Update on the simplified approach to funding

The Scottish Funding Council (SFC) has been working with the principals/regional chairs working group to develop a new simplified approach to funding colleges. We are on schedule to implement this new system from 2015-16 and are currently parallel running the system with three regions over the 2014-15 academic year.

SFC plans to run workshops to outline the simplified approach once the 2014-15 academic year has begun. The regions involved in the parallel running year will share their experiences of the new system at these events which will allow these regions to give feedback on the new system after they have recruited and begun delivery of their curriculum for the parallel running year.

SFC would, however, like to ensure all regions are kept up to date with the development of the simplified funding system before these events take place. Over the following pages you will find out more about the changes that will be introduced from 2015-16.
**WSUM targets to be replaced with Credit targets**

Colleges have been funded to deliver a WSUM target for over 20 years. The WSUM is however still widely unknown outwith the college sector and does little to inform our stakeholders of the value colleges deliver for Scotland. To aid transparency and to improve the planning process, WSUM targets will be replaced with much simpler Credit targets from 2015-16. The Credit measure will more closely match student activity levels and timetabled learning.

**How do Credits differ from WSUMs?**

All colleges will already be familiar with the Credit terminology. It has been the building block of our funding system for a generation. Most SQA units have a credit value (1 credit = 40 hours of learning), and for non-SQA activity one credit will also be equal to 40 hours of learning. Our credit measure is identical to the way colleges currently count their part-time SUMs. It differs from the way full-time SUMs are counted as SFC will no longer apply full-time tariffs.

We have already established that Credits are the same as part-time SUMs and that full-time tariffs will no longer be applied. This will mean that if a college plans to deliver 16 credits they will be paid for delivering 16 credits. In addition, Credits will not include any Extended Learning Support (ELS) activity or subject weights. ELS will continue to be fully funded by SFC and will become a separate funding stream. Subject weights will be replaced with a more direct pricing structure that is separate from our volume measures.
**Removing the full-time tariff**

At the moment a college is able to claim 20 SUMs for an FE student if that student is enrolled to complete 16 SUMs/640 hours of learning. For this reason our SUMs measure was not a pure measure of college activity and instead a hybrid measure that included both volume and price. Adding a full-time tariff has also meant that full-time students have been funded at a higher rate than part-time students in terms of price per SUM delivered. SFC has worked out that the full-time tariffs (the difference between 16 SUMs delivered and 20 funded SUMs or 12 and 15 for HNCs) were worth around 11% of all WSUMs.

We have reduced our Credit target to take account of the removal of the full-time tariff and at the same time increased the price for the remaining activity on a cost neutral basis. This will ensure our credit measure better reflects timetabled activity and possible levels of achievement. This system pays the same pro rata price for a full or part-time student which will mean our funding system will support protected groups such as women returners who are more likely to study on a part-time basis.
New arrangements for Extended Learning Support

Until now, SFC has funded students who required ELS at 2.5 times the rate of students who did not require this learning support by funding additional WSUMs for these students. In 2012-13, Colleges provided ELS to 9,189 students at a cost of £44 million. The £44 million is the cost for the additional learning support provided to these students above the mainstream cost of delivering the same course to a student not requiring ELS. This ELS support counted towards 210,000 WSUMs or 10% of the total WSUMs for 2012-13.

Under our simplified approach, SFC will remove the 210,000 WSUMs (10%) from our activity targets and at the same time create a new ELS funding premium worth £44 million to ensure students continue to receive the necessary support. This will mean colleges continue to receive the same amount of funding for these students.

Our ELS funding pays for a wide range of specialist support services often on a one-to-one basis. This can involve a member of college staff supporting students during timetabled classes on a one to one basis or additional timetabled classes outwith the mainstream. The student will also be required to undertake additional learning beyond the average student which may be provided using specialist learning resources provided by the college. One-to-one and personalised support is of course more expensive than classroom based activity which is reflected in the £44 million premium. SFC estimates that these students would on average undertake upwards of 25% more learning hours than those not requiring learning support to complete their studies.

SFC will not set any volume targets for the £44 million for ELS activity but will recognise the additional learning undertaken by these students and the significant investment this represents. SFC recognises that ELS activity is a key instrument in driving the sector’s success in widening access and as such carries significant value. Around 60% of these students have a disclosed disability and around 30% are from the most deprived postcode areas.

There is, however, a balance to be struck between recognition for the additional learning undertaken by these students and the significantly more expensive cost of this learning. SFC estimates that those students who require ELS will study the equivalent of 2,500 full-time equivalent (FTEs) in additional learning hours. The £44 million to fund this supported learning would pay for 13,500 FTEs if the students did not require ELS support, which helps illustrate the higher cost of delivering this supported learning to this key group.

This creation of this premium will not mean that the ELS funding is capped at 2012-13 levels. Colleges will be able to negotiate cost neutral transfers between the ELS premium and credit targets as necessary.
Subject weights

Our WSUM measure includes a weight associated with the cost of delivering different subjects. For example, two students may enrol on courses that require 720 hours of learning. One of these students is studying a business course and the other an engineering course. Each student will have completed 18 SUMs (1 SUM = 40 hours) by undertaking the 720 hours of learning. However, our WSUM measure recognises that it costs 1.26 times the average price to deliver an engineering course but only 0.84 times the average price to deliver a business course and as a result the student enrolled on the business course is worth 15 WSUMs (18 * 0.84) and the Engineering student 23 WSUMs (18 *1.26).

It is clear that both these students studied for the same number of hours and that our WSUMs measure includes an element of cost as well as volume. Under the simplified system we would require our volume measure (Credits) to count volume alone and therefore we will remove the subject weights from our volume measure. The pricing weights inflate our volume measure by 4.7% as the current (2012-13) subject areas are slightly more balanced towards the expensive courses such as engineering or courses for student with learning difficulties (dpg18).

SFC will continue to pay higher costs for some subject areas but our new method will be more transparent and based on explicit prices to be paid for each credit delivered across subject areas.

Credit targets

Our Credit target will be around 25% lower than the equivalent WSUM target as a result of removing the full-time tariffs, ELS volume and subject weights. The Credit target is, however, directly comparable with the WSUMs target and allows for at least the same number of student places in each region. SFC will pay more for each Credit to ensure these changes are made on a cost neutral basis.
**WSUMs to Credits**

The chart below provides an overview of the 2012-13 target of 2,109,958 WSUMs. It shows that the equivalent Credit target for that year would have been 1,577,557 Credits. The difference between these two values comprises the WSUMs associated with subject weights, ELS activity and full-time tariffs. The volumes for these categories are also shown below.

Our Credit targets will be the building block for future funding. There will be five prices that can be paid for each Credit. The price paid will be dependent on the ‘price group’ of the course. The price group will be based on the subject classification (superclass) of the course that the college believes best describes the academic discipline.
**Price groups**

SFC has already mapped all college courses into one of five price groups using the course subject (superclass) grouping returned as part of the student record return for 2012-13. This has allowed us to profile each region’s activity across the price groups.

Price group 5 is a direct replacement for dpg18 courses which are courses designed for students with learning difficulties. Price group 4 replaces the specialist agricultural courses which enrol relatively small numbers. The remaining price groups 1 to 3 will include the vast majority of college courses. Price group 1 will contain the relatively lower cost subject areas, price group 2 the mid-price subjects and price group 3 the more expensive subjects.

The current estimated funding to be paid per credit for each price group and the activity split across the price groups is shown below:

![Price group table](image)

**Proportion of credits in each group**

<table>
<thead>
<tr>
<th>Price group</th>
<th>21%</th>
<th>39%</th>
<th>30%</th>
<th>1%</th>
<th>8%</th>
</tr>
</thead>
</table>

SFC will consult on the appropriate mapping from superclass to price group later this year.

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**Average price per Credit**

SFC will derive the average price paid per credit based on the price group profile for the region as shown below:

![Average price per Credit table](image)

<table>
<thead>
<tr>
<th>Price group</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credits</td>
<td>21,228</td>
<td>39,156</td>
<td>30,022</td>
<td>1,435</td>
<td>8,160</td>
<td>100,000</td>
</tr>
<tr>
<td>Price</td>
<td>£162</td>
<td>£216</td>
<td>£271</td>
<td>£374</td>
<td>£360</td>
<td></td>
</tr>
<tr>
<td>Funding</td>
<td>£3,446,111</td>
<td>£8,475,441</td>
<td>£8,122,981</td>
<td>£536,962</td>
<td>£2,935,231</td>
<td>£23,516,726</td>
</tr>
</tbody>
</table>

Regional Price = £ 23,516,728 divided by 100,000 Credits  = £235.16

This average price will be the price paid per credit before our funding premiums are added. These will include the £44 million ELS premium plus additional premiums for students from deprived and rural areas. SFC will also add an efficiency element that reflects regional negotiations over recent years.
Funding premium for students from deprived areas

SFC will continue to provide additional support to students from deprived areas. Our demographic places model already provides more college places to those areas with high levels of unemployment, low staying on rates at school, low enrolment rates at university or low employment levels.

In addition, SFC will allocate an additional £6.75 million to those colleges serving the 10% most deprived population areas. This is on top of the higher levels of funding paid for specialist courses for students with learning difficulties that are more likely to be required in these areas.

Funding premium for students from rural areas

SFC will also provide a rural premium worth an estimated £7.76 million. The premium is designed to deal with the difficulties faced by colleges serving these areas and helps fund small class sizes.

SFC will set up a group to inform how rural colleges should be funded under the regional structure.

Efficiencies

Our simplified funding system has been developed on a cost neutral basis and pays the same price for a credit delivered in a small college or a large college. SFC has, however, negotiated an efficiency measure with regions in recent years that recognises the economies of scale that can be realised in larger colleges. SFC has no plans to introduce further efficiencies but will build those already agreed into our simplified funding system.

Transition

Our Letter of Guidance from the Cabinet Secretary asks SFC to ensure that no region loses out by more than 1% in cash terms as a result of the combined effect of these simplification changes and the allocation of student places via our needs based demographic modelling.
Full-time equivalents

There is growing interest in FTE student places being delivered by colleges. Under our simplified system we plan to introduce a simple measure to work out the level of FTEs delivered by colleges. Under this system 1 FTE will be equal to 15 credits irrespective of the level of study or mode of delivery. A student studying for 5 credits will count towards one third of an FTE and a studying towards 18 credits will count towards 1.2 FTEs.

We will of course ensure that we give recognition to the additional learning undertaken by those students requiring ELS. In total SFC expects colleges to deliver over 116,000 FTEs if they deliver their Credit target. In addition we expect colleges to deliver in excess of 2,500 additional FTE places each year to be funded through a joint SFC/ESF funded project over the period 2014-20.

The Scottish Government has set a target of 116,000 FTEs to be delivered each year. This target includes an additional 2,650 places to be delivered by SDS. As stated above, SFC expects colleges to deliver 116,000 FTEs if they deliver their SFC Credit targets and we would therefore expect colleges to exceed the government’s target once the SDS places are taken into account.

Student support

SFC has set up a working group to review the way student support funds are allocated. This review will consider the impact of the simplified funding model and the demographic places model. It will also consider potential implications of the ONS classification of colleges.

Key contacts

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