two retention categories in the premium. In circular [W22/36HE](#) we confirmed that we would be undertaking further modelling and analysis before reaching a final conclusion in respect of these proposals. We have concluded our work and can confirm the following decisions.
21. In respect of expanding the A&R premium to include full-time, undergraduate provision, we have concluded that the existing budgetary levels would restrict our ability to fund the premium at a level that would have any impact at institutions. We have therefore decided to retain the existing A&R premium for undergraduate, part-time students only.
22. In respect of the retention categories used in the premium, we have concluded that to increase the relative differences between these categories could have unintended consequences for our work in relation to widening access. We have therefore decided not to proceed with increasing the relative difference between the categories and the premium will continue to operate as it did in 2022/23.
23. We also noted in the stage two consultation our intention to update the census data used in the premium from Census 2011 data to the Census 2021 data when this data became available. The data are now available and we can confirm our approach as follows.
24. We will be using Census 2021 data for Wales and England in the premium calculations for 2024/25. The Scotland and Northern Ireland census data will not be available in time for us to use Census 2021 data for 2024/25 funding and so that will be incorporated at a later date.
25. Although we have not yet confirmed the A&R premium funding for 2023/24, we are not intending to use Census 2021 data in its calculation. This is because we verified the data to be used in the calculation of the 2023/24 premium as part of the 2021/22 Information Reporting Interface Service (IRIS) outputs generated from providers' student record submissions to HESA. Those outputs were specified and output prior to the Census 2021 data being available. Therefore, the first use of the Census 2021 data will be as part of the 2022/23 HESA student record IRIS

outputs containing data to be used in the 2024/25 A&R premium that will be signed off by providers at the end of 2023.

Next steps

26. The funding review has highlighted a number of issues relating to HE delivery which we wish to explore in greater detail, in order that the outcomes may be used as evidence by CTER in the design of its funding and regulatory processes. We expect to commission a new review on this in the coming months, with the outcomes available by March 2024. One aspect of the work will be to look at current ways that higher education is being provided and delivered in order to inform our understanding of the differences in modes of delivery (e.g. between full-time, part-time, flexible and distance learning) the subsequent implications for funding as well as aspects of student choice in the HE sector.
27. The final proposed credit based funding method will be provided to CTER along with the outcomes of our consultations and review process.

Further information

28. For further information on the teaching funding review contact Nicola Hunt (029 2085 9735; nicola.hunt@hefcw.ac.uk).

Assessing the impact of our policies

29. HEFCW's Impact Assessment Policy and Procedures set out how we assess the likely impact – positive or negative – of proposed policies and practices with respect to meeting our responsibilities under:
 - The Equality Act 2010
 - The Welsh Language Standards 2018
 - The Well-being of Future Generations (Wales) Act 2015
30. We have impact assessed the proposed changes included in our funding review consultations. The consultation responses generally supported our proposals, and the over-arching principles. Areas for potential positive impacts related to: access and retention, taking account of low participation areas and areas of deprivation, funding for under-represented students in higher education (including those with disabilities and those studying through the medium of Welsh). Responses to the stage one consultation advised that Welsh Medium provision should remain a priority area for our funding. No new positive or negative impacts on the Welsh Language were raised in the responses to the stage two consultation. We are continuing to work with the Coleg Cymraeg Cenedlaethol to align our funding to maximum the opportunities for students to study through the medium of Welsh.
31. Ultimately, the potential negative impact of our proposals on institutional sustainability or the sustainability of some provision has been a major factor in our decision not to proceed with the proposed funding method at this time. The new

review of HE, as outlined above, will provide further evidence for CTER to consider in relation to designing and implementing a new funding method for taught provision.

32. We will keep our impact assessment under review to help safeguard against discrimination and promote equality. Contact equality@hefcw.ac.uk for more information about impact assessments.