

# Review of the teaching funding method: overview of outcomes of the first cycle of consultation

## Our proposals

1. We are reviewing our funding method for teaching through a 'two-cycle' approach. This approach is intended to ensure stability in funding in the short to medium term, while acknowledging the need for immediate change in some areas and the possibility of further change in the future. The proposals in the first cycle of consultation<sup>1</sup> arose from a consideration of the effectiveness of the current method, the challenges that higher education is facing both now and in the future, and the role that the funding method should play in delivering both HEFCE's and the sector's aims.

## Consultation responses and decisions

2. We received a large number of responses to the consultation. Analysis of these responses and full details of our decisions are available in HEFCE 2006/12.<sup>2</sup> This document gives an overview of decisions and next steps.

3. Many of the proposals received broad support from large elements of the sector. Institutions generally welcomed our proposals on replacing the system of premiums for recognising additional student-related and institutional costs with a system of allocations. There was also general support for the proposals related to funding for widening participation and part-time students, the structure of the price groups, and the development of a national framework for the costing of teaching.

4. The decisions we have made in these areas are therefore broadly in line with the proposals in our consultation document:

- a. To work with the sector to develop and implement a national framework for the costing of teaching based on the principles of the Transparent Approach to Costing (TRAC) methodology.
- b. To agree that our price group weightings should remain unchanged in the short term, and in future to make use of robust TRAC data to inform both the price group weightings and the allocation of subjects to price groups.
- c. To use the TRAC process to establish the full additional costs of widening participation, and to enable institutions and HEFCE to better understand the broad range of factors associated with such additional costs.
- d. To work with the sector to determine how a new system of allocations might operate from 2008-09, and to make only minimal changes to the focus of these allocations for three years beginning in 2007-08.

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<sup>1</sup> 'Review of the teaching funding method: consultation on changes to the method', HEFCE 2005/41, on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

<sup>2</sup> 'Review of the teaching funding method: outcomes of first cycle of consultation', HEFCE 2006/12, on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

- e. To reiterate the Board's commitment to keep the funding of part-time provision under review in light of the introduction of variable fees for full-time undergraduate study.
5. On some proposals views were mixed, and some respondents believed that changes should be implemented in a different way. Where this is the case, such as on using data from the Higher Education Statistics Agency (HESA) to inform funding, and funding on the basis of credit, we wish to explore further how we might adapt our proposals to reflect these concerns.
6. The following decisions have therefore been made:
  - a. To continue to investigate ways to reduce the accountability burden on institutions arising from data returns, but to proceed with caution and to consult further with the sector on any moves towards funding solely on the basis of data from HESA and from the Learning and Skills Council's Individualised Learner Record (ILR).
  - b. That the earliest end-of-year data that we might consider as the sole basis for funding will be the 2008-09 HESA and ILR returns.
  - c. To encourage all higher education institutions in England to complete module information on the 2007-08 HESA student record, to enable us to take this information into account in the future distribution of funding.
  - d. To note the sector's preference for funding on the basis of credit completed rather than credit awarded.
7. The consultation responses showed general agreement to the continued use of fee assumptions in calculating the grant, but were divided on the specific changes proposed. Arguments against the proposed increase in the fee assumption for full-time undergraduates varied. Some thought that we should keep fee assumptions as they are; others felt that we should increase them beyond the levels proposed; others questioned whether there should be any fee assumption at all.
8. We will make a final decision on fee assumptions (and subsequently replacing premiums with allocations) by December 2006. This will allow adequate time to inform funding allocations for 2007-08. It will also allow time for further discussion with the sector to gain a better understanding of the diverse concerns expressed, so that we can look to address them wherever possible. Whatever decision we make in December, we remain committed to providing a period of funding stability.
9. We will also be able to explore further what alternative methods of funding are available, and what the impact of these new methods would be, if it was decided not to proceed as we had proposed with the full-time undergraduate fee assumption. This includes considering how we could go about introducing allocations without a higher fee assumption.

### **Taking the review forward**

10. As planned, we will return to the sector with a further consultation subsequent to decisions on fee assumptions at the end of this year. This second consultation will cover the proposed new funding method in more detail and in particular will focus on the following major aspects:

a. **Developing a consistent national framework for the costing of teaching based on TRAC principles.** We will work closely with the sector and its representative bodies to take forward this framework, to ensure that the most benefit is secured for both institutions and HEFCE in understanding more about the costs of teaching. Work will begin immediately on the design of this framework and we intend to provide regular updates on progress through our web-site.

b. **Moving from premiums to allocations.** We will work with the sector over the coming months to develop proposals on how we should move from premiums to allocations. In particular we will need to establish whether it would be practicable to implement a system of allocations if a decision is made not to increase the fee assumption for full-time undergraduates. We also acknowledge that institutions are concerned as to how the allocations will be used in the future. We believe that we should focus in the consultation on developing the framework by which the allocations might work, and commit now to only minimal change for three years from their introduction in 2007-08.

c. **Addressing partial completion when measuring the volume of activity to be funded.** We will work to resolve in our funding method how to take account of what is achieved by students who fail to complete their initial study intentions. It is important that we quickly establish a method that can recognise, within the spirit of the block grant, partial completion where this leads to progression; and in the longer term that the way we measure volume should be fit for purpose in a more flexible lifelong learning context. We will review how far the changes in the funding method, taken together, can address the issues identified in the evaluation of our current method.

11. In our consultation document we published a timetable for implementation. Decisions outlined in this document, and those made later this year on fee assumptions, will impact on this. We have therefore produced the following revised timetable.

<b>Revised timetable for review of the funding method for teaching</b>				
<b>Year</b>	<b>Replacing premiums with allocations</b>	<b>Proposed full-time undergraduate fee assumption (subject to Board decisions)</b>	<b>Consistent national framework for costing of teaching</b>	<b>Addressing partial completion</b>
<b>2005-06</b>	No change to allocation	No change	Establish outline design of framework	Development of measure to reflect partial completion
<b>2006-07</b>	No change to allocation Consultation on new metrics	No change	Consultation on outline design of framework Phased implementation begins	Consultation on measure to reflect partial completion
<b>2007-08</b>	Allocation of existing premiums as targeted allocations	Possible revised assumptions	Phased implementation fully under way	
<b>2008-09</b>	Introduction of new allocations	Possible revised assumptions		

12. The implications of our proposals for higher education delivered in further education colleges are important. We are working closely with the Association of Colleges, the Learning and Skills Council, and colleges directly to ensure that we develop a full understanding of the issues facing these institutions. This is particularly relevant to the use of the TRAC methodology, where a tailored approach will be required.

13. The development of the funding method is a major undertaking for HEFCE and we are grateful for the contributions made by the sector. We intend to continue with the review process in discussion with the sector at all times through formal consultation, discussion with representative bodies, and the continued use of a sounding board of representatives from the sector.