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**Guide**

This guide describes the principles that underpin HEFCE's allocations of grants to universities and colleges. It is intended for those working in higher education, and for others who wish to understand HEFCE's funding methods.

# Funding higher education in England

## How HEFCE allocates its funds

## **Funding higher education in England: How HEFCE allocates its funds**

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## Introduction

1. Every March we announce the grant for the following academic year to each university and college we fund. The academic year runs from 1 August to 31 July.
2. This guide describes the principles that underpin the allocation of funding and explains the components of an institution's grant. It is intended for those working in higher education and for others who wish to understand our funding methods.
3. We use formulae to determine how most of the money is allocated between institutions. These take account of certain factors for each institution, including the number and type of students, the subjects taught, and the amount and quality of research undertaken there. After we determine the amount of funding, it is provided in the form of a 'block grant' which institutions are free to spend according to their own priorities within our broad guidelines. We do not expect institutions to model their internal allocations on our own funding method.
4. In 1996-97 we consulted widely and reviewed our funding methods for teaching and research. The present funding method for research was first used to allocate grants for 1997-98. The funding method for teaching was introduced for 1998-99 for higher education institutions (HEIs) and for 1999-2000 for those further education colleges (FECs) that we fund. We expect to consult on changes to the teaching funding method later in 2003.
5. It is our policy, and has been our practice, to be open about our allocation methods and policies, and this guide is intended to explain them. Our web-site ([www.hefce.ac.uk](http://www.hefce.ac.uk)) provides further information.

## Background

6. Periodically we advise the Secretary of State for Education and Skills on the funding needs of higher education in England. The actual funding for higher education is decided by the Government and voted by Parliament.
7. We are responsible for distributing this money within broad policy guidelines provided by the Secretary of State. In 2003-04 we are directly funding 132 HEIs and 170 FECs that provide higher education courses.
8. Institutions are accountable to HEFCE, and ultimately to Parliament, for the way they use HEFCE funds. They are independent bodies and are free to raise money from other sources. This gives them scope to pursue activities alongside those for which they receive HEFCE funds.
9. We allocate funds to each university or college to support teaching, research and related activities. In doing so, we aim to:
  - increase opportunities for students from all types of backgrounds to benefit from higher education
  - maintain and enhance the quality of teaching and research
  - encourage universities and colleges to work with business and the community
  - support diversity
  - encourage efficiency in the use of public funding
  - provide stability in funding from year to year.

10. Funds for teaching and research are provided as a block grant. Institutions are free to distribute this grant internally at their discretion, as long as it is used to support teaching, research and related activities.

11. HEIs receive funding from many different public and private sources. HEFCE is the largest single source of income for the higher education sector as a whole. The proportion of an individual institution's total income allocated by HEFCE will depend on its activities and money raised from other sources.

12. After HEFCE grant, tuition fees are usually the other major source of funding for teaching. Since 1998-99, UK or European Union (EU) students starting full-time undergraduate courses have been liable to pay an annual tuition fee. The fee level (£1,125 for 2003-04) represents about a quarter of the average cost of tuition. Fees are means-tested by students' local education authorities (LEAs) so that those from poorer families are exempt, or pay only a proportion. The Student Loans Company pays any public contribution towards the fee.

13. We are the single largest provider to HEIs of public funds for research. Public funds for research in universities and colleges are also provided by the Office of Science and Technology. These are distributed by the Research Councils, and support research projects and some postgraduate students. The Arts and Humanities Research Board (AHRB) similarly supports research projects and some postgraduate students in the arts and humanities. In the rest of this publication, reference to 'Research Councils' includes the AHRB.

#### **Medical and dental education and research**

14. Government funding of medical and dental education and research is distributed through a partnership between HEFCE and the National Health Service (NHS). HEFCE-allocated funds underpin teaching and research in university medical schools, while NHS funds support the clinical facilities needed to carry out these activities in hospitals and other parts of the health service. Funding for students in health-related subjects such as nursing and midwifery comes from the NHS.

#### **Teacher education and training**

15. The Teacher Training Agency (TTA) provides funding for education and training courses aimed at school teachers. In particular, it funds initial teacher training courses leading to qualified teacher status (QTS), and in-service education and training courses for teachers who hold QTS. HEFCE funds other teacher education and training provision outside the schools sector.

#### **Higher education in further education colleges**

16. We are responsible for funding courses at FECs on which the students are aiming for certain higher education qualifications. These are: higher degrees (such as Masters qualifications); Postgraduate Certificate in Education (PGCE); first degrees, including foundation degrees (BA, BSc, BEd); foundation degree bridging courses; Higher National Diploma and Certificate (HND and HNC); Diploma in Higher Education (DipHE); and Certificate in Education (CertEd). Other higher education courses at FECs, such as some professional courses, are fundable by the Learning and Skills Council (LSC).

## The annual funding cycle

17. The Government operates a rolling three-year process to set public expenditure across all departments. This has developed into biennial spending reviews to review and re-set expenditure levels. The last spending review was in 2002 and set public expenditure for 2003-04 to 2005-06. The next review is expected to be in 2004 and to cover 2005-06 to 2007-08.

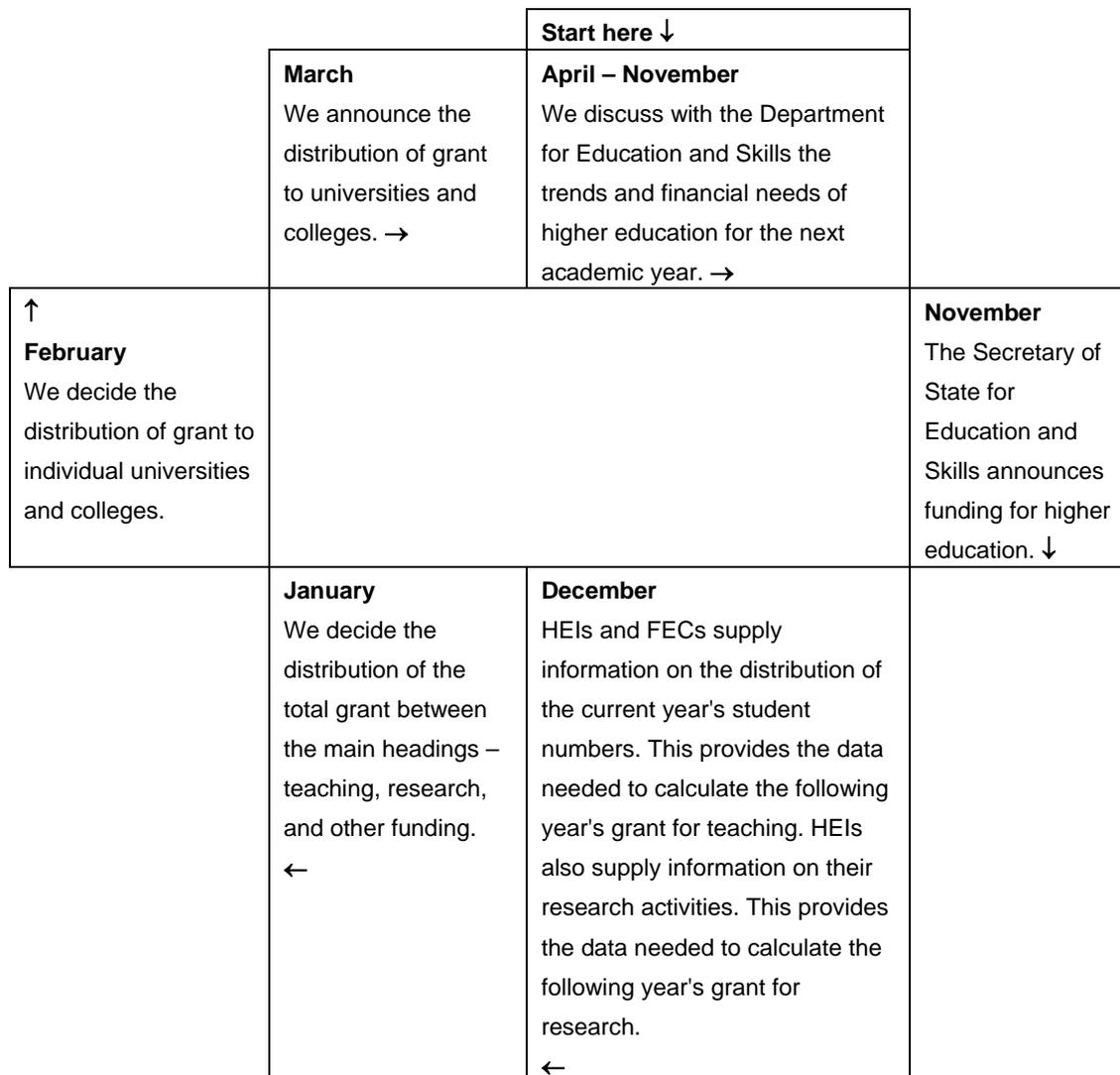
18. Each year we divide the total funds between teaching, research and special funding. The breakdown for 2003-04 is shown in Figure 1.

**Figure 1 Breakdown of HEFCE funding in 2003-04: total £5,481 million**

Teaching	£3,399 million
Research	£1,042 million
Special funding	£862 million
Rewarding and developing staff in HE	£178 million

19. Most of these funds are distributed by formulae, which take account of the volume and mix of individual institutions' teaching and research. We publish the data on which calculations are based, so that institutions can check the outcomes each year.

**Figure 2 The annual funding cycle**



20. Every year the Secretary of State for Education and Skills informs HEFCE of the funding available each year for the next three years. The total grant to be allocated for the following year is confirmed each autumn and guidance is given on spending priorities. We then determine the grants to individual institutions between December and February each year (see Figure 2).

21. This year the timescale was different. We received the grant letter from the Secretary of State in January 2003 when the Government published its White Paper on 'The future of higher education'. We informed institutions of their grants in March as usual.

22. Each December, universities and colleges provide us with a breakdown of their student numbers, together with information on research activities. The main data return, the Higher Education Students Early Statistics Survey (HESES), collects information about the number of students studying at each HEI. A similar return is provided by further education colleges – the Higher Education in Further Education: Students Survey (HEIFES).

## Funds for teaching

This part of the guide is divided into three sections:

- general funding principles
- overview of the funding method
- detailed description of the method.

### General funding principles

23. In distributing the funds, we aim to meet the needs of students, employers and the nation by promoting high quality teaching.

24. We introduced our method to allocate funds for teaching in 1998-99. The previous method provided stability for institutions but in some cases gave differing levels of funding to different institutions for historical rather than educational reasons. With our current method we aim to provide fairer funding for students.

25. The method was developed in consultation with universities and colleges. It funds similar activities at similar rates for all institutions, and ensures that any variations are for explicit and justifiable reasons. It takes account of the extra costs of providing for students on long courses and supports diversity by recognising the extra costs of specialist colleges.

26. The method allows institutions to bid for additional funded student places according to criteria that we determine each year. We are reviewing how to allocate additional student places in the future.

27. In addition to our main teaching funding method, we have made separate allocations to recognise the additional costs of recruiting and supporting students from disadvantaged and non-traditional backgrounds, and students with disabilities. These allocations to widen participation, which are described further in paragraphs 57 to 65, recognise institutions' success in recruiting and retaining these categories of students. Allocations total £265 million for 2003-04.

### Overview of the funding method

28. Institutions receive teaching funds in the form of HEFCE grant and tuition fees. Full-time undergraduate students may receive assistance with their fees from the Government, based on their financial circumstances. Postgraduate students on taught courses pay fees to institutions mostly from their own funds. Fees for many postgraduate research students are paid by the Research Councils. More than a third of the fees for part-time students are paid by employers. Students from outside the EU are expected to meet the full costs of their courses.

29. The combined total of grant and tuition fees is referred to as teaching resource or simply as resource.

**Resource = HEFCE grant + tuition fees**

## Calculating the grant

30. In calculating HEFCE teaching funds for each university and college, there are four main stages:

**Stage 1** We calculate a **standard resource** for the institution. This is a notional calculation of what the institution would get if grant was calculated afresh each year. It is based on each institution's profile of students, and takes into account:

- the number of students
- subject-related factors
- student-related factors
- institution-related factors.

**Stage 2** We calculate the **assumed resource** for the institution. This is based on the teaching grant that we actually paid to the institution for the previous year, adjusted for various factors such as inflation, plus our assumptions of student tuition fee income.

**Stage 3** We compare the **standard resource** with the **assumed resource** and work out the percentage difference between them.

**Stage 4** If the difference between the standard resource and the assumed resource is no more than 5 per cent (whether that is plus 5 per cent or minus 5 per cent), then the HEFCE grant will be carried forward from one year to the next. For institutions outside the plus or minus 5 per cent **tolerance band**, their grant and/or student numbers need to be adjusted so that they move to within the tolerance band.

31. Each stage is described in more detail below.

### **Detailed description of the method**

#### **Stage 1 Calculating the standard resource**

##### Student numbers and volume of teaching activity

32. The students who count towards our teaching grant calculations are, broadly, those home and EU students who are on higher education courses open to any suitably qualified candidate and who are not funded from other public sources. Categories of students which we do not fund through our allocations for teaching include overseas students from outside the EU, and students whose funding is provided from public sources such as the NHS or the TTA. In addition, full-time postgraduate research students in years 2 and 3, and part-time postgraduate research students in years 3 to 6, are funded only through our funding method for research.

33. Student numbers are counted in full-time equivalent (FTE) terms. A part-time student is measured by comparing their learning activity with that of a full-time student, so that each will count as a variable proportion of one FTE. Students who undertake practical work or industrial experience for a year outside the university or college (known as sandwich year-out students) are counted at the rate of 0.5 FTE per student for that year.

34. In determining an institution's standard funding for the coming year, we count the students recruited the previous year and add on any student numbers awarded in the competition for additional places for the coming year.

### Premiums

35. Clearly there are factors such as the types of student, and the nature of the subject, that call for different levels of resource. To take account of these factors, we attach funding premiums when we calculate the standard resource for each institution. They relate to:

- the subject
- the student
- the institution.

### *Subject-related factors*

36. Different subjects require different levels of resource: some subjects need laboratories and workshops while others are taught wholly in lecture theatres and seminar rooms. We have defined four broad groups of subjects (price groups) for funding, and have set relative cost weights for each based on sector averages. These cost weights are translated into levels of resource which depend on the total amount of money available each year.

<b>Price group</b>	<b>Description</b>	<b>Cost weight</b>
A	The clinical stages of medicine and dentistry courses and veterinary science	4.5
B	Laboratory-based subjects (science, pre-clinical stages of medicine and dentistry, engineering and technology)	2
C	Subjects with a studio, laboratory or fieldwork element	1.5
D	All other subjects	1

37. We have used data on actual spending patterns by HEIs to work out the size of the cost weights. We used separate studies of higher education provision in FECs to assign subjects to price groups.

### Student and institutional premiums

38. Having weighted the student numbers by their subject price group, we then apply further weightings to take account of student or institutional factors.

39. The student premium which applies for 2003-04 is:

**Students on long courses** Some courses are taught over longer periods than others within the year and so cost more. Courses that last for 45 weeks or more within one academic year attract a premium. This does not apply to courses in price group A, where the course length has already been taken into account within the cost weight.

40. The institutional premiums which apply for 2003-04 are as follows. For further information on institutional premiums please see Annex A, step 3.

**London premium** We pay a premium towards the higher costs of operating in London.

**Pensions** Institutions which are in the Universities Superannuation Scheme are paid a premium for staff pensions.

**Specialist institutions** Some specialist institutions (defined as having 60 per cent or more of their courses in one or two subjects only) have higher costs.

**Small institutions** Small institutions (defined as having 1,000 FTEs or fewer) often carry disproportionately high central and administrative costs.

**Old and historic buildings** Institutions with old and historic buildings (constructed before 1914) have higher costs to cover, such as maintenance, refurbishment and heating.

41. The following table shows the way we apply the student and institutional premiums.

	<b>Calculated as:</b>	<b>Qualifying institutions</b>
<b>Student premium</b>		
Students on long courses	25% of the FTE weighted by price group	HEIs and FECs
<b>Institutional premiums</b>		
London premium	8% (inner London) or 5% (outer London) of the FTE weighted by price group	HEIs and FECs
Pensions	1.5% of the FTE weighted by price group	HEIs only
Specialist institutions	Variable percentage (usually 10%) of the FTE weighted by price group	HEIs only
Small institutions	Variable percentage of the unweighted FTE	HEIs only
Old and historic buildings	Variable percentage of the unweighted FTE	HEIs only

#### Calculating the standard resource

42. We calculate a basic amount of resource for a full-time student by dividing all the money available to fund teaching (our grant plus assumed tuition fees) by the total number of weighted FTE students in the sector. This basic rate of resource (grant plus fee) is called the base price and is the basic rate (that is the rate for a standard FTE) in price group D. For 2003-04, the base price is £2,808. The base price therefore implies resource rates for each price group as follows: £12,636 for price group A, £5,616 for price group B, £4,212 for price group C and £2,808 for price group D.

43. The total weighted FTEs for an institution are the sum of the FTEs weighted by price group, plus the student and institutional premiums.

44. The standard resource for an individual institution is its total weighted student FTEs multiplied by the base price.

#### **Stage 2 Calculating the assumed resource**

45. For each institution, we start with the mainstream HEFCE grant for teaching they received the previous year. Then we make the following adjustments.

### Grant adjustments

- Adjust funding where institutions have failed to meet the requirements of their funding agreement (see paragraphs 52 to 56). This usually arises because institutions are unable to recruit or retain the numbers of students for which the previous year's grant was allocated.
- Adjust for increases due to inflation within the total funds provided by the Government.
- Add any funding for additional students. The Government wants to expand the higher education sector. Each year, over the next few years, we will be providing funds to the sector for extra students. We are reviewing how to allocate additional places to institutions.
- Adjust for other changes to grant including any transfers between institutions.

### Fee adjustment

- Add an assumed income from tuition fees paid by students, Research Councils, local education authorities, employers, and others.

46. For 2003-04 the assumed fee income per FTE is as follows:

Full-time undergraduates	£1,125 per FTE
Sandwich year-out undergraduates	£1,100 per FTE
Part-time undergraduates	£830 per FTE
Postgraduates on courses with regulated fees (these are courses such as PGCEs and some architecture courses)	£1,125 per FTE
Other postgraduates	£2,940 per FTE

### **Stage 3 Calculating the percentage difference**

47. The next step is to compare the results of Stage 1, the standard resource, with the results of Stage 2, the assumed resource. The percentage difference is calculated as follows:

$$\frac{\text{assumed resource} - \text{standard resource}}{\text{standard resource}} \times 100$$

48. The funding method aims to ensure that similar activities are funded at similar rates in all universities and colleges. Therefore we do not want to give individual institutions much more or much less money than their standard resource. At the same time we do not want to apply a completely standardised flat rate, but rather to allow some variation around the standard resource to recognise the differing circumstances and content of courses at different institutions, as well as to permit some flexibility. We therefore allow a 'tolerance band' or difference of 5 per cent above or below the standard resource.

## **Stage 4     Calculating the teaching grant**

49. If an institution is within the tolerance band, our funding will roll forward from the previous year. In other words, we will pay the amount calculated in Stage 2, less the assumed income from tuition fees. This applies to most universities and colleges.

50. For institutions which fall outside the tolerance band, we take action to bring them within the band. This may be by increasing or reducing student numbers, or by adjusting funding.

51. Annex A gives more detailed descriptions of the calculations of standard resource, assumed fee income, and the comparison between standard and assumed resource.

### **The funding agreement**

52. We draw up a funding agreement each year, also referred to as Part 2 of the Financial Memorandum, with each of the institutions we fund.

53. The funding agreement is constructed in broad terms. It implies a weighted volume of activity which is being funded against the resource being allocated.

54. Institutions can vary their recruitment as long as the weighted volume of activity is maintained within certain implied limits. So, for example, they may vary the balance of recruitment between full-time and part-time students or between different price groups. When the funding announcements are made, well ahead of the start of the relevant academic year, institutions cannot be sure about their recruitment in that year. This may be less than expected, the balance between subjects may vary, or the number of students not completing the academic year may differ from expectations. In most cases this does not affect their grant. However, if recruitment results in the assumed resource differing by more than 5 per cent from standard resource, then action is taken to draw the institution back within that tolerance band. This would be achieved by adjusting student numbers or funding in the current and/or subsequent years.

55. When we provide funding for additional places in response to bids from institutions, we expect them to increase their student numbers. We therefore set them a target for their overall FTE students. If they recruit below the target, we reduce the funding we have provided for their bid. However, we give institutions a second chance to deliver the expected increases, recognising that start-up difficulties may prevent full recruitment in the first year.

56. We set minimum numbers for students on some medical and dental courses. If institutions fall short of the minimum numbers, their grant is reduced.

### **Other elements of teaching funds**

#### Widening access and improving retention

57. Outside our main funding method for teaching, we also allocate funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged and non-traditional backgrounds or students who have disabilities. These allocations are not a form of individual student support, but rather are allocations to institutions that reflect the additional costs they may face because of the broad mix of students that they recruit.

58. For 2003-04 we have revised our method of allocating funds for widening participation and substantially increased this provision. A total of £265 million is being allocated to support widening access and improving retention. This comprises:

- a. £38 million to support out-reach and other pre-application work in recruiting students from disadvantaged backgrounds. It is allocated on the basis of postcode data.
- b. £155 million to support post-application activity to improve the retention of those full-time undergraduate students most at risk of dropping out. It is allocated on the basis of pre-entry qualifications and age.
- c. £62 million to support part-time students.
- d. £10 million to improve support and facilities for disabled students.

59. The £38 million allocated on the basis of postcode data is calculated pro rata to 2003-04 weighted FTEs, where the weighting reflects the broad institutional mix of students from different neighbourhood types. To calculate this institutional weighting we use the individual student records provided to the Higher Education Statistics Agency (HESA) and the LSC, and a geodemographic classifier to assign each full-time undergraduate to one of 160 neighbourhood types, based on their home postcode. We weight the students according to the rate of participation in higher education for each neighbourhood type. Those neighbourhoods with the lowest participation rates generate the highest weightings, while those with above average participation have a weighting of zero. The overall institutional weighting reflects the number of students weighted by neighbourhood type, divided by the unweighted student numbers. It also reflects the proportion of students who were under 25 on entry.

60. The £155 million allocated for full-time undergraduates on the basis of pre-entry qualifications and age is calculated pro rata to 2003-04 weighted FTEs, where the weighting reflects the broad institutional mix of students according to their risk of dropping out. To calculate this institutional weighting we assign full-time undergraduate students (from HESA and LSC individual student records) to six categories on the basis of their age and pre-entry qualifications.

61. There are two age categories ('young' and 'mature'), each of which has three associated risk categories of non-completion (low, medium and high). Those in the low-risk category may have achieved high grades at A-level, or already have a higher education qualification; those in the high-risk category may have non-traditional entry qualifications, or low grades at A-level. These six categories are then weighted to reflect the sector-average risk of such students not completing their studies. The overall institutional weighting applied to 2003-04 FTE student numbers reflects the students weighted according to the six age and entry qualification categories, divided by the unweighted student numbers. Only students who complete their year of study are included in these calculations.

62. The £62 million allocated to support part-time students includes £34 million distributed pro rata to standard resource for part-time students and £27 million pro rata to unweighted part-time FTEs. The latter sum was previously included in our main teaching funding method as a 5 per cent part-time premium. The balance of £1 million is a supplement for institutions that were awarded additional funded part-time places for 2003-04.

63. There is further information on the HEFCE web-site about the classification of students based on postcode, and on the data we used to calculate allocations to FECs for improving retention of full-time students ([www.hefce.ac.uk](http://www.hefce.ac.uk) under Good practice).

64. The £10 million allocated for disabled students is calculated pro rata to 2003-04 weighted FTEs, where the weighting reflects institutions' success in recruiting and retaining students with disabilities. We assign each institution to one of four weighting bands according to the proportion of their students who receive the Disabled Students Allowance, based on HESA and LSC individual student data. This is an allowance paid by LEAs to assist students who can show that they have a disability or medical condition that affects their ability to study.

65. We will further develop our funding methods to support widening access and improving retention, as more comprehensive information becomes available.

#### Data monitoring

66. Every year we compare student data returned in HESES and HEIFES with that submitted to HESA and the LSC. The purpose of this is to identify any institutions that have received more or less than their funding entitlement. It also improves the quality of these data returns. The HESA and LSC data are submitted in November and contain details about all students in the most recently completed academic year. HESES and HEIFES are completed in December and relate to the current academic year. Consequently the comparison considers inconsistencies in data for the previous academic year. If we find that erroneous data have resulted in institutions receiving higher allocations than would otherwise have been the case, then the funding for those institutions is reduced accordingly.

### **Funds for research**

67. Public research funds are provided under a dual support system. HEFCE provides funding to support the research infrastructure. Our funds go towards the cost of the salaries of permanent academic staff, premises, libraries and central computing costs. The Research Councils provide for direct project costs and contribute to indirect project costs.

68. The general funds we provide also support basic research in institutions and contribute to the cost of training new researchers. This basic research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.

69. We are committed to promoting excellent research. HEFCE research funds are distributed selectively to higher education institutions that have demonstrated the quality of their research by reference to national and international standards. Quality has been measured in a periodic Research Assessment Exercise (RAE). This process is currently under review: further details are on the web at [www.ra-review.ac.uk](http://www.ra-review.ac.uk). FECs are not eligible for our research funding.

70. Our funding for research in 2003-04 is £1,042 million and is allocated under two main headings:

- quality-related research (QR) funding – with reference to both the quality and volume of research activity (£1,020 million)

- capability funding (£20 million).

The balance of £2 million has been set aside for veterinary research through a joint initiative with the Department for Environment, Food and Rural Affairs (Defra).

### Quality-related research funding

71. The separate components of QR funding are:

<b>Mainstream QR</b> allocated to reflect the quality and volume of research at institutions in different subjects	£897.6M
<b>Funds for the supervision of postgraduate research students</b>	£71.1M
<b>London weighting</b> allocated to reflect the additional costs of provision in London	£31.3M
<b>Supplement for departments that achieved the highest quality rating in both the 1996 and 2001 RAEs (2003-04 only)</b>	£20M

#### Mainstream QR

72. There are two stages to the allocation of mainstream QR funds:

Stage 1: determining the amount provided for each subject

Stage 2: distributing the subject totals between institutions.

#### **Stage 1 Determining the amount provided for each subject**

73. Mainstream QR funds are divided between 68 subject areas (units of assessment). Each subject is assigned one of three cost weights, which have been calculated to reflect the **relative costs** of research in those subjects. These are multiplied by the **volume** of research in each subject to work out the total funding for that subject.

74. The three **cost** weights are:

		<b>Weighting</b>
A	High cost laboratory and clinical subjects	1.6
B	Intermediate cost subjects	1.3
C	Others	1.0

75. We measure the volume of research in each unit of assessment using five separate components. These volume components apply for departments rated 4 or above in the RAE (see paragraphs 79 and 80 below) and are weighted as follows:

- research active academic staff – 1 x number of FTE research active academic staff funded from general funds (including NHS funding for nursing and other subjects allied to medicine) and selected for assessment in the RAE

- research assistants – 0.1 x number of FTE research assistants
- research fellows – 0.1 x number of FTE research fellows
- postgraduate research students – 0.15 x 1.75 x FTE number of postgraduate research students in their second and third years of full-time study, or third to sixth years of part-time study. The multiplier of 1.75 is used to scale up the 2 years counted for funding purposes to a total of 3.5 years, which represents an average period of study for a full-time research degree
- research income from charities –  $0.191/25,000$  x average of last two years' income from charities. Income from charities is divided by £25,000 (a researcher's average salary) to obtain a person equivalent.

76. The number of research active academic staff is the most important measure of volume: it accounts for about two-thirds of the total. Research active staff numbers are fixed between RAEs; we update other volume measures annually.

## **Stage 2 Distribution of the subject totals between institutions**

77. The 68 subject totals are distributed to institutions in proportion to the **volume** of research multiplied by the **quality** of research in the subject for each institution.

78. The **volume** of research for each institution in each subject is measured in the same way as in Stage 1 above, but includes NHS-funded staff for all units of assessment.

79. The **quality** of research has been assessed in a Research Assessment Exercise conducted every four or five years. The last RAE was conducted in 2001 and has informed funding decisions from 2002-03.

80. In the last RAE, each institution was awarded a rating, on a scale of 1 to 5\* (five star), for the quality of its research in each unit of assessment in which it was active. The table below shows how these ratings relate to funding multipliers. Ratings 1, 2, 3b and 3a attract no funding, while a rating of 5\* attracts over three times as much funding as a rating of 4 for the same volume of research activity. As a result, our funding of research is highly selective.

### **RAE ratings converted into funding weights for each unit of assessment**

<b>2001 RAE rating</b>	<b>Funding weights in QR model</b>
1	0
2	0
3b	0
3a	0
4	1
5	2.793
5*	3.357

81. In the grant letter to HEFCE from the Secretary of State for Education and Skills, we were asked to provide extra resources from 2003-04 to the 'very best of the 5\* departments'. To do so, we are distributing an additional £20 million for departments that achieved a 5\* rating in both the last two RAEs. This is allocated pro rata to London-weighted mainstream QR funding. At present this allocation is for 2003-04 only. We expect to consult institutions later in 2003 on the method for allocating these supplementary funds for 2004-05 and beyond.

### **Other elements of QR funding**

82. As explained in paragraph 32, we fund postgraduate research students in years 2 and 3 (full-time) or years 3 to 6 (part-time) only through our funding method for research and not through funds for teaching. This ensures that we only provide funding for postgraduate research places in higher quality, well-equipped research departments, where supervisors are active in research and have time for supervision. We allocate these funds for the supervision of research students in proportion to the weighted FTE numbers in units of assessment rated 3a or higher. The weightings are the three research cost weights A to C, given in paragraph 74.

83. We also provide additional QR funding to recognise the extra costs of provision in London. These allocations equal 12 per cent (for inner London) or 8 per cent (for outer London) of the total of mainstream QR and funds for the supervision of research students.

### **Capability funding**

84. We are providing £18 million as a capability fund, to support research in emerging subject areas where the research base is currently not as strong as in more established subjects. A further £2 million has been set aside for allocation later in the year. We have identified seven units of assessment (UoAs) as eligible for this funding, on the basis that they have low proportions of staff in departments rated 4, 5 or 5\*, and had relatively high proportions of QR in 2002-03 attributable to 3a or 3b-rated departments.

85. The seven units of assessment eligible for this funding are:

- Nursing (UoA 10)
- Other studies and professions allied to medicine (UoA 11)
- Social work (UoA 41)
- Art & design (UoA 64)
- Communication, cultural and media studies (UoA 65)
- Dance, drama and performing arts (UoA 66)
- Sports-related studies (UoA 69).

86. This capability funding is distributed pro rata to the number of research active academic staff in RAE submissions rated 3a or 3b, weighted according to the cost weight for the UoA. To receive this capability funding, institutions must submit acceptable research strategies for each UoA for which funding has been allocated.

## Other related funding

### Rewarding and developing staff in HE

87. The pay levels and terms and conditions of employment for academic and other staff employed by HEIs are matters for the HEIs themselves to determine. However, they are expected to follow public sector pay policy by taking account of fairness, affordability, and the need to recruit, motivate and retain staff. Staff salaries are paid for out of the HEFCE block grant.

88. The funding for higher education announced following the Government's 2000 spending review included £330 million of additional specific funding over 2001-02 to 2003-04 to reward and develop staff in higher education. A further £167 million was allocated following the 2002 spending review. These funds are to be used partly to recruit and retain high quality academic staff in strategically important disciplines or areas, and to help modernise management processes in the sector.

89. We are distributing these funds to HEIs in proportion to their total assumed resource for 2002-03. Funding, which for 2003-04 will total £170 million, is released once HEIs have provided full and acceptable human resource strategies addressing certain priority areas. HEIs are free to determine their own objectives and specific targets, which will be monitored through their annual monitoring statements. From 2004-05 we will consolidate these funds into institutions' core grants.

90. For 2003-04 we are also allocating £8 million for rewarding and developing TTA-funded staff.

### Special funding

91. We recognise that not all teaching, research and related activities can be adequately supported through formula funding. Each year we provide special funding for a wide range of purposes. These funds are reviewed regularly and, wherever appropriate, new initiatives are introduced or the funds are phased out or incorporated into formula-based allocations. For 2003-04 we are allocating £451 million for special funding, and a further £364 million for earmarked capital grants. To compensate higher education institutions for increases in employers' contributions to the Teachers' Pensions Scheme we have allocated £47 million for 2003-04.

92. Special funding covers a variety of strategic areas as well as support for national facilities and inherited activities.

#### 2003-04 Special funding

	<b>Funding in £ millions</b>
<b>Strategic</b>	
Learning and teaching	65
Access and participation	31
Research	8
Business and the community	58
Development	43
International	12
<b>Strategic total</b>	<b>217</b>

<b>National facilities</b>	<b>97</b>
<b>Inherited activities</b>	<b>95</b>
<b>Capital</b>	
From recurrent funding	37
Earmarked	364
<b>Capital total</b>	<b>401</b>
<b>Teachers' Pension Scheme compensation</b>	<b>47</b>
<b>Value for money, research and development</b>	<b>5</b>
<b>Total</b>	<b>862</b>

93. We have established programmes to channel funding to strategic priority areas. These programmes are: supporting the development of learning and teaching and the adoption of best teaching practice; raising aspirations and widening participation in higher education; developing, with the Department of Trade and Industry and the Home Office, the capabilities of HEIs to respond to the needs of business and the community; and assisting HEIs with strategic development.

94. The national facilities include funding for the AHRB and for investment in the national IT infrastructure, including the Joint Academic Network and national datasets, through the Joint Information Systems Committee of the UK funding bodies.

95. The amount of special funding for inherited activities (those inherited from previous funding councils) continues to decline. Our intention is to continue to reduce this call on our resources so that the funds can be released to other priority activities.

96. In 2003-04, significant sums, including additional earmarked capital funding, continue to be provided to address past under-investment in the sector, or inherited capital problems. The two major programmes are the Science Research Investment Fund, and learning and teaching and IT project capital funding. All HEIs that receive HEFCE recurrent funding for teaching or research receive an allocation under these programmes.

97. Increasingly, special funding programmes – particularly for capital projects – have moved away from bidding exercises. Instead we are determining allocations and outcomes against which HEIs can set their own priorities. This conditional allocation approach continues to reduce the burden of administration on HEIs.

### **Moderation**

98. To help maintain stability, we phase in changes by moderating increases or decreases in teaching and research funding to institutions that would otherwise be affected by large fluctuations. For 2003-04, in general, no institution will receive a reduction in resource for teaching and research in real terms compared with the equivalent, unmoderated figure for 2002-03. We do not provide moderation funding if it amounts to less than £100,000 per institution. We review our moderation policy annually.

## **Annex A**

### **Funding for teaching – examples**

#### **Calculating the standard level of resource**

##### **There are five steps to calculating standard resource:**

- Step 1 Collect FTE student data in each category
- Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights
- Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply
- Step 4 Calculate total weighted FTEs
- Step 5 Calculate standard resource.

##### Step 1 Collect FTE student data in each category

We disaggregate students according to 48 different categories (24 categories<sup>1</sup> for FECs):

- four price groups (subjects)
- x two modes (full-time and sandwich, or part-time)
- x three levels (undergraduate, postgraduate taught or postgraduate research)
- x two lengths of study during the year (standard or long).

We perform the calculations of standard resource separately for each of these student categories.

##### Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights

Weighted FTEs = FTE from Step 1 x price group weight (4.5 for price group A, 2 for price group B<sup>2</sup>, 1.5 for price group C and 1 for price group D).

##### Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply

The premiums are expressed as additional weighted FTEs, calculated in relation to either the unweighted FTEs (from Step 1) or the price group weighted FTEs (from Step 2), depending on whether the additional cost which the premium seeks to reflect varies according to the subjects being studied.

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<sup>1</sup> FECs have three price groups (B, C and D), two modes, two levels (undergraduate or postgraduate) and two lengths of study.

<sup>2</sup> For FECs, a varying proportion of the student data that they record in price group B will be funded as price group B provision, with the balance being funded as price group C. The proportions were determined following reviews to identify higher cost provision at each college.

- Long course premium

If the course is long, and the student FTE is in price groups B, C or D, the additional FTEs = price group weighted FTEs (Step 2) x 0.25. If the course is standard length, and/or the student FTE is in price group A, the additional FTEs = zero.

- London premium

If the institution is based in London, the additional FTEs = price group weighted FTEs (Step 2) x either 0.08 (if in inner London) or 0.05 (if in outer London). For institutions outside London, the additional FTEs = zero.

- Pensions premium (HEIs only)

If the institution is part of the Universities Superannuation Scheme, the additional FTEs = price group weighted FTEs (Step 2) x 0.015. For all other institutions, the additional FTEs = zero.

- Specialist institution premium (HEIs only)

If the institution is eligible for the premium, the additional FTEs = price group weighted FTEs (Step 2) x a variable percentage. This percentage depends on the particular characteristics of the institution, but is commonly 10 per cent. Institutions are eligible for the premium if they have at least 60 per cent of their FTEs in no more than two subjects, and if originally, without the premium, their assumed resource would have been at least 8 per cent above standard resource. For all other institutions, the additional FTEs = zero.

- Small institution premium (HEIs only)

If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) x a variable percentage. Institutions are eligible for the premium if, when we introduced it, they had no more than 1,000 FTEs in total (including any students on further education courses), and they are not already receiving a specialist college premium of more than 10 per cent. The value of the premium in percentage terms is calculated on a sliding scale from 0 to 20 per cent, where the fewer FTEs an institution has, the larger its premium. For all other institutions, the additional FTEs = zero.

- Old and historic buildings premium (HEIs only)

If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) x a variable percentage. Institutions are eligible for the premium if they have buildings (excluding residences for students) constructed before 1914, which they have owned since at least 1 April 1998. The larger the floor space attributable to the old and historic buildings, the larger the value of the premium in percentage terms. For all other institutions, the additional FTEs = zero.

#### Step 4 Calculate total weighted FTEs

Total weighted FTEs = price group weighted FTEs (Step 2) + additional weighted FTEs for each student or institutional premium (total Step 3).

## Step 5 Calculate standard resource

Standard resource in each category = total weighted FTEs in that category (Step 4) x the base price (£2,808 for 2003-04). Total standard resource is the sum of the standard resource calculated for each student category.

Having calculated standard resource, we compare it with assumed resource, and express the difference between them as a percentage. If the percentage difference is more than 5 per cent, action is taken to bring the institution within the  $\pm 5$  per cent tolerance band by adjusting its student numbers and/or funding.

## Worked examples of the teaching funding calculations for HEIs

### Example 1

University V and Higher Education College W both have 1,200 undergraduate student FTEs, with the same number of FTE students in each of the four price groups A, B, C and D. The HEFCE grant is £5,750,000. The table below shows the effect of premiums applying to the same institutions. University V has a pensions premium. HE College W has a 6 per cent premium for its old and historic buildings.

<b>Total weighted FTE calculation</b>		(a)	(b)	(c)	(d)	(e)	(f)
<b>Institution</b>	<b>Price group</b>	<b>Mode</b>	<b>FTE</b>	<b>Cost weighted FTE</b>	<b>Pensions 1.5% x (b)</b>	<b>Old &amp; historic buildings 6% x (a)</b>	<b>Total weighted FTE sum (e) x £2,808 (b) to (d)</b>
<b>University V</b>	A	FTS	200 x 4.5	= 900	13.5	0	= 913.5 £2,565,108
	B	FTS	300 x 2	= 600	9	0	= 609 £1,710,072
	C	FTS	400 x 1.5	= 600	9	0	= 609 £1,710,072
	D	FTS	300 x 1	= 300	4.5	0	= 304.5 £855,036
<b>Total</b>			<b>1,200</b>	<b>2,400</b>	<b>36</b>	<b>0</b>	<b>2,436 £6,840,288</b>
<b>College W</b>	A	PT	200 x 4.5	= 900	0	12	= 912 £2,560,896
	B	PT	300 x 2	= 600	0	18	= 618 £1,735,344
	C	PT	400 x 1.5	= 600	0	24	= 624 £1,752,192
	D	PT	300 x 1	= 300	0	18	= 318 £892,944
<b>Total</b>			<b>1,200</b>	<b>2,400</b>	<b>0</b>	<b>72</b>	<b>2,472 £6,941,376</b>

<b>Resource comparison</b>						
<b>Institution</b>	(g) <b>HEFCE grant</b>	(h) <b>Assumed fee rate per FTE</b>	(i) <b>Assumed fees = (a) x (h)</b>	(j) <b>Assumed resource £s = (g) + (i)</b>	<b>Standard resource £s</b>	<b>Percentage difference</b>
<b>University V</b>	£5,750,000	£1,125	£1,350,000	7,100,000	6,840,288	+3.8%
<b>College W</b>	£5,750,000	£830	£996,000	6,746,000	6,941,376	-2.8%

Both institutions are within the tolerance band so no change in funding or student numbers will be needed.

## Example 2

University X and Higher Education College Y both receive £5,500,000 in HEFCE grant for teaching. Both have 1,000 FTEs, but they have different weightings. The table below shows the effect of the different weightings on the percentage difference from standard resource. University X is in outer London. HE College Y has a specialist college premium.

<b>Total weighted FTE calculation</b>					(a)	(b)	(c)	(d)	(e)	
Institution	Price group	Mode	Level	Length of course	FTE	Cost weighted FTE	Long courses 25% x (b)	London premium 5% x (b)	Specialist college premium 10% x (b)	<b>Total weighted FTE sum (b) to (e)</b>
<b>University X</b>	A	FTS	UG	L	200	900	0	45	0	945
	B	FTS	UG	L	250	500	125	25	0	650
	C	PT	UG	S	400	600	0	30	0	630
	D	FTS	PGT	S	150	150	0	7.5	0	157.5
<b>Total</b>				<b>1,000</b>	<b>2,150</b>	<b>125</b>	<b>107.5</b>	<b>0</b>	<b>0</b>	<b>2,382.5</b>
<b>College Y</b>	B	FTS	UG	S	500	1,000	0	0	100	1,100
	B	FTS	PGT	S	150	300	0	0	30	330
	B	FTS	PGR	L	50	100	25	0	10	135
	B	PT	UG	S	250	500	0	0	50	550
	B	PT	PGT	S	50	100	0	0	10	110
<b>Total</b>				<b>1,000</b>	<b>2,000</b>	<b>25</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>2,225</b>

## Example 2 (continued)

<b>Assumed fee income calculation</b>				(a)	(g)	
	Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) x (g)	
University X	FTS	UG	450	£1,125	£506,250	
	PT	UG	400	£830	£332,000	
	FTS	PGT	150	£2,940	£441,000	
<b>Total</b>			<b>1,000</b>		<b>£1,279,250</b>	
College Y	FTS	UG	500	£1,125	£562,500	
	FTS	PGT	150	£2,940	£441,000	
	FTS	PGR	50	£2,940	£147,000	
	PT	UG	250	£830	£207,500	
	PT	PGT	50	£2,940	£147,000	
<b>Total</b>			<b>1,000</b>		<b>£1,505,000</b>	

Resource comparison	(h)	(i)			
Institution	HEFCE grant	Assumed fee income	Assumed resource (h) + (i)	Standard resource	Percentage difference
University X	£5,500,000	£1,279,250	£6,779,250	£6,690,060	1.3%
College Y	£5,500,000	£1,505,000	£7,005,000	£6,247,800	12.1%

University X is in the tolerance band, but College Y is above it. We will therefore take action to bring it within the tolerance band by adjusting its funding and/or student numbers.

## Worked example of the teaching funding calculations for FECs

### Example 3

College P and College Q both have 200 undergraduate student FTEs on HE courses, although they have a different mix between price groups and modes of study. Both these further education colleges receive £550,000 in HEFCE funding for these students. College P is based in inner London.

The tables below show the calculation of their standard resource, their assumed fee income, and the comparison between their assumed and standard resource.

Standard resource calculation				(a)	(b)	(c)	(d)	(e)
Institution	Price group	Mode	Level	FTE	Cost weighted FTE	London premium 8% x (b)	Total weighted FTE = sum of (b) to (c)	Standard resource = (d) x £2,808
College P	B	FTS	UG	50 x 2	= 100	8	108	£303,264
	B	PT	UG	25 x 2	= 50	4	54	£151,632
	C	FTS	UG	50 x 1.5	= 75	6	81	£227,448
	C	PT	UG	25 x 1.5	= 37.5	3	40.5	£113,724
	D	FTS	UG	50 x 1	= 50	4	54	£151,632
<b>Total</b>				<b>200</b>	<b>312.5</b>	<b>25</b>	<b>337.5</b>	<b>£947,700</b>
College Q	C	FTS	UG	20 x 1.5	= 30	0	30	£84,240
	C	PT	UG	60 x 1.5	= 90	0	90	£252,720
	D	FTS	UG	40 x 1	= 40	0	40	£112,320
	D	PT	UG	60 x 1	= 60	0	60	£168,480
	D	FTS	PGT	20 x 1	= 20	0	20	£56,160
<b>Total</b>				<b>200</b>	<b>240</b>	<b>0</b>	<b>240</b>	<b>£673,920</b>

Example 3 (continued)

Assumed fee income calculation			(a)	(f)	
Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) x (f)	
College P	FTS	UG	150	£1,125	£168,750
	PT	UG	50	£830	£41,500
<b>Total</b>			<b>200</b>		<b>£210,250</b>
College Q	FTS	UG	60	£1,125	£67,500
	FTS	PGT	20	£2,940	£58,800
	PT	UG	120	£830	£99,600
<b>Total</b>			<b>200</b>		<b>£225,900</b>

Resource comparison					
Institution	HEFCE grant	Assumed fee income	Assumed resource (g) + (h)	Standard resource	Percentage difference
College P	£550,000	£210,250	£760,250	£947,700	-19.8%
College Q	£550,000	£225,900	£775,900	£673,920	+15.1%

Both colleges are outside the tolerance band. Adjustments to their student numbers and/or funding will bring them back within the tolerance band.

**Key to abbreviations**

- FTE = full-time equivalent
- FTS = full-time and sandwich
- PT = part-time
- UG = undergraduate
- PGT = postgraduate taught
- PGR = postgraduate research
- L = long course
- S = standard length course

## **Glossary of terms**

### **Assumed resource**

HEFCE grant for teaching plus assumed income from tuition fees.

### **AHRB**

The Arts and Humanities Research Board. Its role is similar to that of the Research Councils.

### **Block grant**

The funding provided by HEFCE to an institution for teaching, research and related activities. This does not include special funding.

### **DfES**

Department for Education and Skills.

### **Dual support**

The system of funding research partly by HEFCE and partly by the Research Councils.

### **FEC**

Further education college.

### **FTE**

Full-time equivalent. Full-time students count as 1 FTE. Students on their sandwich year-out count as 0.5 FTE. The FTE for part-time students is measured by comparing their learning activity with that for an equivalent full-time course.

### **HEFCE**

Higher Education Funding Council for England.

### **HEI**

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

### **HEIFES**

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

### **HESES**

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

### **LEA**

Local education authority.

### **Level**

Level of study refers to undergraduate (UG), postgraduate taught (PGT) and postgraduate research (PGR).

### **LSC**

The Learning and Skills Council, formerly the Further Education Funding Council.

**Mode**

Mode of study refers to full-time (FT), part-time (PT) or sandwich. For funding purposes, full-time and sandwich (FTS) are combined.

**Old and historic buildings**

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

**QR funding**

Quality-related research funding. It is allocated according to research quality and the amount of research carried out.

**Research Assessment Exercise (RAE)**

An exercise carried out periodically to determine the quality of research in UK HEIs. The results are used by the higher education funding bodies for England, Scotland, Wales and Northern Ireland to allocate QR funding.

**Research Councils**

There are six Research Councils. They are government-funded through the Office of Science and Technology to support research in their fields of interest, in both their own establishments and in higher education institutions. In this publication the term 'Research Councils' includes the AHRB.

**Sandwich course**

A course of study which includes periods of practical work in organisations outside the university or college.

**Small institution**

A higher education institution with no more than 1,000 student FTEs. This includes students at all levels (including those on further education courses) and funded from any source (including overseas students).

**Specialist institution**

A university or college that has 60 per cent or more of its courses in one or two subjects only, such as music or art colleges.

**Special initiatives**

Special initiatives are funds for specific activities for a limited period not linked to formula funding allocations.

**Standard resource**

A notional calculation of what an institution would get if teaching grant was calculated afresh each year. It is proportional to each institution's FTEs weighted both by price group and by any student and institutional premiums which may apply.

**TTA**

Teacher Training Agency.

**Tolerance band**

This is the range from +5 per cent to -5 per cent of the standard resource.

**Tuition fees**

Fees paid to a university or college for a student to attend a course.

## **Further reading**

### **HEFCE ([www.hefce.ac.uk](http://www.hefce.ac.uk))**

2003/24 HEFCE grant adjustments 2003-04

2003/22 Joint consultation on the review of research assessment

2003/10 Recurrent grants for 2003-04

2002/46 Research activity survey 2002

2002/41 HEIFES02: Higher Education in Further Education: Students Survey 2002-03

2002/40 HESES02: Higher Education Students Early Statistics Survey 2002-03

2002/39 Additional student places and funds 2003-04: invitation to bid

### **RAE ([www.hero.ac.uk/rae](http://www.hero.ac.uk/rae))**

RAE 4/01 2001 Research Assessment Exercise: The Outcome

RAE 3/01 A guide to the 2001 Research Assessment Exercise

RAE 2/99 Research Assessment Exercise 2001: Guidance on Submissions