

March 2006/12
Core funding/operations
Report on outcomes
This report is for information only

This document sets out the decisions we have made following responses to the consultation announced in HEFCE 2005/41. It also summarises the responses we received to the consultation.

Review of the teaching funding method

Outcomes of first cycle of consultation

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

To Heads of HEFCE-funded higher education institutions
Heads of HEFCE-funded further education colleges
Heads of universities in Northern Ireland

Of interest to those responsible for Finance, planning

Reference 2006/12

Publication date March 2006

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Executive summary

Purpose

1. We are reviewing our funding method in order to ensure stability in funding in the short to medium term, while recognising the need for immediate change in some areas and the possibility of further change in the future. This document sets out the decisions made following responses to the consultation announced in HEFCE 2005/41, 'Review of the teaching funding method: consultation on changes to the method'.

2. Annex A summarises the responses that we received to the consultation. An overview of decisions and next steps is also available on the web, with this document under Publications.

Key points

3. Many of the proposals received broad support from large elements of the sector. The following decisions are therefore broadly in line with the proposals in the 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 (replacing the existing premiums used in calculating teaching grant) might operate from 2008-09, and to make only minimal changes to the focus of these allocations for three years from their introduction in 2007-08.
 - 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.
4. On other proposals, views were mixed and some respondents felt we should implement changes in a different way. We wish to explore these concerns further, to see how we might adapt our proposals to address them where possible. We have therefore decided:
- a. Following further work and discussion with the sector, to make a final decision by December 2006 on increasing the fee assumption for full-time undergraduates in our calculation of teaching grant.
 - b. 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 the Higher Education Statistics Agency and from the Learning and Skills Council's Individualised Learner Record (ILR).
 - c. 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.
 - d. 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.
 - e. To note the sector's preference for funding on the basis of credit completed rather than credit awarded.
5. As planned, we will return to the sector with a further consultation, subsequent to decisions made at the end of 2006. This second consultation will cover the new funding method in more detail and in particular will focus on the move from premiums to allocations, the development of a national costing framework and how we will address the funding of students who only partially

complete their studies.

Action required

6. No action is required.

Background

7. In November 2005, we published the consultation document HEFCE 2005/41, 'Review of the teaching funding method: consultation on changes to the method'. We also made available a variety of supporting information on our web-site. This included:

a. Frequently asked questions. This was a series of questions and answers that attempted to clarify a number of important issues in the consultation document and provide further information about the impact of the changes on institutions.

b. Hypothetical modelling and explanatory notes. We provided modelling, along with extensive explanatory notes, to illustrate the effect of two elements of our proposals in HEFCE 2005/41. They are:

i. The proposal to increase the fee assumptions for full-time undergraduate students used when calculating the grant – to £1,750 in 2007-08 and to £2,000 in 2008-09.

ii. The proposal to replace the student-related and institutional premiums within the calculation of standard resource, with allocations made as part of recurrent teaching grant (see paragraphs 78-84 below).

c. Research reports. A number of reports have informed our thinking and these are available on our web-site, www.hefce.ac.uk under Publications/R&D reports. They were:

i. 'Use of costs to inform the funding of teaching', by JM Consulting and PA Consulting. This study assesses the policy merits and practical feasibility of greater use of information on costs to support the public funding of teaching in higher education. It does not make recommendations on the future teaching funding method, but does consider the changing context, objectives and options for the method.

ii. 'Potential for using credits in the revised teaching funding method', by the Higher Education Consultancy Group and the Centre for Higher Education Management Studies. This report outlines the policy arguments for and against using credits as the unit of volume within our funding method for teaching. It reviews possible models of funding by credit, and sets out the practical implications of seeking to implement credit-based funding.

iii. 'Evaluation of the current funding method', by SQW Ltd. This study evaluates our current method for allocating our core grant for teaching to universities and colleges. The main fieldwork task was interviews with 28 higher education institutions and further education colleges, most of which were undertaken during January and February 2005.

8. In December we held consultative seminars with higher education institutions (HEIs) and further education colleges (FECs) on the proposed changes. The development of the

consultation document was also considered by a sounding board set up to advise the review process, along with our strategic committees for Quality Assurance Learning and Teaching, and for Widening Participation.

9. The consultation period ended on Friday 13 January. We asked for responses to be submitted through a web-based form, which included 11 specific questions and a general comments section.

Responses to the consultation

10. We received responses from:

- 105 HEIs
- 13 FECs (including a co-ordinated response from the Association of Colleges)
- 38 other organisations, such as subject associations, academic departments and other representative groups
- 5 individuals, generally within HEIs.

11. A summary of the responses to the consultation is at Annex A. In general, respondents provided more comments when they wanted to express why they disagreed with a particular proposal than why they agreed with it, or had no preference. Often where disagreement has been expressed it is not necessarily an objection to a particular principle, but rather because the respondent has an alternative approach in mind. The qualitative comments in this analysis can therefore present a more negative picture than is reflected by a quantitative analysis of numbers of respondents agreeing or disagreeing with a proposal.

General comments

12. A number of general comments were provided, either through covering letters or in response to question 12 (an 'any other comments' section). Some institutions felt that HEFCE should not be changing its funding method as much as is proposed in the consultation, when a more fundamental review would be needed if and when the cap on variable fees is removed following the Government's review of fee regulation in 2009. This view came from a wide variety of institutions, including those who would not see any significant change in their funding from our proposals, or who would even stand to benefit.

13. The arguments expressed were that institutions needed a period of total stability before potentially more far-reaching change in 2009; and that the sum of the proposed changes would lead to unnecessary turbulence within the funding method, even if the overall level of HEFCE funding received by the institution did not change. Some also argued that the two-cycle review process proposed was not in reality two cycles but one long blurred cycle: this was not seen as providing stability or predictability. Several institutions used the opportunity to provide general comments to re-iterate their disagreements with the move from premiums to allocations, or with the proposal to increase the full-time undergraduate fee assumption. These arguments are reflected in the analysis of responses to specific questions below.

Timing and need for review

14. There are a number of reasons why we are proposing change at this time. The main ones are the changes to fee regulations from 2006-07, and the length of time since the last review.

Changes to fee regulations from 2006-07

15. Changes to the level at which institutions can charge fees affects the amount of resource explicitly intended to support teaching in higher education. Our funding method is currently a resource-based one, recognising that it is the combination of grant and fees that meets institutions' tuition costs. Any changes to overall resource levels therefore need to be considered in how we allocate grant. We discuss below (paragraphs 40-73) how this should be undertaken.

16. Those who argue for minimal change now, followed by greater change from 2009, believe that changes to fee regulations as a result of the Government's review in 2009 are likely to be both inevitable and quick. We do not necessarily think this will be the case. We have no indication of what the outcome of that review will be, and we suspect that any change proposed would take a significant amount of time to go through the parliamentary process and then be effected in new student support arrangements. It is quite likely that the existing fee regulations may be in force for some time.

17. We believe this uncertainty requires us to take a two-cycle approach to our review of the funding method. The first cycle, which we expect to last at least until the outcome of the Government's review, is intended to address particular issues that require attention, provide stability in provision in the short to medium term, and prepare for possible further change in the future. The second cycle will address changes that might be needed in the future.

Time since last review

18. The existing method was the result of a review conducted over 10 years ago. In that time the sector has undergone some considerable changes and it is important to ensure that the funding method recognises this.

19. The sector has raised a number of issues both before and during the review that we have committed to considering through the review of the funding method. These include the possibility of funding on the basis of credit, the use of the Transparent Approach to Costing (TRAC) framework to obtain a fuller picture of the costs of teaching, the use made of the data returned to the Higher Education Statistics Agency (HESA), and our support for widening participation and part-time provision.

20. There are also some issues, such as the premiums for specialist institutions, which we have already committed to review through the funding review process.

Overview of the method

21. Teaching funding is part of a block grant, and institutions have considerable freedom as to how they distribute it internally to support their own aims and objectives. The funding method aims to ensure that we allocate an appropriate level of teaching funding for an institution as a

whole. As such, it is designed to be efficient in distributing funding between institutions in the sector, not between departments within an institution. We do not expect institutions to mirror our allocation methods for their own internal purposes. Although our funding is determined according to the activity in academic departments, it is intended to support institutions more generally, including, for example, their central facilities such as libraries, computer centres and administration.

22. Our funding method is based on a principle of similar resources for similar activities. For each institution our model calculates a level of 'standard resource' which reflects the numbers of students it has, the mix between different subject areas, and a number of institution-related cost factors. Standard resource is not, however, what we actually pay institutions, but rather a notional benchmark of what we think institutions' share of overall resources should be to reflect their teaching activities. We compare standard resource with what institutions are actually receiving in HEFCE teaching grant plus broad sector-wide assumptions about levels of income from other sources. We want this assumed resource to come within 5 per cent above or below the standard level.

23. This 5 per cent margin (the tolerance band) exists, not because we think it reasonable for institutions' funding to vary by ± 5 per cent, but to give institutions flexibility and to minimise the accountability burden. This flexibility is both in the nature of the provision they offer to students within broad subject areas (for example, in terms of course content, staffing structures and methods of delivery), and in allowing them to make some changes to the mix and volume of student numbers without financial implications. It is for this reason that the principle of the funding method has been to have similar resources for similar activities, not the same resources for the same activities. This broad-brush approach to funding helps to keep the accountability burden lower than might otherwise be the case. Without it, we would have to measure activity much more finely, as potentially any change in student numbers, however minor, could have a direct effect on grant.

24. In May 2005 we published the aims of the new method (HEFCE 2005/21). These relate to those characteristics of learning and teaching in higher education (HE) that the funding method might support and protect. We believe that our formula funding method should help to:

- a. Ensure an appropriate capacity of learning and teaching in HE at a sector-wide level.
- b. Ensure and promote a high standard of teaching quality and academic standards.
- c. Enable learning and teaching in HE to respond to the diverse needs and demands of students, business and wider society.
- d. Enable the HE sector to provide innovative learning and teaching opportunities.
- e. Enable the sector to make higher education accessible to all those who could benefit from it.

- f. Enable the HE sector to make the best use of public money to enhance the student learning experience.

Constraints on the method

25. The funding method operates to support all of these aims through its principles and mechanisms. There are, however, a number of constraints that place tension on the method and limit the extent to which it can explicitly address each of the aims:

- we do not have sufficient funds, nor responsibility, for meeting all tuition costs
- we need to balance stability for institutions with intervention in the national interest
- we need to reflect a changing environment and be rational.

Each of these constraints is discussed in more detail below.

Funds and responsibility for meeting tuition costs

26. HEFCE grant in total (teaching, research and other funding) contributes only 38 per cent of the income for the HE sector as a whole, though that percentage varies by institution.

27. HEFCE grant is not therefore intended to cover the full costs of teaching. In practice teaching is funded from a variety of public and private sources, through grants, fees and contributions. We are still empowered to fund initial teacher training for school teachers, but do not do so because the Training and Development Agency for Schools (TDA) funds that provision; there is a similar situation with nursing and midwifery training funded by the NHS. Equally, we do not fund overseas students (although we are empowered to do so), because the Government expects their provision to be funded entirely through full-cost tuition fees. For (other) home and EC students, the Government has established a funding regime with two main sources of funding: HEFCE grant and tuition fees. In this context it could be said that HEFCE funds support those costs not met from other sources, in order to ensure that we meet the aims outlined above.

28. We do not therefore believe that it is appropriate for us to develop our funding method as if we had responsibility for meeting all tuition costs, blind to these other sources of funding. Taking account of tuition fee income in our funding method is simply part of a larger general issue about how we make best use of our grant, given the other contributions towards tuition costs that are made across the sector from other sources. If we ignored tuition fee income, we believe it would lead to an inefficient and less effective distribution of public money: some provision would be significantly over-resourced, with other areas – such as science and engineering and part-time provision – left under-resourced.

Balancing stability for institutions with intervention in the national interest

29. We are committed to providing institutions with a degree of stability in the funding allocations. However, stability in this context is not generally about guaranteeing the same level of institutional grant, otherwise the method could not respond to change without additional funds. Rather, stability is about providing predictability, and implementing any changes over a

manageable period of time. This is important in helping to maintain a healthy, diverse and sustainable sector.

30. Given our aim of enabling learning and teaching in HE to respond to the diverse needs and demands of students, business and wider society, it is important that we take a view on where the aggregate interests of individual institutions do not collectively meet these national interests. Our funding levers enable us to make specific interventions – such as for widening participation and supporting strategic or vulnerable subjects and part-time provision.

31. These two pressures for stability and intervention can be in tension within a fixed budget. Unless additional resources are provided, any intervention can result in a re-distribution of grant. The need to be able to respond to particular national priorities as they arise makes it impossible to provide absolute guarantees that an institution's level of grant will remain unchanged over time.

Reflecting a changing environment and being rational

32. Our funding method must reflect changes in the wider HE environment. For example, we need to respond in a rational manner to changes in demand from students, business/industry and wider society, changes in the wider HE funding environment, and emerging policy priorities. Stability in the funding method does not guarantee stability in the wider HE environment.

Key factors reflected in the method

33. Given these constraints, our funding method reflects four broad factors:

a. *The nature and volume of activity.* Clearly the funding method needs to reflect the amount of teaching being undertaken and the nature of that activity.

b. *Broad estimates of cost.* It is also clear that one of the key issues that drives the need for funding is the cost of the activity undertaken. For example we need to recognise that, in general, teaching science costs more than teaching humanities, and that there are additional costs for widening participation. We take account of this through our 'price groups', which represent bands of subjects with broadly similar costs, and through premiums or allocations where we wish to recognise other additional costs.

c. *Assumptions about how those costs are met at sector level.* Because we do not have sole responsibility or adequate funding to meet institutions' tuition costs, we must make broad assumptions about how those costs are met in aggregate. This ensures that our funding contributes in an effective and efficient manner, and that overall resources are proportionate to the relative cost of provision.

d. *Strategic priorities.* We need to be able to address particular priorities through the funding method through mechanisms such as the distribution of additional student numbers.

34. If we were to remove any one of the first three factors, then funding for higher education in England would not be in balance: some subjects would be significantly over-resourced, while others would be under-resourced. This would create potentially destabilising incentives for institutions in what they offer, and would mean that the funding method failed to deliver its aims.

35. The review of the funding method made proposals to address each of the factors identified in paragraph 33 above:

a. *The nature and volume of activity.* We are not proposing changes to the price group structure in the short term. However, we have consulted on developing the volume measure by taking more account of credits instead of completed years of study.

b. *Broad estimates of cost.* We have proposed undertaking full economic costing of teaching activity through TRAC, in part to inform the funding method.

c. *Assumptions about how those costs are met at sector level.* We have proposed changing our fee assumptions to reflect the new fee regime.

d. *Strategic priorities.* We have proposed replacing our existing premiums with a system of allocations that are better able to respond to the issue they currently address; and providing more support for widening participation. We have also sought to reduce the accountability burden by funding solely using HESA data and data returned to the Learning and Skills Council on its Individualised Learner Record (ILR).

36. These proposals are interlinked. All of them look to make the most effective and efficient use of the public funds that we have available for teaching. The justification for developing TRAC for teaching to inform the funding method is weakened if the method does not also recognise the contribution towards teaching costs that is met through fees. (Although there are other benefits in TRAC for teaching besides informing the funding method.) The changes to fee assumptions also facilitate the creation of the new system of allocations because, without them, removal of the premiums would have a much more disruptive effect on institutions' positions in or outside the tolerance band.

37. Much that was contained in the consultation received broad support from large elements of the sector. The sector generally welcomed our proposals on moving from premiums to allocations, funding for widening participation and part-time students, the structure of the price groups, and development of a national framework for the costing of teaching based on TRAC principles. The decisions we have made in most of these areas are therefore broadly in line with the proposals set out in our consultation document.

38. However, in some areas, large parts of the sector clearly had mixed views on our proposals or believed that the changes should be implemented in a different way. Where this is the case, such as on the use of HESA data and funding on the basis of credit, we have looked to address these issues wherever possible. On some issues, such as fee assumptions, concerns would appear to be more widespread, and we considered a number of arguments as to how to

proceed. These arguments for and against us changing our fee assumptions are set out below.

Proposed changes in the light of consultation

39. To inform the discussion, we have provided in Annex B some additional modelling that shows the effect of the proposals on underlying HEFCE grant across price group, mode and level. The most disputed proposals in the consultation document relate to fee assumptions. Decisions on these assumptions impact on many other aspects of the proposals so we address them here first.

Fee assumptions

40. In our consultation document (HEFCE 2005/41), we proposed increasing the fee assumption for full-time undergraduates from the current regulated level of £1,175 in 2005-06 to £1,750 in 2007-08 and £2,000 in 2008-09. The fee assumption for 2006-07, the year in which higher fees are introduced, would only reflect an inflationary increase (to £1,200) in 2006-07. These fee assumptions were proposed to reflect actual changes to fee income caused by the new regime. In adopting this approach we wanted to ensure that we:

- a. Minimised change in our allocations in 2006-07.
- b. Reflected how increased fee income would be phased in with each new cohort of students from 2006-07.
- c. Provided a conservative estimate of the sector average net fee income to institutions after the provision of bursaries.

41. We did not propose to change the part-time undergraduate fee assumption, other than to take account of inflation. In 2005-06, we generally assume £1,175 per part-time undergraduate full-time equivalent (FTE). Setting the fee assumption for postgraduate taught students would continue as in the existing method¹.

42. From 2005-06, postgraduate research students are funded solely through the funding method for research and are therefore not a consideration in the current teaching funding review.

The effects of changing our fee assumptions

43. Our proposals for changing fee assumptions are intended to reflect the reality of changing fee income to the sector, and would affect the underlying rates of HEFCE grant for different

¹ The fee assumption for postgraduate taught students is currently capped at the level of the 'standard resource' base price (that is the standard resource for 1 FTE in price group D). The base price will increase as we change the full-time undergraduate fee assumption, because this will show increased resources available for the sector. The postgraduate taught fee assumption will therefore increase to match it. It should be noted, however, that our postgraduate taught fee assumption will still be below the level that institutions, on average, charge such students, as evidenced in a survey we carried out in 2003 ('Survey of fees for postgraduate taught and part-time undergraduate students', available at <http://www.hefce.ac.uk/learning/funding/fundmethod/>).

categories of student within the main teaching funding method. We are proposing to maintain the existing price group weightings (weightings of 4 for price group A, 1.7 for group B, 1.3 for group C, and 1 for group D) until evidence from a full economic costing study is available. This means that the standard resource for all categories of student will increase in proportion to what we currently believe to be their relative cost, with those increases coming through the combination of fee income and HEFCE grant.

44. All these proposals (in terms of resourcing of subjects, modes and levels) are a consequence of the need to reflect the relative costs of different types of activity, and to make broad assumptions about how those costs are met. If the proposals were not implemented (the 'do nothing' approach), then a number of priority areas, such as science and engineering and part-time study, would be left relatively under-resourced.

The subject dimension

45. The increased fee for full-time undergraduates will represent a varying proportion of the overall resources for different subjects: it will be a much higher proportion for the less expensive, classroom-based price group D subjects than for the laboratory-based or clinical subjects in price groups B and A. We are proposing to increase our fee assumption to reflect this reality. Maintaining the existing relativities between price groups without increasing our full-time undergraduate fee assumption would result in high cost subjects in price groups A and B being left relatively under-resourced. Although the level of under-resourcing is modest at the individual student level, at the sector level it would amount to approximately £60 million. By changing our fee assumptions, we would address this shortfall.

The mode and level dimension

46. The most significant impact of not increasing our full-time undergraduate fee assumption would be to leave part-time undergraduate students relatively under-resourced. This is significant at both the individual student level (as shown by the changes in rates of grant shown in Annex B and for the sector as a whole, where we estimate the shortfall would amount to more than £100 million. Part-time students will not suddenly cost proportionately less, just because full-time undergraduate fees increase. If we are to continue to reflect their relative cost, in resource terms, then the contribution from HEFCE grant should increase.

47. This is particularly relevant to the rates we pay for additional student numbers where failure to take account of the changes to income derived from tuition fees would have a direct effect on the level of grant we provide for additional student numbers.

48. There is also a more modest shift in resources towards postgraduate taught students, although not for those in price group D (which includes subjects such as business and management and law). Because the postgraduate taught fee assumption would continue to match the base price, the HEFCE contribution towards postgraduate taught students in price group D would be zero. There will, however, continue to be a HEFCE contribution towards the resources of other postgraduate taught students. The increase in the fee assumption for postgraduate taught students would not be as great as for full-time undergraduates. Maintaining their cost relativities would result in a small shift in HEFCE grant towards postgraduate taught

provision.

The institutional dimension

49. The effect of changing our fee assumptions is not generally to change the grant that we pay to institutions, but rather to move institutions within or outside the ± 5 per cent tolerance band. Most HEIs would remain within the band. For those that moved outside, we would discuss with them how to bring them back within it over time. This could include increasing grant for those that move below the band, or requiring increased student numbers for those that move above.

50. We have provided modelling on our web-site showing the effect of our proposals on individual institutions. However, the effect is not solely due to changed fee assumptions: institutions' positions are also affected by where they currently sit in or outside the tolerance band, and by the replacement of the student-related and institutional premiums with specific allocations.

51. The fee assumptions we make are uniform and sector-wide, not institution-specific. This does not disadvantage any individual institution, nor does it discourage them from trying to maximise their fee income. We do not reduce grant for those institutions that are able to charge higher fees than we assume. And we do not provide additional funding for those that charge less than we assume. (If we were to do so, this could be seen as a very significant market intervention: it might enable an institution to improve their market position by charging much lower fees than they might otherwise do, in the knowledge that HEFCE would – within the limits of our budget – make good the shortfall in their income.)

52. It is commonly argued that there is a pressure on institutions to collect fees at the level we assume, and that they are disadvantaged if they are unable to do so. This is a misconception of the effect of making sector-wide fee assumptions. We could assume lower fees to reflect some minimum rather than average level that institutions might be expected to collect (or even zero fees). However this would not necessarily be of any benefit to those that charge low fees. The effect of such a policy would, all other things being equal, affect the resourcing of institutions that charge high fees in much the same way as those that charge low fees. The financial disadvantage that the latter experience would remain, and it comes from the fees regime, not the HEFCE funding method. Our funding method is not designed to remove the differential effects of the fee regime on individual institutions, for the reasons set out in the previous paragraph.

Consultation responses on the fee assumption

53. In broad terms, there was strong support in the consultation for HEFCE continuing to make a fee assumption, but a majority against increasing the fee assumption as the fee regime changes. To a significant extent this can be seen as a request for the funding method to remain unaltered. However, stability in the funding method does not necessarily ensure stability for the sector if the wider HE environment is changing.

54. Reasons for disagreement with our proposal to increase the full-time undergraduate fee assumption vary. They do not always imply disagreement with the concept of a higher fee assumption *per se*, but sometimes are about whether it should be raised to a figure higher or

lower than £2,000. They are also often linked to the belief that we should not make any change to our fee assumptions until the outcome of the Government's review of variable fees is known, after 2009. Essentially this is expressing a preference that we should continue with the existing funding method before moving straight to what we have been calling 'cycle 2'. We have discussed above (paragraphs 12-20) why we do not believe that this is preferable.

55. Some of the disagreement appeared to be a preference for no change in the funding method. We do not think this is appropriate beyond the short-term (2006-07). Stability in the funding method does not create stability in the sector at a time of change. To ignore the changed fee environment in our funding method would leave some areas of provision relatively over-resourced, and others under-resourced.

56. As discussed earlier, this relative over- or under-resourcing is particularly important in relation to the funding for additional student numbers, where levels of grant provided to institutions would be directly affected.

57. Some respondents disagreed because they considered a uniform fee assumption was inappropriate in a variable fee environment, or because they believed our assumptions would over-estimate what their individual institutions would receive through fees. However, whether variable or uniform, we believe we should recognise the contribution towards costs that comes through fees at the sector level. Our fee assumptions are deliberately sector-wide ones, so as not to intervene at the individual institution level and to ensure that, at the sector-level, resources are proportionate to costs.

58. Some disagreed because they argued that the changed fee assumption contradicted the principle of 'additionality' of tuition fee income. A number of institutions maintained that fee income received as a result of the changes to tuition fee regulations should be additional to each student or to each institution. We do not think this is appropriate. We believe that fee income must be seen as additional at the sector level.

59. We do not believe that the Higher Education Act 2004 was designed to limit HEFCE's flexibility in distributing grant as we think appropriate. To suggest that the additionality of fee income applies at the level of the individual student or institution rather than at the sector level would imply that HEFCE rates of grant are essentially fixed in perpetuity, certainly at some minimum value. If we then found through costing exercises that, for example, our price groups and their relative weightings were inappropriate, or that some institutional cost factor should be changed, we would have very limited scope to implement such change. We might then be forced to continue with inappropriate funding allocations that no longer reflected current circumstances.

60. It is worth remembering too that our grant letter of 31 January 2006 from the Secretary of State for Education and Skills includes guidance that we should examine the relative weighting that we give to widening participation in our allocations, with a view to informing future decisions. It would, of course, not be possible for us to change the balance of our grant between widening participation and other teaching grant to any significant degree if the concept of additionality applied at the institution or individual student level, unless it was achieved by the provision of

additional funding by the DfES.

Additional comments on fee assumptions

61. There were a number of other specific comments made in the consultation, which are discussed below.

Phasing in the changes

62. Some argued that the phasing-in of the increased fee assumptions should differ to reflect the fact that some institutions offer longer courses than the standard three year undergraduate programme. There is an admitted crudeness about our fee assumptions in the early years of the new fee regime. The phasing of the increased fee assumptions is also fairly crude, but we think desirable in the interests of keeping the method as simple as possible. We would not phase the change differently for two year programmes, nor for those of four or more years.

Part-time fees

63. Some argued that it was inappropriate to assume that part-time undergraduate fees would not increase. The average net income from full-time undergraduates in 2008-09 cannot, of course, be known now: £2,000 is no more than a round conservative estimate. It may well be an under-estimate, as it assumes bursaries (or an equivalent reduction in fees compared to the maximum possible) averaging £1,000 for every full-time undergraduate. The assumption that part-time fees will not increase may also be an under-estimate of the average fees that part-time students will bring pro rata. The postgraduate taught fee assumption is certainly an under-estimate, as our modelling suggests it will still be lower in 2008-09 than the average level we observed for 2001-02. We remain committed to keeping the funding of part-time provision under review in light of the introduction of variable fees for full-time undergraduate study.

Bursaries and other sources of income

64. Some argued that the fee assumption should not take account of expenditure on student bursaries; while others argued that, if we take account of fee income, why do we not also take account of income from endowments and donations. The reason we take account of bursaries is because they are a form of student support. This is not expenditure that can be used to meet institutional costs of, for example, staff and facilities, which is what HEFCE grant contributes towards. Therefore it is inappropriate for the HEFCE funding method to treat this element of institutional expenditure as contributing towards tuition costs. Endowments and donations are made for many purposes (again including student support). We have no basis for making assumptions about how they might be distributed within institutions and for what purpose. Equally, they are not part of the fees and grant mechanism that the Government has established to support institutional tuition costs. It would therefore be inappropriate to take them into account.

Price group weights

65. A number of arguments were also made about the interaction with price group weights and the evidence required before changing the funding model parameters. Some argued that we should not make fee assumptions without reviewing price group weights; others that the cost relativities between different price groups will narrow when variable fee income becomes available; and others that we should not change fee assumptions or price group weights until we

have evidence of the effects of the new fee regime and how it is operating.

66. The only evidence we have of relative costs across all subject areas is the review of price groups carried out in 2003, based on HESA expenditure data and student FTEs in each academic cost centre. In due course we will have evidence of costs from the TRAC study, but it would be premature to change price group weights in the absence of any firm evidence. It may also be worth remembering first that the sector has confirmed in this consultation that the current price group weights should not change; and second that, in the 2003 consultation on the teaching funding method, there was significant disagreement with the narrowing of price group weights that we eventually implemented. It would be wrong now to assume that further narrowing of price group relativities will be appropriate or receive endorsement from the sector as a whole.

67. We do not know how price group relativities might change in the future. Nor do we know how part-time or postgraduate taught fee income may change². But we do know that full-time undergraduates will soon bring considerably more fee income, and therefore this is the new factor that we need to reflect in the funding method.

Levels of income for different programmes and types of institution

68. Some institutions argued that net fee income for programmes such as foundation degrees and sub-degree provision will be considerably less than for other undergraduate courses. A related argument was that FECs would not be able to charge fees at the same level as HEIs. There may be difficulties in making different fee assumptions for FECs and for HEIs, or for one type of undergraduate programme as opposed to another. First this could be seen as making a market intervention in favour of one category of institutions or type of programme over another. Second, if we were to assume lower fees for FECs, this could only apply to colleges directly funded by HEFCE. Provision that is franchised to FECs by HEIs would be treated as belonging to the HEI, and therefore HEI-level fee assumptions would be necessary. The result of making lower fee assumptions for FECs would therefore be to imply a higher level of HEFCE grant for directly-funded FEC provision than for indirectly-funded provision. This could undermine our policy to encourage FECs to work closely with HEIs. Before we could recommend making different fee assumptions in such cases, we would need evidence that fee rates were substantially different and that it was desirable to reflect any such differences in the funding method.

Keeping assumptions on income under review

69. We will of course wish to keep all assumptions about other income (including fee assumptions) under review in the light of any emerging evidence, and this was made clear in the consultation document. Specifically, we expect to have data from the Student Loans Company (SLC) covering the whole sector on fees charged to full-time undergraduates in 2006-07. The SLC should also be able to provide information on bursaries that will cover approximately three-quarters of HEIs. We will also collect information on fees charged to postgraduate taught and part-time undergraduates. We believe the least burdensome way of doing this is by a repeat of the sample survey we carried out in 2003 (see footnote 1), which could be repeated periodically.

² However, we do know that the increase to the postgraduate taught fee assumption that we have modelled will still be below the sector average that we observed for 2001-02.

The alternative would be to collect the information on the HESA record, but this would require institutions to record fees for all such students every year, rather than a sample every few years. We are seeking the views of the sector, through the consultation on developing the HESA record, on which of these two approaches would be the least burdensome.

Our approach to fee assumptions

70. Continuing as planned in our consultation would involve increasing the full-time undergraduate fee assumption to £1,750 in 2007-08 and £2,000 in 2008-09, but we would leave the part-time undergraduate fee assumption unchanged (other than for inflation), while the postgraduate taught fee assumption would continue to match the base price. The advantages of this option have been set out earlier in this document. It ensures that all areas of provision are appropriately resourced, while maintaining stability in the overall allocations for institutions. Nevertheless a significant part of the sector has not accepted our proposals – and the sector's opinions are clearly divided.

71. We could commit now to not increasing our fee assumptions (other than for inflation) until the outcome of the Government's review of tuition fees is known. In the meantime, we would need to review whether and how to implement our proposals for replacing premiums with allocations. We do not however believe that this 'do nothing' approach is sustainable in anything more than the short term. This approach fundamentally alters the logic underpinning the funding method and does not provide stability for institutions. The need for review has been set out above, and to ignore the changed fee environment would result in a relatively inefficient use of public funds, leaving many important areas of provision under-resourced, and others over-resourced. This is likely to create undesirable pressures on institutions as to what subjects they offer, thereby potentially limiting student choice.

72. Arguments against the increase to the full-time undergraduate fee assumption were in some cases challenging some of the fundamental principles that underpin the funding method. In particular this applies to the principle that we should take account of how the costs of teaching are met at sector level. We therefore believe that we need to undertake further exploration and discussion with the sector to gain a better understanding of the concerns expressed in this consultation, to inform a final decision on fee assumptions by December 2006 at the latest. This will allow adequate time to inform funding allocations for 2007-08.

73. Making a decision on fee assumptions by December will also provide the opportunity 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 proposed with the full-time undergraduate fee assumption.

Allocations to replace premiums

74. In the consultation document we proposed that the existing premiums used when calculating the teaching grant – designed to reflect additional student-related and institutional costs – should be replaced by a system of allocations.

75. A majority of respondents from HEIs agreed or strongly agreed with this proposal (around half of all HEIs), with approximately twice as many agreeing as disagreeing (around one-quarter of all HEIs). Those in disagreement were almost all research-intensive institutions, along with specialist institutions – who either disagreed, or agreed with many caveats. FECs that responded were in broad agreement with the proposal, though only a few provided supporting comments. These generally focused on the availability of these allocations to FECs and the likelihood of HEIs ‘passing-on’ the relevant funds to franchised providers.
76. Reasons for agreement generally echoed those put forward in the consultation document:
- a. That using a system of targeted allocations operating outside of a tolerance band (rather than premiums) would provide more impact, and hence more effective support for their intended target.
 - b. That cost-based allocations linked to strategic priorities would be a simpler, more transparent method of addressing particular priorities, which would in turn be more justifiable.
77. Concerns expressed by both those in disagreement and in agreement fall into the following broad categories:
- a. *Volatility.* A number of institutions that disagreed with the proposal argued that the introduction of targeted allocations would increase the level of volatility and instability in the funding method to an undesirable level. Several institutions urged HEFCE not to create instability by altering the proportion of funding distributed as allocations, from the existing balance between ‘core’ and premiums.
 - b. *Vulnerability.* Some institutions were concerned that removing particular ‘pots’ of funding from the tolerance band would make this funding more vulnerable to change and even removal. Associated with this was a view that this vulnerability could only be avoided through increased reporting or audit and this was not desirable. This was expressed most strongly by specialist institutions. It was also a note of caution made by many that agreed in principle with the proposal.
 - c. *Suitability.* Some institutions argued that a number of existing premiums were not suitable to become allocations. It was argued either that what they were addressing were not strategic priorities, or that they should not be exposed to the level of volatility that respondents claimed the allocations would bring. London weighting and the old and historic buildings premium were the most cited examples.
 - d. *Uncertainty.* A number of institutions expressed concerns about ‘signing up’ to the proposal without knowing how the targeted allocations would be focused or work in practice in the future. This was a view expressed by both those in agreement and in disagreement. Research-intensive institutions in particular expressed the view that although HEFCE had provided reassurances up to 2008-09, there was no guarantee that beyond 2009 allocations would not be used as mechanisms for major re-distributions of

grant.

e. *Complexity.* A few institutions argued that the introduction of allocations would increase the complexity of the method, in effect creating a number of new funding streams. Others did not share this view, maintaining that the allocations in fact made the method too simplistic to achieve its objectives.

Our approach to allocations

78. This proposal arose from an argument that we put forward in the consultation that, if fee income becomes increasingly de-regulated and variable, HEFCE grant will represent a lower proportion of institutions' overall income and therefore their dependence on it will reduce. These changes would bring benefits to HEIs in terms of increased income, but in a fully de-regulated fee system they could bring substantially greater risk to the health and diversity of the HE sector. We argued that this would require HEFCE to take a more considered strategic role than currently, which would in turn require investment to be more focused on supporting and protecting important features of HE that might otherwise be at risk.

79. The new allocations have been proposed to give us this facility for the longer term – should it be needed. In the short to medium term they provide a more effective means, within our existing resources, of protecting important features of the HE sector.

80. The important point here is that our proposals do not move funding outside of the block grant – or 'core' as it is described by some. Allocations are intended to be long-term recurrent streams of funding that provide an increased level of protection within the block grant, with little or no increase to audit requirements. We do not intend major re-distribution of grant or 'planning' of the sector. Nor are there any proposals at this stage to alter the balance between funding that goes through the tolerance-banded part of the method and funding that goes through the allocations. It is likely that we would take a similar approach to reviewing allocations as with the current system of premiums, so a review period of five years would be a likely timescale.

81. It is understandable that many institutions, and in particular those with a large proportion of their income currently attributable to premiums, are uncertain about the changes to allocations beyond 2008-09. We will need to work with these institutions over the coming months to ensure that we arrive at a system of allocations that recognises, in a transparent and cost-informed way, the important role that they play.

82. Any new allocations will not be introduced until 2008-09 at the earliest, by which point the transitional period to the new fee regulations will be almost at an end. Furthermore, the decision on whether to provide additional funding for certain provision – and therefore to re-distribute funding if additional funds cannot be secured – is essentially not altered by this change from premiums to allocations. Whichever system is used, there will always be a need for periodic review of the support provided for particular aspects of provision. We do not, therefore, believe that allocations are in some way more 'vulnerable' than the existing system of premiums. Moreover, it is hoped that by supporting particular features of HE through a more transparent and cost-informed system of allocations, vulnerability of these streams of funding could be reduced.

83. Concerns expressed by the sector also covered the suitability of particular premiums to become allocations. This is an issue that we will need to address in our wider consideration of how allocations will work from 2008-09.

84. As we have already stated, the impact of creating these allocations is affected by decisions relating to our fee assumptions. We therefore propose to work with the sector over the coming months to establish whether it would be practicable to implement the system of allocations if the decision is made not to increase the fee assumption for full-time undergraduates. We also acknowledge that there are concerns from institutions as to how the allocations will be used in the future. We therefore believe that we should focus on developing the framework by which the allocations might work, but commit now to undertaking only minimal change to their focus for three years from their introduction in 2007-08. We will then consult with the sector on how allocations might operate, once a decision on fee assumptions has been made.

Funding using only HESA and ILR data

85. We currently use two main data sources to inform the funding method: the HESES³ and HEIFES⁴ surveys which collect in-year aggregate student numbers and which generally drive the teaching allocations; and individualised HESA⁵ data (ILR⁶ data for FECs) which are reported at the year end. We currently use HESA/ILR data to provide more information about student characteristics to inform allocations, such as those for widening participation; and to reconcile with the aggregate data institutions previously reported to us in their HESES and HEIFES surveys.

86. We consulted on a proposal that we cease to use HESES and HEIFES for funding purposes. This proposal is intended to reduce both the accountability burden on institutions and the need to make retrospective recalculations of grant, as well as providing more robust credit data to inform grant calculations. The accountability burden would reduce by removing the need for institutions to complete the HESES and HEIFES surveys, and the need for us to reconcile them with end-of-year HESA/ILR data. However, some in-year reporting of aggregate student data would still be necessary for government planning purposes, for example to monitor achievement of student number plans and to provide HEFCE with an early indication of any problems with recruitment.

Views on use of HESA/ILR data

87. The response from institutions was mixed. Of those that agreed, many agreed in principle but subject to further discussions based on details of how the method will change as a result of

³ Higher Education Students Early Statistics survey. The annual aggregate recruitment survey completed by HEIs, which informs our funding for teaching.

⁴ Higher Education in Further Education: Students survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.

⁵ HESA annually collects individualised student data from HEIs.

⁶ Individualised Learner Record. The Learning and Skills Council annually collects individualised learner data from FECs.

using solely HESA and ILR data. Without these details they did not feel that they could:

- a. Comment on whether the accountability burden would reduce.
- b. Comment on whether grant based on retrospective end-of-year data can be flexible and responsive to planned changes in their provision.
- c. Comment on whether HESA data, definitions and guidance are robust enough for greater use in funding.
- d. Model the impact that this change is likely to have on their institution.

88. Given the strength of reservations expressed by many institutions who in principle agreed with the proposal, there is clearly a need for significant further work before the sector could be judged to be content with this change.

89. Among those that agreed, many argued that we should wait at least until 2008-09 HESA data are available before ceasing to use HESES and HEIFES for funding. HESA is currently in the middle of a substantial review of its student return for implementation in 2007-08. Institutions felt that any increased reliance on the 2007-08 HESA student record should be avoided at a time of significant change to institutions' internal systems and processes. At the earliest, 2008-09 HESA data could be used to calculate the 2010-11 grant. A small number of institutions questioned whether funding based on credit could be achieved using only HESA and ILR data rather than by modifying the existing HESES and HEIFES returns.

90. Among those that disagreed with the proposal, there were some significant areas of concern. This was most notable in relation to the accountability burden. Many institutions indicated that removal of HESES and HEIFES would not reduce the burden as they would still need to produce in-year numbers for their own internal, and government, planning purposes. A number of institutions also argued that increased reliance on HESA and ILR data would dramatically increase the accountability burden due to the much greater complexity of these returns.

91. We therefore believe that while we should continue to investigate ways in which we can reduce the accountability burden on institutions arising from data returns, we should proceed with caution and should consult further with the sector about any moves towards funding solely on the basis of HESA and ILR data. The earliest end-of-year data that we might consider as the sole basis for funding are the 2008-09 HESA and ILR returns.

Funding on the basis of credit

92. As has been discussed previously, we need to recognise the nature and volume of activity at each institution in the funding method. How we measure the volume of activity is an important factor in supporting our policies and priorities. It can give messages about the behaviours we want to encourage and also help to avoid unintended consequences.

93. Our current volume measure is based on the full-time equivalence of students that in general complete (though not necessarily pass) all the activity in the year for their programme of study. This has been a contentious part of our funding method for many years. It was identified in the SQW evaluation of the method last year as one of the small number of issues that institutions were unhappy about. In particular, given that non-completion rates tend to be higher among many of the student groups that we want to reach in widening participation, our current practice is seen as unfair by those institutions that do most to widen participation. The additional formula funding we provide for widening participation, most of which is for improving retention and reflects the higher propensity for certain types of student to drop out, is seen as insufficient. It is not seen as an adequate counterbalance to the disadvantage arising from the treatment of non-completions in the main teaching funding method.

94. In the consultation, we made two proposals:

a. To move in the longer term towards funding on the basis of credit awarded. This would be a significant change to our volume measure. Some student activity that we currently count would no longer be counted (modules that completing students do not pass). Some student activity that we currently do not count would become countable (modules passed by non-completing students).

b. As an interim measure, to reflect the credit awarded to students who are reported as non-completions. Any institution that wished such activity to be counted would have to record module/credit information on its individualised HESA and ILR returns. This would not be a wholesale change to our volume measure. All student activity that we currently count would continue to be counted, but in addition we would count the volume related to the credit awarded to non-completing students. Even as an interim measure, this would not be implemented before 2009-10. It would require institutions to provide module information in the 2007-08 HESA record, which would be available to us in time for the 2009-10 funding round.

95. There are some potentially conflicting priorities here. On the one hand, we want to recognise student achievement that may fall short of a full year of study, but which may nevertheless have benefits for the student and wider society. We also want to encourage more flexibility in study patterns, something which a credit framework would support. Our grant letter from the Secretary of State for Education and Skills of 8 January 2004 stated:

'I ask that the Council make progress to develop a strategy for incentivising flexible pathways for students for implementation from 2004-05 onwards. This strategy should encompass 2+ models, pilots of compressed 2 year honours degrees, and credit based systems. The work on credit systems should take account of developments in the learning and skills sector, and the wider usage of European credit systems under the terms of the Bologna agreement. I also look forward to the report from the sector group which is exploring credit issues alongside those relating to recording achievement, value-added measures and degree classifications.'

96. On the other hand, we should avoid encouraging institutions to recruit students who have little prospect of completing their programme of study. Such students may have paid fees for a full year of study, even if they have not completed or passed all of it. Previous grant letters from the Secretary of State have emphasised the need to bear down on non-completion, and our latest one dated 31 January 2006 states:

'I am particularly keen that you should work with institutions to ensure that any increases in the widening participation allocations are used on the most effective interventions, including those that bear down on non-completion rates.'

Views and key issues on credit-based funding

97. There were mixed responses to our proposals in the consultation. Institutions were divided on the issue, with those against coming more from research-intensive institutions, and those in favour from HEIs that do most to widen participation. However, even where there was agreement to take account of credit in the volume measure, it was often with the caveat that it should be credit completed, rather than credit awarded. The main concerns expressed were that:

- a. Funding on the basis of credit awarded would place unwelcome pressure on academic standards, if institutions' funding depended on them awarding credit to students.
- b. There could be an unwelcome increase in the accountability burden if institutions were required to report information at the module level. Some institutions saw this increase in burden as having no benefit for themselves.

98. In developing the funding method we needed to consider:

- a. To what extent we were prepared to increase the accountability burden by requiring modular information on the HESA record.
- b. Whether we should move towards funding that reflects awarded or completed credit, both in the long term and through any interim measure.
- c. Whether there were any further measures that we could introduce prior to 2009-10 that might address institutions' concerns about the treatment of non-completion and encourage more flexible patterns of delivery. This includes developing credit systems.

Data collection

99. We have not been able to model the effects of our proposals on credit funding with any degree of reliability, because currently so few HEIs provide module information. Without module data covering a significant portion of the sector we cannot make informed assessments about the impact of changes to the volume measure for funding.

100. HESA is consulting on changes to the student record which will be introduced for 2007-08. The second round of its consultation was launched in March 2006. The HESA record from 2007-08 will allow the collection of module-level data as this is a requirement of the Welsh and Scottish

higher education funding councils. After this consultation, we and HESA are committed to avoiding any further major change to the record for three years.

101. The majority of English institutions do not return module data to HESA. We want to give all institutions the opportunity to report module information, knowing that it may be used for funding purposes, before we actually start to use it in this way. To do otherwise could be seen as unfair and inequitable. We are committed to not changing the HESA record prior to 2007-08. If we attempted to use module information earlier, we would treat institutions that currently report data in this way more favorably than others that had chosen not to. This could create an unwelcome pressure on some institutions to make changes prior to 2007-08, counter to our commitment not to introduce changes.

102. In order not to increase the burden on those HEIs who are least likely to benefit from the inclusion of credits in the funding method, institutions are being given freedom as to how they define modules. These could equate to simple combinations of subject and cost centre, implying very little real change to how most institutions currently report student activity. Where institutions choose to return data in this way we would not make any compensating funding adjustment (including accepting appeals for mitigation of holdback) for institutions that argued that they had been disadvantaged. Therefore, institutions are being encouraged to return complete module information on the HESA student record from 2007-08 so that we can include it within our funding allocations.

103. Once we have the necessary data, we will need to agree whether our funding should reflect credit completed or credit awarded. In proposing to use credit awarded, our aim has been to explicitly support student achievement and progression, and to recognise that there are public interest benefits to an HE experience that falls short of completing the student's full study intentions for the year. Nevertheless where the sector was in favour of using credits in the volume measure there was a clear preference for credit completed rather than credit awarded. As well as the concern about the pressure it would place on academic standards, institutions argued that their costs were the same whether a student passed or failed. We will need to ensure that we address the views of the sector in developing our volume measure to reflect credit.

Further work on addressing partial completion

104. In the absence of any other systematic means of resolving this in a way that can be applied in a timely and fair manner across the sector, we plan to explore the possibility of addressing partial completion through the new targeted allocations. Given the previous commitment that there should be only minimal changes to the focus of the allocations for a period of three years from 2007-08, this proposal would depend on the availability of additional funding, rather than a redistribution of current funds. We intend to bring back to our Board later in the year proposals on how the new allocation might work, prior to consulting with the sector.

105. We have also added £12 million to the improving retention element of the formula funding we provide for widening participation. We acknowledge that this part of the widening participation allocation is not recognised by some institutions as an adequate counterbalance to the disadvantage arising from the treatment of non-completions in the main teaching funding method. However, we believe that this goes some way in the short term to addressing institutions'

concerns about the cost of non-completion.

106. We are also funding several pathfinder projects for HEIs to develop models to offer their students a range of flexible study options. These include enabling students to accumulate learning in 'blocks', stopping and starting or varying their pace of study. The pathfinders will be operational from this autumn. We intend to learn about good practice, student and employer demand, and any supply-side barriers (such as funding) from these pathfinders.

Costing and subject weightings

107. We consulted on a proposal to use TRAC as the basis of a national framework for costing teaching. TRAC is presently in place in all HEIs and is used both for reporting annually on the costs of teaching, research and other activities and for forecasting the full economic costs of research projects. We propose to extend TRAC to cover the costing of teaching at a finer level of detail, with a focus on six new cost areas:

- subject
- widening participation
- non-standard or high-cost delivery
- part-time provision
- institutions with a high cost base
- specific initiatives.

108. We believe that the benefits of this proposal are three-fold:

- a. First, a national framework will enable us to identify the total sustainable costs of teaching, at both a sector and an institutional level.
- b. Second, the framework will provide data which can inform the allocation of funds for teaching, both formulaically and through one-off initiatives. This is, of course, subject to us also recognising how costs are met.
- c. Finally, a national costing framework will enable HEIs to better understand the costs of their provision by benchmarking or comparing themselves with other institutions.

109. This proposal received a positive response from the sector, with over four-fifths of respondents (both HEIs and FECs) in agreement. However, a number of respondents expressed concerns both about how a national framework for costing teaching would work and about how it would influence HEFCE's funding method. The most common of these concerns related to the resources required to extend TRAC to teaching: it was emphasised that any burden should be proportionate to the benefits to the sector. This issue was of particular concern to FECs, since FECs do not presently use TRAC or any similar costing mechanism. It was also suggested that since TRAC data reflects historic costs, rather than true or optimum costs, it would fail to give an accurate picture of the costs of teaching. A significant number of institutions expressed concern that the national costing framework would herald an increasingly complex funding regime. TRAC, it was emphasised, should inform but not determine HEFCE's distribution of funding for teaching.

Developing a national framework for costing

110. In view of the sector's endorsement, and the urgent need for better cost information to inform our funding of teaching, we plan to move towards developing and implementing a national framework for the costing of teaching. In doing so, we will take full account of the issues and concerns raised during the consultation. We will proceed by convening a TRAC steering group, with membership from throughout the sector, which will design and specify the national costing framework. This group will be supported by an internal TRAC project team and a team of consultants (JM Consulting). We will also work with a group of finance directors from FECs in order to determine how best to address the issue of costing HE in FECs. We plan to consult on the details of the proposed national framework for costing teaching in autumn 2006.

Subject weightings

111. While evidence from TRAC on the costs of teaching is gathered, we proposed to make no change to the subject weightings in the short term. At present, subjects are divided into four broad price groups, with their relative weightings determined by historic expenditure data. We feel that in the absence of any more robust cost data, any change to the subject weightings would be unjustified. We therefore propose to leave the present subject weightings unchanged, but to look to make more use of costs to inform the weightings in future.

112. This proposal received a high level of endorsement from the sector, with agreement from more than nine-tenths of respondents. In view of this, and our aim to promote stability in times of change, we plan to proceed with the proposal. Again, this is in the context of changed fee assumptions. Since a national costing framework could not be implemented before 2007 and TRAC data typically takes at least two years to achieve robustness, we are unlikely to propose any substantial change to the subject weightings before 2009-10. We appreciate that a small minority of institutions and subject-related bodies feel that the current weightings disadvantage one or more subjects. However, we believe that it would be premature and unhelpful to undertake a piecemeal review of the price group weightings before comprehensive cost data are available.

Widening participation and part-time provision

113. On widening participation (WP) and part-time provision, we consulted on:

- a. Whether we should provide extra funds to support those most at risk of not being able to afford part-time study.
- b. Whether we should investigate the possibility of recognising any additional costs incurred by institutions that have a significantly greater proportion than others of students from under-represented groups.

114. The majority of those who responded to the first question on additional funding for part-time provision either agreed or strongly agreed. Of the HEIs that agreed, there was no discernible pattern with regard to pre- or post-1992 institutions, although more of those that strongly agreed were from post-1992 HEIs or higher education colleges.

115. Many of the respondents who agreed that additional funds should be provided did so with the proviso that such funds would be new money and not a redistribution of existing resource, and that any additional funds should be delivered through the widening access funding stream. Of those that disagreed, some argued that it would be premature to provide such funds, and that HEFCE should wait and see how the sector responds to the issue of part-time study and variable fees. It was suggested that a full review of the support for part-time undergraduate provision should take place following the introduction of the new fee regime for full-time undergraduate study.

116. In November 2005, we agreed to uplift the WP part-time allocation by £40 million per year for 2006-07 and 2007-08. This additional funding will be distributed through the widening access stream of the WP allocation. In addition, in February 2005 we agreed to review in the medium term the support given to part-time undergraduate provision and providers, and that the review should take place once there was a clearer picture of how they had been affected by the new fee regime for full-time undergraduate study. We remain committed to this review.

117. There was some concern expressed in the consultation responses that the proposals only address undergraduate part-time provision and not postgraduate provision. There are two points here. First, variable fees are being introduced for undergraduate courses. No changes have been announced for postgraduate provision and, therefore, we would not anticipate an impact on part-time postgraduate provision. However, in keeping the issue of part-time provision under review we will be able to detect any adverse impact on part-time postgraduate provision as a result of the changes to the undergraduate fee structure. Second, postgraduate student numbers do not contribute to the calculation of the WP allocation to institutions.

Recognising the 'most engaged' institutions

118. The majority of those that responded either agreed or strongly agreed that we should investigate the possibility of recognising the additional costs incurred by institutions that have a significantly greater proportion than others of students from under-represented groups. Of these, about two-thirds of the responses were from HEIs. As with the previous question on extra funds for part-time provision, most of those that disagreed or strongly disagreed were from research-intensive HEIs.

119. Many of the respondents who agreed with the proposal in principle again did so with the proviso that funding to recognise such additional costs should be new money and not a redistribution of existing resource. There was general support for the notion that non-traditional students often require support over and above that which is currently funded, and a consequent need to investigate whether such costs are greater proportionately in institutions with a higher number of such learners. However, it was argued that there is not a consistent approach to supporting non-traditional students, and it was not clear how specific costs might be identified with any degree of accuracy. There were also concerns about how WP is defined, and that any move to recognise the additional costs of WP should incorporate a wider analysis than the proportion of students from given socio-economic groupings. A number of respondents advised postponing any decision and/or action on this until better cost data were available.

120. The consultation responses indicated broad support for the introduction of TRAC for teaching. Therefore, we propose that this is the vehicle we use to secure better cost data for WP activity within institutions. Such data may help us and institutions to better understand what factors lead to additional WP costs, as well as how costs vary. This would allow institutions to measure more effectively the amount of funding required for WP activity, and might help to address some of the broader conceptual issues that respondents raised in terms of defining what constitutes WP activity and target groups.

Taking the review forward

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

- a. *Developing a consistent national framework for the costing of teaching.* We intend to 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 the system of allocations if the 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 that consultation on developing the framework by which the allocations might work, and commit now to undertaking only minimal change for three years from their introduction in 2007-08.
- c. *Addressing non-completion.* We will work to resolve how we should take account in our funding method of what is achieved by students who fail to complete their initial study intentions.

122. The implications of our proposals for HE delivered in FECs are important and we are working closely with the Association of Colleges, the LSC and colleges directly to ensure that we develop a full understanding of the issues facing these institutions. This is particularly relevant to use of the TRAC methodology, where a tailored approach will be required.

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

Timetable

124. 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 and we have therefore produced the following revised timetable.

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

Annex A Analysis of responses to HEFCE 2005/41

Overview

1. In October 2005 we published HEFCE 2005/41, 'Review of the teaching funding method: consultation on changes to the method'. Supporting studies and modelling of the effects on institutions of the proposals were made available on our web-site along with answers to some frequently asked questions. In December we held two consultation events.
2. We asked for formal responses to the consultation to be made through a web-based form, which asked 11 specific questions and also invited general comments. The deadline for responses was 13 January 2006.
3. We received responses from:
 - 105 higher education institutions (HEIs)
 - 13 further education colleges (FECs)
 - 38 other organisations, such as subject associations and other representative bodies
 - 5 individuals.
4. These include a small number of letters and other responses providing comment on or expressing concern about our proposals. Responses from HEIs cover a majority of those that we fund, while responses from FECs cover a small percentage of those funded. Responses from other organisations were predominantly from subject association or discipline-related bodies, along with some government organisations and other funders.
5. In the analysis which follows, references to proportions for or against a particular proposal mean 'among those that responded', rather than among any wider population. The format of the questions included a tick-box option ('strongly agree', 'agree', 'neither agree nor disagree', 'disagree', 'strongly disagree') plus unlimited space to provide comment. In general, respondents provided more comments when they wanted to say why they disagreed with a particular proposal than why they agreed with it, or had no preference. Often where disagreement has been expressed it is not the principle that is objected to, rather that the respondent has an alternative approach in mind.
6. The qualitative comments in this analysis can therefore present a more negative picture than is reflected by a quantitative analysis of numbers of respondents agreeing or disagreeing with a proposal. This is particularly the case for general additional comments, which almost without exception were only provided by institutions that disagreed with the proposals in the consultation document.
7. Some institutions questioned the appropriateness of undertaking the review at all. A frequently stated and strongly expressed view was that HEFCE should not be changing its funding method as much as is proposed in the consultation, when a more fundamental review would be needed if and when the cap is removed on variable fees as a result of the Government's review of fee regulation in 2009. This view came from a wide variety of institutions, including those who would not see any significant change in their funding as a result of our proposals, or who may even stand to benefit.

8. The arguments expressed were that institutions needed a period of total stability before potentially more far-reaching change in 2009; and that the proposed change from premiums to allocations would lead to unnecessary turbulence within the funding method, even if the overall level of HEFCE funding received by the institution did not change. Some also argued that the two-cycle process proposed was not in reality two cycles but one long blurred cycle: this was not seen as providing stability or predictability. Several institutions used the opportunity to provide general comments to re-iterate their disagreements with questions associated with the move from premiums to allocations, and their disagreement with the proposal to increase the full-time undergraduate fee assumption. These arguments are reflected in the analysis of responses to specific questions below.

9. There were also requests to consider additional factors not previously included in the review. Some institutions asked for a greater consideration of the costs of provision for postgraduates and international students, either in the funding model or in the work to collect information on the costs of teaching. A few, largely research-intensive institutions argued for narrowing the tolerance band; while others warned against narrowing the band.

Analysis of responses to specific questions

Question 1 Do you agree that HEFCE should support and protect its strategic priorities through the funding method?

Question 2 Do you agree with the concept of replacing premiums with targeted allocations that are outside the tolerance band and that address strategic priorities?

10. On the question of whether the method should protect strategic priorities, an overwhelming majority of respondents in HEIs, and all respondents in FECs, either agreed or strongly agreed. A number of reasons for this were cited:

a. *Significance of public funding as a policy lever.* A number of institutions said that a public funding stream of such magnitude could not avoid having a connection to HEFCE's, and Government's, strategic priorities.

b. *The need to protect particular features of HE.* One of the most commonly held views, among those who agreed with the question, was that the support of particular strategic priorities was central to ensuring that valuable features of HE that could be at risk were protected. This tended to be expressed most strongly by small and specialist institutions.

11. Outright disagreement was limited to a few generally research-intensive HEIs who argued that the priority for HEFCE should be to provide as little funding to support strategic priorities as possible in order to ensure a 'properly funded core'. Some respondents challenged question 1 itself, arguing that as a concept 'in the abstract' it was meaningless.

12. Despite the general agreement on the need to support strategic priorities through the funding method, nearly all respondents from all types of institution expressed many caveats, requests and associated concerns:

a. Many were concerned that in general the changes being proposed to provide more effective support for strategic priorities were actually about HEFCE wanting an increasingly interventionist role, and that this could potentially threaten institutional autonomy. Many respondents subsequently urged HEFCE not to exceed the current balance between 'core' funding and funding allocated in respect of particular strategic priorities.

b. The provision of stability and predictability was highlighted by many respondents as the key aim of the funding method. The introduction, or alteration, of any strategic element of the current method was therefore seen as running counter to this need for stability and predictability. Many gave examples of previous 'top-slicing' that had occurred and the disruption this caused to institutions.

c. Several institutions expressed a note of caution: that while having strategic priorities in the funding method was unavoidable, this placed a responsibility on HEFCE to be absolutely clear about its existing priorities, how these related to the funding method, and how they would develop in the future. Alongside this, many institutions stressed the need to ensure that HEFCE's priorities were in fact the sector's priorities and that any changes were consulted upon and developed in partnership.

d. A number of institutions argued that any increase in 'strategy' in the funding method would inevitably lead to mission convergence as institutions altered their profile in order to attract funding. It was argued that this was in fact counter to HEFCE's own stated priorities of maintaining a diverse sector.

e. Many institutions expressed opinions on the correctness or otherwise of HEFCE's priorities, and many volunteered views on what strategic priorities should be given importance. The strategic priorities favoured often correlated with the profile of the institution, with for example research-intensive institutions highlighting the absence of 'the importance of teaching in a research-intensive environment' from HEFCE's strategic statements.

13. On the related question of whether premiums should be replaced by targeted allocations, a significant number of respondents from HEIs agreed or strongly agreed, with approximately double those in agreement as opposed to those in disagreement. Those in disagreement were almost all research-intensive institutions, along with specialist institutions – who either disagreed or agreed with many caveats. The few FECs that responded were in broad agreement with the proposal though only a few provided supporting comments. These generally focused on the availability of these allocations to FECs and the likelihood of HEIs 'passing-on' the relevant funds to franchised providers.

14. Reasons for agreement generally echoed those put forward in the consultation document:

a. That using a system of targeted allocations operating outside of a tolerance band rather than premiums would provide more impact, and hence more effective support for their intended target.

b. That cost-based allocations linked to strategic priorities would be a simpler, more transparent method of addressing particular priorities which would in turn be more justifiable.

15. Those who disagreed with the proposal provided extensive comments as to why targeted allocations may not be appropriate; and many who agreed also mentioned a number of caveats and potential problems.

a. A number of institutions that disagreed with the proposal argued that the introduction of targeted allocations would increase the level of volatility and instability in the funding method to an undesirable level, particularly as the sector is undergoing a period of change to tuition fees, its other major source of funding in support of teaching. This view was most strongly expressed by institutions with a large proportion of their HEFCE grant currently allocated through premiums, as well as by a number of research-intensive institutions. Others who agreed with the proposal also expressed this as a note of caution; and in particular that the move to allocations should not disrupt the stability of core grant. Several institutions urged HEFCE not to create instability by altering the proportion of funding for allocations from the existing balance between 'core' and premiums.

b. Some institutions were concerned that by removing particular 'pots' of funding from the tolerance band that this funding may be more vulnerable to change and even removal. Associated with this was a view that this vulnerability could only be avoided through increased reporting or audit, which was not desirable. This was expressed most strongly by specialist institutions. It was also a point made as a note of caution by many that agreed in principle with the proposal.

c. Some institutions argued that a number of existing premiums are not suitable to become allocations. It was argued either that what they were addressing were not strategic priorities, or that they were not appropriate to be exposed to the level of volatility that respondents claimed the allocations would bring. London weighting and the premium for old and historic buildings were the most cited examples. The respondents making these claims were not however requesting the redistribution of the funding associated with the premiums.

d. A number of institutions expressed concerns about 'signing up' to the proposal without knowing how the targeted allocations would be focused or work in practice in the future. This was a view expressed both by those in agreement and by those in disagreement. Research-intensive institutions in particular expressed the view that, although HEFCE had provided reassurances up to 2008-09, there was no guarantee that beyond 2009 the allocations would not be used as mechanisms for major redistribution of grant.

e. One issue on which there was little agreement was on the level of complexity that allocations may or may not bring to the method. A few institutions argued that the introduction of allocations would increase the complexity of the method, in effect creating a number of new funding streams. Others did not share this view, arguing that the allocations in fact made the method too simplistic to achieve its objectives.

- f. Specialist institutions in particular expressed concern that the consultation document implied that the intention behind the allocations was to divert funds to support widening participation, and that this put their funding at risk.

Question 3 Do you agree that we should develop a consistent national framework for the collection of cost information in accordance with TRAC principles?

Question 4 Do you agree that we should not change subject weightings in the short term but should look to make more use of costs to inform them?

16. The proposal to develop a consistent national framework for the collection of cost information received a very positive response, with more than four-fifths of respondents agreeing. There was a general recognition that the Transparent Approach to Costing (TRAC) methodology could provide a robust basis for identifying the true costs of teaching. Opinions differed regarding the speed of implementation: some suggested that a national costing framework should be adopted as soon as possible; others recommended a delay until the possible lifting of the cap on fees in 2009. Many respondents commented that they would welcome the opportunity to consult further on the details of TRAC for teaching.

17. The sector's endorsement of the proposal, however, was not unconditional. Many respondents expressed concern about the additional time and resources that would be required to extend TRAC to teaching. Unsurprisingly, this issue was of particular concern to FECs, who do not presently use TRAC, or any similar costing mechanism. Concerns were also raised that since TRAC data would reflect historic costs, rather than true or optimum costs, it would fail to give an accurate picture of the costs of teaching. It was also noted that since TRAC data are based on expenditure, and expenditure is informed by income, any attempt to ground funding upon TRAC data would be inherently circular.

18. Many institutions commented that while they would be happy to see TRAC inform the price group relativities, they would object to any attempt to fund institutions differentially depending on their cost data. This, it was suggested, would be highly divisive; it might also lead to institutions manipulating their costs in order to achieve the best funding results. Support of HEFCE's block grant approach was reiterated, and institutions sought reassurance that the introduction of TRAC would not prelude a more complex funding regime. TRAC, it was argued, should inform rather than determine funding. A number of institutions – including small, specialist and research-intensive institutions – expressed concern about how a framework based on TRAC could equitably deal with their provision.

19. Less than one-fifth of respondents disagreed with the proposal. Of those who disagreed, some argued that the implementation of a national costing framework would not justify the burden placed upon the sector. HESA data, it was suggested, provides adequate costing information. Some commented that introduction of TRAC would distract institutions from developing their own costing mechanisms, and that, since TRAC is based on historic costs, it will fail to provide new or helpful information.

20. The proposal to keep the existing subject weightings until additional cost information was available also received a high level of endorsement from the sector. Over nine-tenths of respondents agreed that we should not change subject weightings in the short term, but should look to make more use of costs to inform them. The reasons given for agreeing to the proposal were two-fold. First, institutions see themselves as facing a period of turbulence following the relaxation of fee regulations in 2006. To revise the subject weightings in the near future would lead to an unwelcome increase in instability. Second, many respondents agreed that a revision of the subject weightings would require a cross-sector review of the costs of teaching. It was felt that, in advance of such a review, any change to the weightings would be indefensible.

21. Of the small proportion of respondents who disagreed with the proposal, most believed that the current weightings disadvantage one or more subjects. In particular, certain institutions and representative bodies suggested that the funding of economics, engineering and science, pharmacy and psychology required urgent revisiting. Others rejected the proposal because they believe that the national framework for costing teaching, based on TRAC principles, would not provide a good basis for revising the subject weightings. They suggested that any revision should, instead, be based upon expenditure data.

22. Few institutions took this opportunity to comment on HEFCE's treatment of strategically important and vulnerable subjects. Of those that did, all accepted that no change in the funding of these subjects would be appropriate in the short term; many also agreed that a lack of demand cannot be addressed by an increase in supply. There was, however, sympathy towards the idea that any future review of the subject weightings should recognise the high costs of provision in these areas.

Question 5 Do you agree that we should continue to make an assumption about the income from fees in calculating our grants for teaching?

Question 6 Do you agree that we should make a fee assumption for full-time undergraduates, in real terms, of £1,750 in 2007-08 and £2,000 in 2008-09?

23. A large majority of respondents, including of institutions, agreed with question 5 that we should continue to make a fee assumption within the funding method. However, of those expressing a preference in response to question 6, more disagreed than agreed. For both respondents as a whole, and for institutions, the ratio of disagrees to agrees was approximately 60:40. If those that responded 'don't know' are included, the 'disagrees' amounted to approximately half of all respondents.

24. Although more institutions disagreed than agreed with question 6, the reasons for disagreeing given in the comments were not consistent among respondents, and in some cases do not appear to be a rejection of increased full-time undergraduate fee assumptions *per se*:

- a. Many disagreed because they thought that the fee assumptions should not change, and the arguments appeared to be expressing a preference for no change to the HEFCE teaching funding method. This is consistent with the fact that there was clear support for HEFCE to continue to make a fee assumption, in response to question 5.

- b. Some disagreed because they thought the full-time undergraduate fee assumption should be increased to a different level, in some cases higher than we were proposing.
- c. Some disagreed because they thought it inappropriate for us to use a uniform fee assumption, and that instead we should make a more realistic assumption about the net fee income that their particular institution expected to receive (or that FECs generally might expect to receive). This argument was put forward generally by those with strong widening participation missions, who expected either not to be able to charge high fees for particular programmes or to provide significantly more support for students through bursaries.
- d. Some disagreed because they believe the use of fee assumptions is in conflict with the assurances given by Government that the increased fee income would be additional to what it was already providing.

25. Other comments made in response to these two questions included the following:

- a. Institutions (whether HE or FE) were unlikely to be able to charge as high fees for foundation degrees and sub-degree programmes as for other undergraduate programmes. To make the same fee assumption for them would disadvantage such provision.
- b. It is inappropriate to make a uniform fee assumption in the context of variable fees.
- c. The phasing in of the increased fee assumption should differ from our proposals, in particular to reflect the fact that some institutions have a large number of undergraduate programmes longer than three years (such as undergraduate masters programmes, sandwich courses, music, modern languages, and clinical programmes). Others believed we should start increasing the fee assumption in 2006-07.
- d. The fee assumption should not take account of expenditure on student bursaries. This was just another cost on institutions, or was merely being used to reduce fees.
- e. If we take account of fee income, why not also take account of, for example, endowments and donations?
- f. It is inappropriate to maintain the existing price group weights while changing the fee assumptions. Much of the additional fee income will be spent on central facilities, rather than on subject-specific areas, so that a narrowing of cost differentials between subjects was implied.
- g. We should not change price groups or fee assumptions until we have evidence of what is actually happening across the sector under the new student support regime. Others argued that we should keep all assumptions under review in the light of emerging evidence.
- h. Some thought it inappropriate to assume that part-time fees would not increase. Others thought it was right to reflect a difference in fee income between full-time and part-time undergraduates.

- i. The increased support for high cost subjects and part-time provision was welcomed by some; the consequential effect on low-cost full-time provision was not supported by others.
- j. The agreement to increased full-time undergraduate fee assumptions was only while the cap on variable fees remained, and that a fundamental review of the funding method would be necessary thereafter.
- k. The allocation of HEFCE grant should be concerned solely with funds made available to HEFCE. We should not make fee assumptions, but should instead review price group weightings.
- l. There was concern that HEFCE was using the advent of variable fees as an opportunity to address a wider range of strategic priorities than at present.
- m. The fee assumption makes the funding method more complex.
- n. More detailed modelling was required of the effects of the proposals.

26. The responses to question 6 do not appear to show a particular pattern in terms of broad categories of institutions: views were divided between universities (including among the more research-intensive and among those with strong widening participation missions), general and specialist HE colleges and FECs. There does, however, appear to be a relationship between responses to this question and the modelling that we provided on our web-site. Where the modelling showed institutions would move up within or outside the tolerance band (appear relatively better resourced), they were roughly three times more likely to disagree than to agree. Where the modelling showed institutions would move down within or outside the tolerance band (appear relatively less well resourced), they were roughly twice as likely to agree as to disagree. Movement up or down within the tolerance band cannot always be seen in crude terms as particularly advantageous or disadvantageous, and perspectives on it may vary between institutions. However, movement towards or above the top of the tolerance band may be seen as increasing the risk of holdback, while movement towards or below the bottom of the tolerance band may be seen as reducing the risk of holdback and increasing the chance of receiving additional funding for migration.

Question 7 Do you agree with our proposal to consider moving in the longer term towards funding on the basis of credit awarded?

Question 8 Do you agree with our proposal to reflect the credit awarded to students who are reported as non-completions, for institutions that report module information in their individualised student data returns?

27. On the proposal to consider moving in the longer term towards funding on the basis of credit, many post-1992 HEIs and HE colleges agreed with the proposal. However, although most of these did not agree with basing funding on credit awarded, and argued instead for basing it on credit completed. A roughly equal number of HEIs – mostly pre-1992 – disagreed with the

proposal altogether. FECs tended to agree strongly, and other types of respondent were split on this issue.

28. The most extensively discussed issue was whether to base funding on credits awarded or credits completed. Many respondents (including a number who disagreed with the proposal) argued that funding by credit completed would be preferable, for the following reasons:

- a. Funding by credit awarded would link academic decisions to funding, and thus put pressure on academic standards.
- b. Funding by credit completed would better reflect the costs of provision (particularly for supporting 'WP' students), as these are incurred regardless of the assessment outcomes.
- c. 'WP' students are more likely to fail some of their assessments, so funding by credit awarded would have the perverse consequence of discouraging institutions from taking on such students.
- d. Some also argued that:
 - i. Funding by credit completed would be less complex.
 - ii. There are other ways of promoting academic success (for example monitoring through performance indicators) that avoid such adverse consequences.
 - iii. Successful progression, particularly for 'WP' students, does not necessarily involve passing all modules. Funding by completion would better recognise such progression.

29. Only a few HEIs, and several FECs, supported funding on the basis of credit awarded.

30. Many respondents, including those who supported the proposal, raised concerns about administrative burden and complexity.

31. Those who supported the proposal tended not to provide much detail on the reasons why, although they often referred to addressing non-completion, and supporting flexibility. Many supporters cautioned that such a development would need to be long term. Some noted that a national credit framework would be needed. A number pointed to a range of issues where further investigation would be needed to develop the proposals, for example:

- the problems of a retrospective system
- how to fund sandwich years
- funding of postgraduate provision
- how to treat credit awarded through accreditation of prior learning

- how to counterbalance the ‘distortion’ in favour of the Open University.
32. Of those who argued against the proposal, the following concerns were frequently raised:
- a. Funding by credit removes incentives for student retention and completion, which is seen as a strength of the current system. Institutions with high completion rates would ‘lose out’, and institutions would be encouraged to recruit students with little chance of completing.
 - b. Impact on the curriculum: funding by smaller units of activity would put pressure on HEIs to offer smaller units of study to secure funding, and such changes would not be driven by the students’ interests.
 - c. Related to the above points, several noted that credit-based funding would lead to an increased volume of activity being recorded, without extra resource, and hence dilute the unit of funding.
 - d. Several argued that the only tangible benefit of funding by credit would be to address the non-completion issue; but that this is not a sector-wide issue and much more efficient solutions could be found.
 - e. Some argued that funding smaller units of activity is contrary to the block grant principle, and would increase instability.
 - f. Some raised issues of academic autonomy, stating they had no intention of introducing a credit system for at least some of their provision.
33. We also proposed an interim measure to reflect the credit awarded to students who are reported as non-completions. This would be available for institutions that report module information in their individualised student data returns. Similar numbers of respondents agreed and disagreed with this proposal as to the longer term move to funding on the basis of credit. However there was a slightly clearer pattern of response, with virtually all of those who strongly disagreed being research-intensive institutions (although not all research-intensive institutions strongly disagreed). Again, FECs tended to agree, and other types of respondents were split on this issue.
34. A number of respondents supported the proposal as it is, without any further qualification. However, many supporters (and some who did not agree with the proposal as such) raised some concerns about it or suggested changes:
- a. Many were against making this funding available selectively, on the basis of institutions’ data systems, as this would be inequitable, and argued for a consistent approach. A number of these urged that all HEIs should complete module returns, and should be given ample time to prepare for such changes, before proceeding with this proposal. Some believed that the current HESA consultation on changes to the student return would result in all HEIs having to return by module, regardless of our funding proposals, although a number raised concerns about the timescales outlined in the HESA consultation.

b. Some respondents repeated their arguments in favour of funding based on credit completed, rather than credit awarded, and some were concerned about the precedent this would set in linking funding to academic judgements, should we proceed further with credit-based funding.

c. Although a number were concerned that the proposal did not allow sufficient time for HEIs to adapt data systems, several argued that the proposed change is too slow a means of addressing the current ('urgent') anomaly regarding non-completions, and wanted more rapid implementation.

d. Several suggested alternative methods of addressing the non-completion issue. They felt it would be simpler, less burdensome and quicker to implement if HEIs could return the appropriate volume on HESES, which would be 'auditable', rather than base funding on modular returns to HESA. (It was not clear how HESES data could be auditable without recourse to modular HESA data – but this could be considered.)

e. Several FECs queried the data requirements for them, given that they do not return data via HESA. They would welcome further exploration of this, but would be concerned if any additional data burdens resulted from this proposal.

35. Of those who disagreed, the main reasons were:

a. It would be a large additional burden for very little gain. It was noted by some that the module record would need to be applied to all students, not just non-completers, for an institution to benefit, thus substantially increasing the burden of data returns. At the same time, given that this funding would remain within the tolerance band, very few institutions would receive any additional funding for it. A number of those who agreed with the proposal also raised concerns about the additional burden potentially outweighing the added benefits.

b. To the extent that any institutions would receive additional funding, a number were concerned about diluting the core teaching grant, and would strongly disagree with this move unless funded through additional resources.

c. Related to the above point, some argued against the principle of funding for non-completion, as it would reduce incentives for retention and completion, and could dilute funding for institutions with high completion rates.

36. The relevant subject associations noted that medicine and dentistry are 'non-modular', implying that our proposals could not work for provision in these areas.

<p>Question 9 Do you agree that we should move over time towards funding solely on the basis of HESA and ILR data collected at the end of the year, and cease to use HESES and HEIFES data for funding purposes?</p>
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37. The number of institutions agreeing with this proposal broadly equalled the number that disagreed. However, the strength of feeling appeared greatest among those that disagreed. Of those that agreed, approximately one-eighth agreed strongly; while of those that disagreed, half disagreed strongly. The comments reveal that those that agreed with the proposal still had some concerns. Many agreed in principle but subject to further discussions based on details of how the method will change as a result of using HESA/ILR data. Without these details they did not feel that they could:

- a. Comment on whether the accountability burden would reduce.
- b. Comment on whether grant based on retrospective end-of-year data can be flexible and responsive to planned changes in their provision.
- c. Comment on whether HESA data, definitions and guidance are robust enough for greater use in funding.
- d. Model the impact that this change is likely to have on their institution.

38. Comments made in response to this proposal included:

- a. Concern that funding allocations would be based on data that was at least two years out of date (possibly three years for some activity). Some considered that the advantage of removing retrospective grant adjustments – for holdback when HEIs failed to meet their contract range – outweighed the disadvantage of using such historic data. However, others strongly disagreed. In particular, it was felt that the proposal made an assumption of stability in institutions' student populations that was inappropriate. Postgraduate taught activity, where courses were commonly of one year's duration, and part-time activity, were likely to be more volatile areas where the use of historic data was inappropriate. In an increasingly market-oriented sector, such volatility was likely to increase.
- b. The view that, while the removal of HESES might reduce the accountability burden, it would not reduce institutions' workload. Institutions needed to compile early information on student numbers for their own planning and budgeting purposes. Many argued that HESES provides the discipline to ensure that data used for internal planning purposes are robust enough, although it is likely that these concerns could be met through alternative tools to assist institutions in their planning. Some institutions suggested that the marginal costs are minimal for providing additional data (such as price group) to the on-going requirement for in-year reporting of aggregate student data for government planning purposes.
- c. Other institutions welcomed HEFCE's intention to reduce the accountability burden, but considered that the proposals would not have this effect. Some commented that a reduction in the accountability burden would be better made through a simplified HESES survey, containing only information that is directly used for funding. Others suggested that closer alignment with early student number returns requested by the Training and Development Agency for Schools and the NHS would reduce burden.
- d. A desire for any change to be implemented over an extended period of time, rather than immediately. In particular, many argued that we should wait at least until 2008-09

HESA data are available before ceasing to use HESES/HEIFES for funding. HESA is currently in the middle of a substantial review of its student return for implementation in 2007-08. It was argued that any increased reliance on the 2007-08 HESA student record should be avoided at a time of significant change to institution's internal systems and processes. At the earliest, 2008-09 HESA data could be used to calculate the 2010-11 grant.

e. A small number of institutions questioned whether funding based on credit could be achieved using only HESA/ILR data rather than by modifying the existing HESES/HEIFES returns.

f. Concern that the reduced accountability burden of HESES would be offset by requirements for increased monitoring and audit of the HESA data. Some felt that this was already occurring through the HESA-HESES reconciliation exercise and web facility. Others recognised the improvements in data quality that the exercise and web facility had facilitated, but argued that these could be weakened because a reduced HESES return would allow less cross-checking.

g. One institution suggested that a similar proposal would remove the need for the collection of data through the Research Activity Survey.

Question 10 Do you agree that we should look to provide extra funds to support those most at risk of not being able to afford part-time study?

Question 11 Do you agree that we should investigate the possibility of recognising the additional costs incurred by institutions that have a significantly greater proportion than others of students from under-represented groups?

39. The majority of those who responded to question 10 either agreed or strongly agreed. Of the HEIs that agreed, there was no discernible pattern with regard to pre- or post-1992 institutions, although more of those that strongly agreed were from post-1992 HEIs or HE colleges.

40. Of those that disagreed, a large number were from research-intensive institutions. Many of the respondents who agreed that additional funds should be provided did so with the proviso that such funds would be new money, not a redistribution of existing resource, and that any additional funds should be delivered through the existing widening access funding stream. A number of respondents noted that the recently announced additional £40 million for part-time provision to widen participation comprised only £20 million of new money, and that the remaining £20 million would be found from holdback. They argued that this represents a transfer out of core teaching funds, and as such has been diverted from funds which would otherwise have been available to support core activity.

41. Of those that disagreed, some argued that it would be premature to provide such funds, and that HEFCE should wait and see how the sector responds to the issue of part-time study and variable fees. It was suggested that a full review of the support for part-time undergraduate provision should take place following the introduction of the new fee regime for full-time

undergraduate study. Others argued that the proposal focuses solely on undergraduate provision and does not consider part-time postgraduate students, and so any decisions should only be made following an assessment of the impact on other forms of provision. One respondent suggested that extra funding for part-time provision should be in the form of grants for students and not increased allocations to institutions.

42. Other comments included:

- a. A risk that offering part-time HE courses will become economically non-viable as the level of full-time fees rises as, particularly in economically disadvantaged areas, pro-rata fees for part-time courses will not be affordable. Therefore, without an increase to the part-time allocation, there could be significant structural changes in the sector.
- b. A belief that HEFCE should not interfere in the demand for part-time study by providing additional funding to any category of part-time student.
- c. Although it would be beneficial to have additional funds for part-time students so that fees could be maintained at a lower level, this is likely to require too much resource at the expense of full-time student funding, where there is a greater overall need.
- d. The group most likely to be attracted to HE through a part-time route will often include potential students who are very concerned about finding the money to pay their fees. Therefore, this initiative would be welcomed.
- e. Agreement that extra funds should be provided to support part-time courses but a suggestion that what is currently being considered does not go far enough.

43. The majority of those who responded to question 11 (whether we should investigate the possibility of recognising the additional costs incurred by institutions that have a significantly greater proportion than others of students from under-represented groups) either agreed or strongly agreed. Of these, roughly two-thirds of the responses were from HEIs.

44. Of the FECs that responded, all agreed.

45. Of those who disagreed or strongly disagreed with the above proposition, most were from research-intensive HEIs.

46. Many of the respondents who agreed with the proposal in principle again did so with the proviso that funding to recognise such additional costs should be new money and not a redistribution of existing resource. There was also some concern over the mechanisms by which such funding would be allocated and any potential additional burden that might be placed on HEIs in terms of monitoring. There was a further concern that additional funding distributed on this basis should be allocated on the basis of student success criteria, to ensure that we do not reward 'poor performance'. Some respondents also commented that there would need to be careful consideration of how widening participation is defined for the purposes of funding. One respondent argued that the funding streams to support WP are too narrowly defined, and that any move to recognise the additional costs of WP must incorporate a wider analysis of costs than the

proportion of students from given socio-economic groupings. Another respondent advised that there should be careful consideration given to the definition of 'under-represented groups'.

47. A number of respondents, though agreeing in principle with the proposal, suggested that this should only be considered in the light of a full assessment of the costs and levels of funding across all types of teaching, and not just based on evidence of the costs of teaching students from under-represented groups. One respondent suggested that it should only be done in the context of looking at the whole picture in respect of teaching costs, rather than just WP. Another argued that it would be premature to direct more funds towards widening participation until there are some results from the full economic costing of teaching, in order to set the costs of WP in the context of the costs of pursuing other strategic priorities.

48. Other comments included:

a. Support for the notion that non-traditional entrants often require additional support over and above that which is currently funded, and a need to investigate whether such costs are greater proportionately in institutions which have a higher number of non-traditional learners.

b. WP remains a strategic priority and is currently under funded, so such a proposal is welcomed.

c. Concern about the proposal to alter the allocation metrics. It was argued that there is no consistent approach to supporting WP students and it is not clear how specific costs might be identified with any degree of accuracy, particularly where such activity has been devolved and integrated with the institution's structure. Consequently there was a perceived risk that poor performance and current inefficiencies might be perversely 'rewarded'.

d. A belief that HEFCE already recognises this through the funding already allocated for WP. It was argued that no further changes to the funding model should be made before the development and implementation of a TRAC methodology for teaching, as this should be able to provide information about differential costs in relation to a variety of factors. These factors would range from provision for students from under-represented groups to internationally-competitive provision for high-calibre students.

e. It is likely to prove very difficult to identify and quantify the specific costs relating to this category of students on a sufficiently robust and consistent basis across institutions in order to inform funding decisions.

List of abbreviations

DfES	Department for Education and Skills
FEC	Further education college
FTE	Full-time equivalent
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIFES	Higher Education in Further Education: Students survey
HESA	Higher Education Statistics Agency
HESES	Higher Education Students Early Statistics survey
ILR	Individualised Learner Record
LSC	Learning and Skills Council
TDA	Training and Development Agency for Schools
TRAC	Transparent Approach to Costing
UCAS	Universities and Colleges Admissions Service
WP	Widening participation