

This guide describes the principles and methods behind HEFCE's allocations of funding to universities and colleges.

# Guide to funding

## How HEFCE allocates its funds

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# Guide to funding

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### **Note on interpreting the funding figures in this document**

After our initial announcement of recurrent funding for 2010-11 in March 2010, we had to issue revised allocations in July 2010 which incorporated a £52 million pro rata reduction from recurrent teaching grant, following a change in the funding provided by Government. In order to implement this in as simple and equitable a way as possible, this saving was applied as a pro rata reduction to all elements of teaching grant, reducing it by approximately 1.09 per cent. This approach avoided the need to recalculate the teaching allocations from first principles and revise parameters used in our funding and monitoring, such as rates of funding per student.

For this guide to funding, we have adjusted overall budget figures for all elements of recurrent teaching grant to incorporate the pro rata reduction that we have implemented (generally by reducing totals by 1.09 per cent). However, because we have avoided recalculating the underlying parameters in our method, these have not been adjusted for the efficiency saving. This affects, in particular, rates of teaching funding that we specify in the document, such as in our calculations of standard resource. This approach is consistent with the presentation to institutions of our grant allocations and monitoring arrangements for the year.

This document reflects the 2010-11 academic year funding allocations that were announced in July 2010. At the time of writing, we have not had confirmation from the Government of the funding available for the 2011-12 financial year or beyond. The Government has said that the 2010 spending review will be announced on 20 October 2010 and will set out its spending plans for the whole of this Parliament. It may be some time after that before the detailed outcomes for higher education are known. In the meantime, in order to announce funding for the 2010-11 academic year (which has a four-month overlap with the 2011-12 financial year), we have assumed that funding will be maintained in cash terms for 2011-12. If we receive information that suggests this assumption is no longer appropriate, we reserve the right to review all of our allocations for the 2010-11 academic year. This would be with a view to managing any change in funding for institutions that might be necessary by 2011-12.

# Introduction

1. HEFCE distributes government funding for higher education. This guide explains how we calculate how much each university or college gets, the principles that underpin those calculations, and the components of an institution's grant.
2. It is intended for those working in higher education and for others who wish to understand our funding methods.
3. It is our policy and our practice to be open about our allocation methods and policies, and this guide is intended to explain them. It is divided into three main sections:
  - a. **'Key points'** gives a very basic introduction to how we distribute funding, why we do it that way and how we ensure the money is well spent.
  - b. **'Overview: how we share out the money'** is intended to be an easily understandable, broad description of the basic principles and method that we use to determine how much funding each institution gets and how we distribute it to them. It includes outline figures for 2010-11 funding.
  - c. **'Full guide to HEFCE's funding methods'** contains more detail about each funding stream, our methods and the principles behind them. However, it does not include comprehensive technical details: our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), provides more information, including the further reading suggested at the end of this guide.
4. A glossary of terms is also included at the end of this guide for ease of reference.

# Key points

5. The total public funding for higher education in England is decided annually by the Government.
6. We are responsible for distributing this money within broad policy guidelines provided by the Secretary of State for Business, Innovation and Skills. Periodically, we advise the Secretary of State on the funding needs of higher education in England.
7. In academic year 2010-11 we are directly funding 130 higher education institutions and 123 further education colleges that provide higher education courses.
8. We allocate funds to each of these universities and colleges to support teaching, research and related activities. In doing so, we aim to:
  - increase the 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 predictability in funding from year to year so that institutions may budget and plan effectively.
9. We divide the vast majority of the money between institutions using formulae to determine each one's share. These formulae take into account certain factors for each institution, including the number and type of students, the subjects taught and the amount and quality of research undertaken there.
10. Institutions receive most of their funding as a 'block grant'. They are free to spend this according to their own priorities within our broad guidelines. We do not expect them to model their internal allocations on our calculations because they are autonomous bodies that set their own strategic priorities.
11. We distribute a small proportion of funding by other methods such as bidding exercises, and sometimes such funding must be spent on the specific purpose(s) for which it was given. We look to reduce the number of separate funding streams (and associated separate monitoring requirements), incorporating them wherever possible within our main formulaic allocations which have just one, overarching accountability system.
12. Institutions are accountable to HEFCE, and ultimately to Parliament, for the way they use funds received from us. As independent bodies, they also receive funding from many different public and private sources. This gives them scope to pursue activities alongside those for which they receive HEFCE funds.

13. We are the largest single source of higher education funding, but our funding represents less than 40 per cent of the total income of English higher education institutions. Our grants do not, therefore, meet all institutions' costs: we make only a contribution towards their teaching, research and related activities. The proportion of an individual institution's total income that comes from HEFCE will depend on its activities and money raised from other sources.

14. After HEFCE grant, tuition fees<sup>1</sup> are usually the other major source of funding for teaching. Fees for some students are subject to regulation, with limits on what institutions may charge. This applies to most home and EU full-time undergraduates and other students on teacher training courses. Fees for most postgraduate and part-time students are not regulated.

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<sup>1</sup> Further information on tuition fees and student support can be found at [www.direct.gov.uk](http://www.direct.gov.uk) under Education and learning/University and higher education.

# Overview: how we share out the money

## JARGON BUSTER

### Higher Education

**Innovation Fund:** A fund for business and community engagement projects.

**Recurrent funding:** Yearly allocations aimed at ongoing, core activities rather than shorter-term projects.

**Non-recurrent funding (special funding and earmarked capital for building projects):** Used to secure change or fund activities that cannot be secured through core teaching/research funding.

15. Each academic year, HEFCE distributes billions of pounds to English universities and colleges of higher education. For 2010-11, the total will be £7.4 billion.

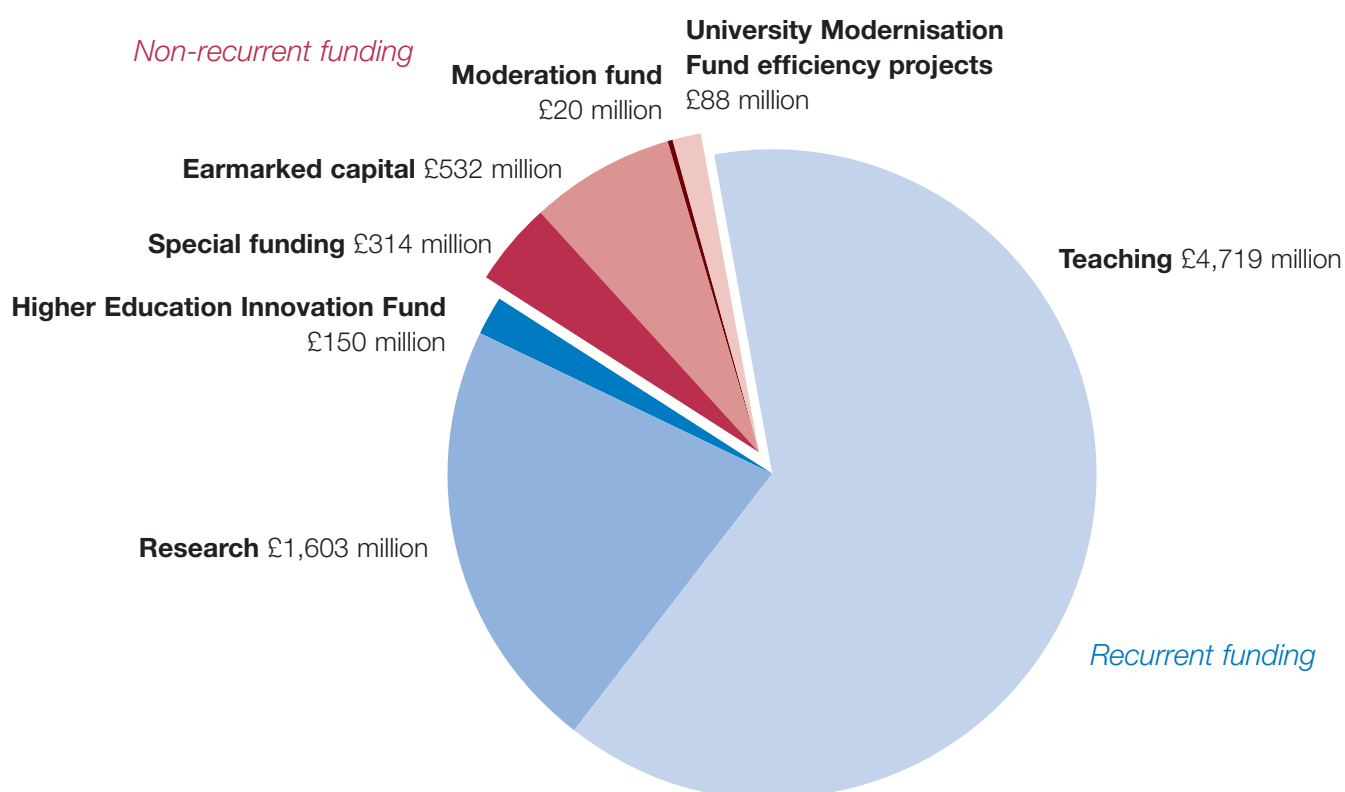
16. The total amount is provided annually by the Government and we divide it into money for teaching, research, the Higher Education Innovation Fund, special funding and earmarked capital grants.

17. Money for teaching, research and the Higher Education Innovation Fund is referred to as 'recurrent funding' and is by far the majority of what we distribute. We notify universities and colleges every March how much recurrent funding they will receive for the coming academic year (which runs from 1 August to 31 July).

18. The remainder is referred to as 'non-recurrent funding', and it comprises grants for capital projects, other development initiatives and support for national facilities. These are announced as they are allocated, which may be at any time of the year.

19. To help support institutions in managing changes to grant, we phase in changes by moderating increases or decreases in teaching and research funding; this is known as 'moderation'.

Figure 1 **HEFCE grant 2010-11: total £7,426 million**





## JARGON BUSTER

### Capital Investment

**Framework (CIF):** A method of assessing higher education institutions' approaches to investing their capital. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF will receive their capital without the need to apply for the funds; the grants will be paid directly in four quarterly payments. Institutions still working towards meeting the CIF requirements need to follow a specific application process.

**Block grant:** Recurrent funding is given to each institution in one 'block' that it can spend as it chooses (as long as it is for teaching, research and related activities) regardless of how we calculated that total amount.

## What are we trying to achieve?

20. We want to make the best use of taxpayers' money – prioritising funding where we can get best value, ensuring that we deliver the Government's policy aims and that institutions are accountable for the money they get, but without this creating an excessive burden on them. The different elements of our budget have different purposes:

- a. For **teaching**, we want to ensure the availability of high-quality, cost-effective higher education across the country. So we calculate teaching grant to reflect where students are studying and what subjects, and other differential costs for certain types of students, such as those from disadvantaged backgrounds.
- b. For **research**, the funding method is designed to target funds where research quality is highest – we do not have sufficient money to support all the research that institutions do.
- c. **The Higher Education Innovation Fund** supports complex interactions with business and the community, to enhance the contribution of higher education to the economy and society.
- d. **Non-recurrent funding** (special funding and earmarked capital grants) is intended broadly to support the development of the national infrastructure. Special funding supports national facilities, such as the Joint Information Systems Committee, or supports strategic changes. Earmarked capital is funding to help universities and colleges invest in their physical infrastructure so it remains fit for purpose. Those institutions that have met the requirements of HEFCE's Capital Investment Framework (CIF) receive their funding in four quarterly payments, so they can decide how best to use the capital funding to support their investment plans and sustainability commitments. Funding is also provided for specific national programmes, such as to support world-class IT networking and to reduce carbon emissions. Exceptionally, there is also a new, separate element of non-recurrent grants for 2010-11 only: part of the University Modernisation Fund that is provided to support efficiency projects at institutions.

21. We are committed to continuing to reduce the proportion of our funding allocated as special funding to give institutions control over even more of their funds: the £314 million special funding for 2010-11 compares with £316 million in 2009-10.

## How do we do it?

22. In 2010-11 our recurrent grants to institutions are almost entirely allocated by formula according to our expectations of what each institution will need for various activities and the contribution that our fixed budget can make towards meeting those needs – alongside income from other sources, such as student tuition fees. This ensures we are fair, transparent and efficient. But we give the funding as a 'block grant', so institutions can target spending towards their own priorities. This means they can be autonomous and do not have the burden of accounting in detail for their expenditure.

23. The block grant does not, however, come without strings attached. We have a Financial Memorandum which sets out the general requirements we make of institutions, and each year we issue a funding agreement that details further particular conditions. These include targets relating to student numbers. Accountability is in terms of what is delivered, by way of the numbers of students taught and audit outcomes and the quantity and quality of research.

## How is teaching funding calculated?

24. The main teaching funding method is designed to ensure that the funding we provide is consistent with the student numbers at each institution.

25. We start by rolling forward the teaching funding we provided in the previous year, and adjust it for things such as inflation, extra students that we want the institution to recruit or a reduction if the institution has not recruited as many as expected in the previous year.

26. We then check whether this new amount is appropriate for the student numbers we expect the institution to have in the coming year. We do this by comparing it against a standard level, based on sector-wide rates of funding per student.

27. The standard level of funding for each institution is calculated by formula based on its student numbers and their mix between different subject areas. We need to reflect that, for example, laboratory-based sciences cost more than classroom-based subjects, so we have four subject-related price groups.

28. As long as the grant we have calculated for an institution is close to the standard level, then that grant will be confirmed. By 'close' we mean within 5 per cent, either higher or lower. Outside this range, we adjust funding, or expect the institution to adjust its student numbers, to ensure the funding we provide is appropriate.

29. As well as this main teaching allocation, we make a number of specific grants to reflect certain additional teaching or student-related costs. In particular, we provide additional sums for widening participation and to improve student retention and success.

30. These allocations reflect the fact that there are additional costs in reaching out to populations that are under-represented in higher education, and in supporting certain students through to completion of their studies. The formulae are designed to target funding towards those institutions that do most to widen participation or that recruit students who are likely to need more support.

31. Other teaching allocations recognise the additional costs of, for example, part-time students or of specialist institutions.

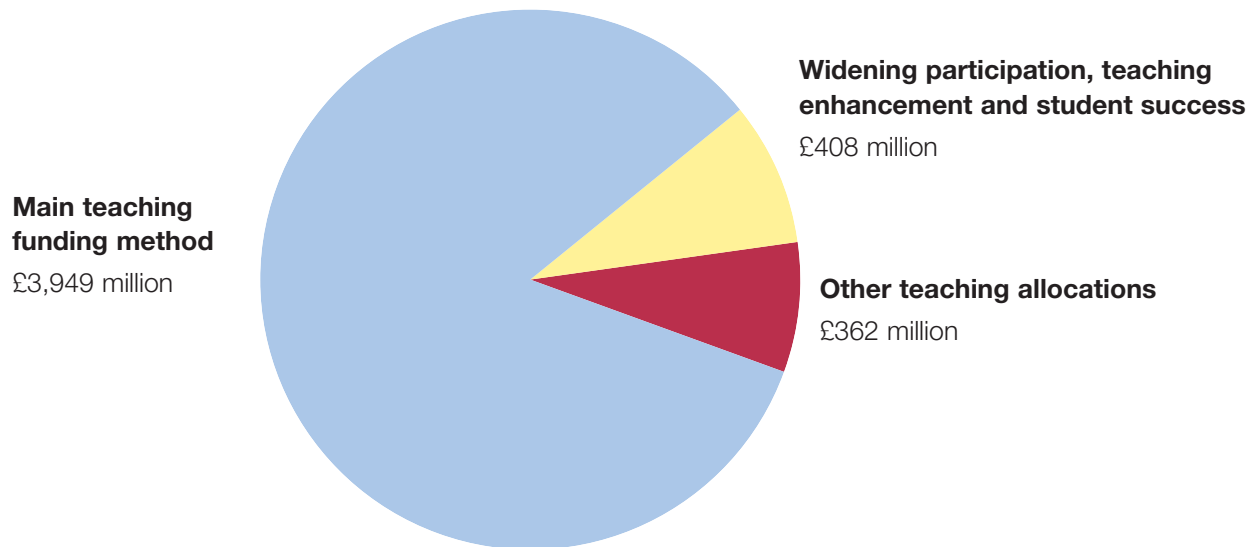
### JARGON BUSTER

#### **Widening participation:**

This refers to activities designed to ensure that everyone with the potential to benefit from higher education has the opportunity to do so.

**Student retention:** Some people need more support than others to complete their studies because of their background or circumstances. Student retention funding assists institutions in providing this support.

Figure 2 **Elements of teaching grant, 2010-11: total £4,719 million**



#### **How do tuition fees fit into all this in 2010-11?**

Our calculations take account of what income can be expected from home and EU student fees. Our grant is not sufficient, nor intended, to meet all tuition costs: students, and increasingly employers, are also expected to contribute. If we want to make the best use of taxpayers' money, we need to prioritise it towards areas that are not adequately funded from other sources. For any category of student, we make the same assumptions about fees for all institutions in the sector: we do not take account of what individual institutions charge. This ensures we target our funding towards particular types of courses where our funding is most needed, without disadvantaging those institutions that are able to charge higher fees.

#### **What is the $\pm 5$ per cent margin for?**

The  $\pm 5$  per cent margin (also known as the 'tolerance band') exists because we do not want to try to measure and fund activity in fine detail at institutions: there are differences in how institutions offer particular courses and this diversity is desirable. The margin also gives institutions some flexibility to vary their provision and student numbers from year to year without there being funding implications.

## JARGON BUSTER

### Research Assessment

**Exercise:** A periodic, peer-review exercise that rates research quality and counts numbers of research-active staff. Institutions submit research groups for assessment in different subject areas and are given quality ratings.

## How is research funding calculated?

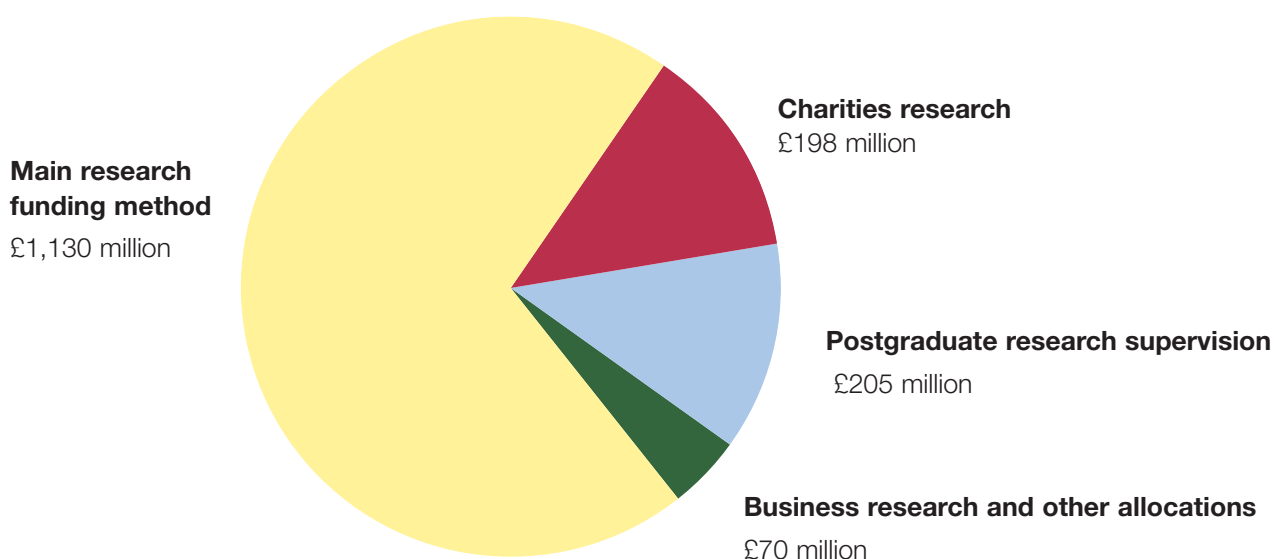
32. We aim to target funding where research quality is highest. Our main research funding method distributes grant based on the quality, volume and relative cost of research in different areas.

33. First we determine how much funding to provide for research in different subjects, and then we divide the total for each subject between institutions. These decisions take account of the volume of research (using research-active staff numbers), the relative costs (reflecting, for example, that laboratory-based research is more expensive than library-based research), any government policy priorities for particular subjects and the quality of research as measured in the Research Assessment Exercise (RAE).

34. In addition to the main research funding method, we make allocations to contribute towards other research-related costs. These include:

- a. **Funding for the supervision of postgraduate research students.** This is allocated to reflect postgraduate research student numbers and the relative costs of the subjects they are studying.
- b. **Charity-related funding.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs. So we give extra funding to institutions in proportion to the income they receive from charities for research.
- c. **Business-related funding.** We also provide funding to support institutions doing research with business and industry. This is allocated in proportion to the income they receive from business for research.

Figure 3 **Elements of research grant, 2009-10: total £1,603 million**



# Full guide to HEFCE's funding methods

## Background: HEFCE's funding powers and responsibilities

35. The Higher Education Funding Council for England (HEFCE) was established by the Further and Higher Education Act 1992 and this sets out our powers. In broad terms, we are empowered to fund teaching, research and related activities of higher education institutions (HEIs), and prescribed courses of higher education<sup>2</sup> at further education colleges (FECs). We are also empowered to fund other organisations that are carrying out work for the benefit of the higher education sector as a whole. We can pay grants, whether recoverable or non-recoverable, to these bodies in relation to expenditure that they incur.

36. We do not fund students; we fund the activities of institutions. However, we do count students in our funding methods as a proxy measure for the teaching and research activities of institutions. This is an important distinction, and we discuss it further in paragraphs 52 to 54.

37. There is also a distinction between what we are empowered to fund (arising from the 1992 Act) and what we are responsible for funding (which is a policy decision of Government). We are the largest single source of public funding for higher education, but a number of other public bodies, rather than HEFCE, have responsibilities to fund certain aspects of higher education:

- a. **Research:** The Research Councils distribute public funds for research to universities and colleges to support specific research projects and some postgraduate students (HEFCE research funding, on the other hand, supports the maintenance of research capacity and infrastructure in institutions on an ongoing basis). Research Councils are funded by the Department for Business, Innovation and Skills (BIS) and other government departments.
- b. **Medical and dental education and research:** Government funding for 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 teaching and research in hospitals and other parts of the health service. Funding for health-related subjects such as nursing and midwifery generally comes from the NHS.
- c. **Teacher education and training:** The Training and Development Agency for Schools (TDA) provides funding for education and training courses aimed at school teachers. In particular, it funds Initial Teacher Training courses leading to qualified teacher status, and In-Service Education and Training courses for teachers who hold qualified teacher status. HEFCE funds other teacher education and training provision outside the schools sector.

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<sup>2</sup> Prescribed courses of higher education are defined in separate legislation, but broadly relate to courses of at least one year's duration when studied full-time and which lead, on successful completion, to the award of certain higher education qualifications by certain awarding bodies. See paragraph 37d and 'Higher education in further education colleges; HEFCE's funding powers' (HEFCE Circular letter 22/2008) for more information.

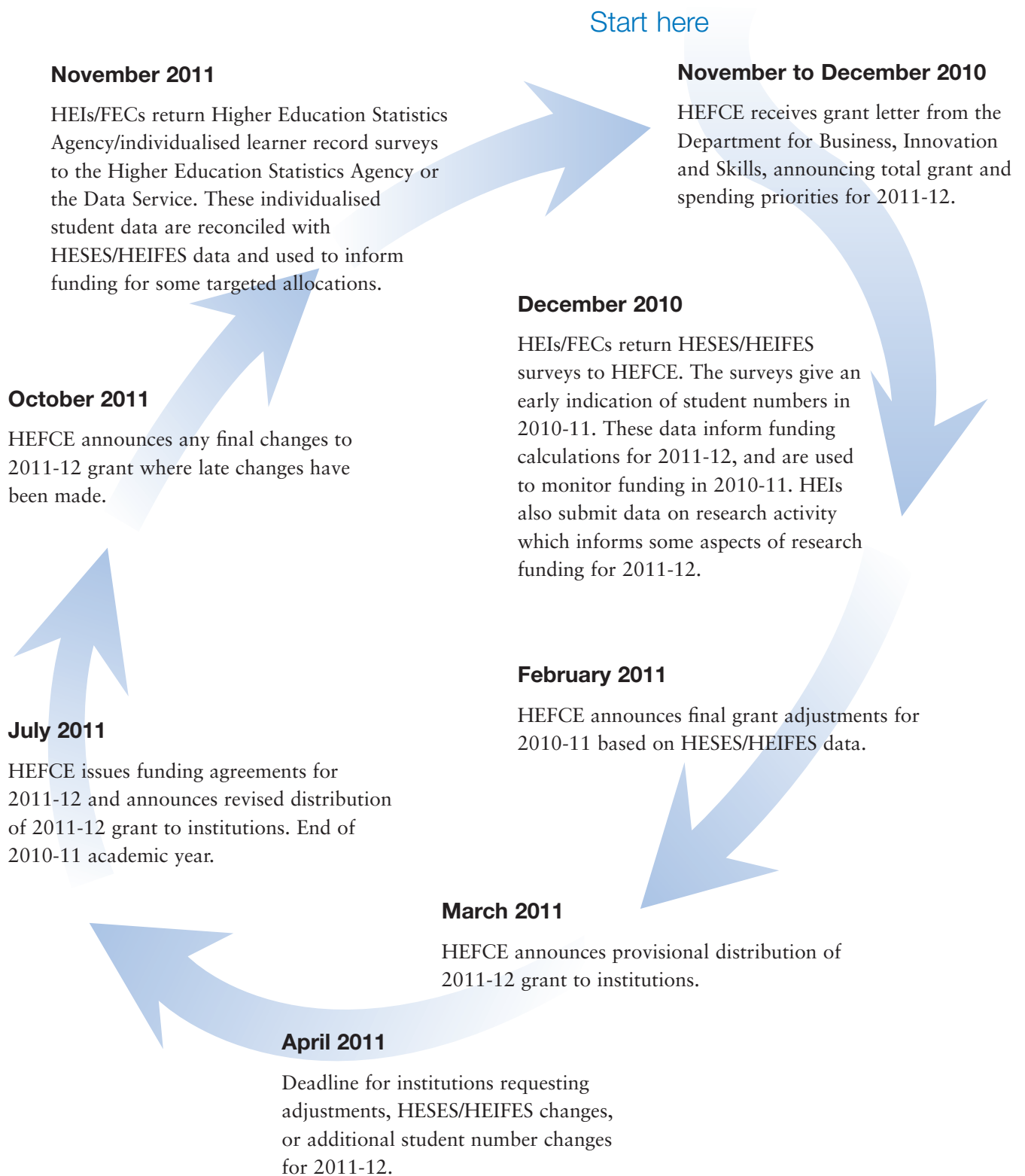
- d. **Higher education in further education colleges:** As explained in paragraph 35, we are only empowered to fund ‘prescribed’ courses of higher education in further education colleges. These include HNCs, HNDs, foundation degrees, bachelors degrees, postgraduate degrees and certain teacher training qualifications; the awarding bodies include higher education institutions and Edexcel, and may in future include those further education colleges with the power to award degrees. Prescribed courses do not include other higher education courses at further education colleges, such as some professional courses or the teaching of students who may be taking parts (modules) of a prescribed course but have not declared an intention to complete the whole qualification. These other higher education courses are the funding responsibility of the Skills Funding Agency – the funding body for further education.

## **The annual funding cycle**

38. The Government normally operates a rolling three-year process to set public expenditure across all departments. This has developed into spending reviews every two or three years that review and set expenditure levels. The last spending review was in 2007 and set public expenditure for 2008-09 to 2010-11; the next is due in October 2010 and will set out spending plans for 2011-12 to 2014-15. We provide confidential advice to the Secretary of State about the financial needs of higher education to inform these spending reviews.

39. Every year the Secretary of State confirms the funding available to HEFCE for the following year and provisional funding for the remaining years of the spending review period, along with policy priorities. We then determine the grants to individual institutions between December and March each year (see Figure 4).

Figure 4 **The provisional funding cycle for 2011-12 grant**



40. Each year we divide the total funds between teaching, research and other funding according to guidance from the Secretary of State. The breakdown of HEFCE funding available for 2010-11 is shown in Table 1.

Table 1 **Breakdown of HEFCE funding available for allocation for 2010-11**

Teaching*	£4,719 million
Research	£1,603 million
Higher Education Innovation Fund	£150 million
Special funding	£314 million
Earmarked capital funding	£532 million
University Modernisation Fund: efficiency projects	£88 million
Moderation	£20 million
<b>Total</b>	<b>£7,426 million</b>

\* The figure for teaching includes funds set aside to provide for further growth in 2010-11, including recovery of consolidated reductions to 2010-11 baseline grants where insufficient teaching activity was delivered in 2009-10. The total funding for teaching for 2010-11 shown above therefore represents the maximum sum available, but the final allocation may be slightly below this level. The figure for teaching includes funds for widening participation and other targeted allocations.

## Accountability for funding

41. Institutions need to be accountable for the funding they receive, but should also be able to demonstrate more broadly the value they provide. There are a number of ways in which we seek this accountability, and to influence the behaviour of institutions. These can apply individually or in combination:

- a. **Through the funding method itself.** The way in which we calculate the funding will influence how institutions respond: all other things being equal, institutions may concentrate their efforts on those activities that will increase their income. This means that we need to be very careful about how we fund institutions. We need to think about the desirable behaviours we want to encourage, but equally importantly we also need to avoid creating unintended incentives through the funding method that could lead to undesired behaviours. Thus the funding method is one means of influencing sector behaviour, but it is not always the best way of achieving a particular outcome.
- b. **Through conditions of grant.** These make it a requirement on institutions to behave in a particular way, or provide something specific, in return for the grant. If they fail to do so, their grant is reduced. So, for example, if we have provided funding to support additional student numbers (ASNs),



then that funding will be conditional on institutions increasing their student numbers accordingly. We expand on conditions of grant in paragraphs 42 to 47.

- c. **Through providing information.** Institutions' behaviour may also be influenced by factors affecting their reputation and therefore publishing information can be an effective means of providing accountability. Examples include the performance indicators published by the Higher Education Statistics Agency (HESA), the National Student Survey and the Teaching Quality Information provided on the web-site [www.unistats.com](http://www.unistats.com).

### **Conditions of grant**

42. We allocate very substantial amounts of taxpayers' money to institutions every year. It is important, therefore, that institutions are well managed and accountable for the funding they receive and that we are accountable, ultimately to Parliament, for the funding we allocate.

43. Our formal relationship with higher education institutions (HEIs) is governed by a Financial Memorandum<sup>3</sup>. It reflects our responsibility to provide assurances to Parliament that:

- our funds are being used for the purposes for which they were given
- risk management, control and governance in the sector are effective
- value for money is being achieved.

44. The Financial Memorandum is in two parts. Part 1 sets out terms and conditions of grant that apply in common to all HEIs. We review this periodically and consult the sector on its contents. Part 2, known as the 'funding agreement', is issued annually and gives conditions specific to the institution. It includes details of the recurrent grant that we are providing and targets, generally relating to student numbers, that institutions are expected to meet in return for their grant. There is further information on the funding agreement in paragraphs 123 to 132.

45. We do not have a Financial Memorandum with further education colleges (FECs), because they are accountable to the Skills Funding Agency, not to HEFCE. However, we do issue a funding agreement annually to the FECs that we fund directly: it is similar to that for HEIs, but also incorporates those sections of part 1 of our Financial Memorandum with HEIs that are relevant to FECs.

46. We may make certain elements of our grant subject to specific conditions. For example, when we provide capital grants, we expect them to be spent on capital projects detailed in institutions' investment plans.

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<sup>3</sup> The most recent Model Financial Memorandum was published in July 2010 as HEFCE 2010/19. All HEFCE publications may be downloaded at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

47. Just as we have a Financial Memorandum with HEIs, so BIS has a similar formal relationship with us, which is set out in a Management Statement and an associated Financial Memorandum. These documents place requirements on us as a condition of the funding we receive from Government and can be read on our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under About us/How HEFCE is accountable for the funds it administers.

## **Recurrent grant**

48. Recurrent grant comprises our funding for teaching, research and the Higher Education Innovation Fund (HEIF). It also includes allocations of moderation funding, which are provided to smooth year-on-year changes in teaching and research grant and to ensure any reductions are manageable for institutions.

49. We provide our recurrent funding as a 'block grant', that institutions may spend as they choose; they are not expected to mirror our calculations in their own internal spending. This allows institutions to target spending towards their own priorities, as long as these relate to teaching, research and related activities – the activities that we are empowered to fund. The block grant means institutions can be autonomous and do not have the burden of accounting in detail for their expenditure.

## **Formula funding**

50. Our recurrent grants to institutions are almost entirely allocated by formula according to our expectations of what each institution will need for various activities. Formula funding ensures we are fair, transparent and efficient in how we distribute grants to institutions.

51. Any funding formula will generally require:

- a measure of volume (for example, how many students or research-active staff does an institution have?)
- a measure of cost (for example, how does the cost of physics differ from that of geography or business studies?)
- and, perhaps, some account of particular policy priorities (for example, is there a national need to give more priority to some activities than others? Should we take account of the relative quality of activity in prioritising funds?).

These three components are discussed in detail in paragraphs 52 to 58.

## **Measures of volume: the distinction between what we fund and what we count for funding purposes**

52. In calculating the block grant, we adopt certain measures of volume. In general, these measures act as proxies for all the teaching, research and related activities that we are funding, but they do not in themselves define what we fund (or what our funding is for). For example, our volume measures are generally defined in terms of the activities of academic departments – how

many students or research-active staff they have in a particular subject – but the funding is intended to support the institution as a whole, including, for example, its library and central administration, not just those academic departments. We generally categorise our volume measures in terms of subject groupings, but these could also be considered proxies for the different ways in which institutions undertake their teaching and research activities – for example, reflecting how some activity needs to take place in laboratories, some on field trips, some at the computer and some in lecture theatres.

53. In deciding what we count it is important to remember that we have a fixed budget provided to us by Government and that we are funding institutions, not individual students. Our budget does not change just because we choose one (proxy) measure of activity rather than another. Our concern, therefore, is to ensure that institutions receive an appropriate, fair share of that fixed budget, and we want to do so in a way that supports accountability, but that avoids an excessive burden or unwelcome effects such as pressure on academic standards.

54. We therefore choose our volume measures to reflect factors that are important in higher education, and to take into account some important considerations:

- the extent to which a particular volume factor can be measured and audited reliably
- the accountability burden on institutions in providing the data
- the extent to which a particular volume measure may or may not influence the distribution of grant
- the messages and incentives that any particular volume measure may give to institutions and the behaviours (both desirable and undesirable) it might therefore encourage.

55. These issues are considered further below as we describe how we fund the separate elements of teaching and research.

### **Measures of cost**

56. Periodically, we review information about the relative costs of different types of activity. These reviews are informed by data provided by higher education institutions on their expenditure in academic departments, or on the full economic costs of their teaching. We may also commission separate studies to cost particular aspects of provision, such as the additional costs for institutions of their activities to widen participation. The main variation in costs relates to subject: we need to recognise, for example, that teaching medicine costs more than chemistry, which in turn costs more than geography, which in turn costs more than history.

57. However, our concerns are not limited solely to how much things cost: we also need to take account of how those costs are met. We are not responsible for meeting all costs incurred by institutions and, given our limited budget, we

cannot afford to behave as if we were. For teaching, the Government expects that the beneficiaries of higher education – students themselves and, increasingly, employers – should also contribute. To make the best use of the taxpayers’ money that we distribute, we therefore make assumptions about the contributions from these other sources. These assumptions are generally at sector-average rates. This ensures that we are able to prioritise our funding to those areas where it is most needed, while not disadvantaging those institutions that are able to charge higher fees than the sector average, nor subsidising those that might seek a competitive advantage by charging lower fees.

### **Policy priorities**

58. Aspects of our funding method can be used to target funding to address particular policy priorities. This can take a variety of forms, such as:

- providing additional funding for subjects that are deemed important to the country but that are in relatively low demand from students, or in short supply from institutions
- targeting additional funding towards geographical areas where access to higher education may currently be limited
- prioritising research funding to those departments and units that have demonstrated that they have the capacity to undertake research of the highest quality
- targeting funding more towards teaching for students who are new to higher education, rather than those studying for qualifications that are equivalent to, or lower than, ones they already have (although some qualifications are exempt from this policy).

### **Funds for teaching**

59. Over 80 per cent of HEFCE teaching funds are allocated through our mainstream teaching funding method. The remainder consists of targeted allocations such as funds for widening participation, teaching enhancement and student success, and other recurrent teaching grants. Paragraphs 60 to 95 describe our mainstream teaching funding method.

### **General funding principles**

60. In distributing the funds, we aim to meet the needs of students, employers and the nation by promoting high-quality teaching. Our overall budget is set by the Government so the funding method does not affect the total sum available for distribution to institutions.

61. Two broad principles underpin the method:

- similar teaching activities should be funded at similar rates
- institutions seeking to increase their student numbers should do so through allocations agreed by HEFCE of additional funded places.

62. In addition, the funding method is designed to have the following five features:

- **transparency:** the funding method should be clear and public. The data on which allocations are based are auditable and, wherever possible, public
- **predictability:** the method and its parameters should be predictable, so that an institution knows how decisions it might take, and changes in its circumstances, may affect its funding
- **fairness:** differences in funding between institutions should be for justifiable reasons
- **efficiency:** the funding method should impose as small an administrative burden as possible on institutions
- **flexibility:** the method should be flexible enough to respond in a strategic manner to external policy changes, and particularly to developments in HEFCE's own policies.

### **Applying the funding principles**

63. Because teaching funding is part of our block grant, 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 learning and teaching 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.

64. The Government expects teaching and learning in higher education to be financed both by public sources (our teaching grant) and by those who benefit most directly from it: students themselves by paying tuition fees, and, increasingly, employers by co-funding the provision of courses in a variety of ways. The combination of these different sources of income ensures higher education provision is adequately resourced.

65. Full-time undergraduate students may receive assistance with their tuition fees. Postgraduate students on taught courses pay fees to institutions mostly from their own funds. Students from outside the EU are generally expected to meet the full costs of their courses.

66. To make the best use of the public funding that we allocate, we take account of the income from tuition fees that we assume institutions will receive when we calculate our recurrent teaching grants. The combined total of grant and tuition fees is referred to as 'teaching resource' or simply as 'resource'.

**Resource = HEFCE grant + tuition fees**

### **The volume measure for our main teaching grant**

67. The volume measure for our teaching funding method is based on the number of students at the institution.

### **Which students do we count?**

68. In general terms, we count students from the UK and other EU countries (but not from outside the EU), if:

- a. They are on a recognised taught course of higher education or, in the case of higher education institutions, if they are studying credits that are at higher education level<sup>4</sup>. Postgraduate research students are not counted in our teaching funding method, because research is funded through our research funding method.
- b. Their course is not being funded from another EU public source. If, for example, their teaching is funded by the TDA or the NHS, it should not also be funded by HEFCE: the taxpayer should only pay once.
- c. They are on a course open to any suitably qualified candidate. If, for example, a course was only open to candidates from a particular employer, we would not consider the course to be open.
- d. They are not aiming for an equivalent or lower qualification (ELQ) compared with one they have already achieved; or, if they are, they are exempt from the ELQ policy (see paragraph 58). Those who are exempt include: students aiming for a foundation degree; those aiming for a qualification in certain public sector professions, such as medicine, nursing, social work, or teaching; and those that are in receipt of the Disabled Students' Allowance.
- e. They are studying at least 3 per cent of a full-time year of study – equivalent to about one week's study in the year.

### **How do we count these students?**

69. In general, students are only fully counted if they complete their full year of study. In order to count as completing for funding purposes, a student must undergo the final assessment for each module that they intended to complete in the year (although if they miss the final assessment, but nevertheless pass the module, this also constitutes completion). We do, however, separately take account of the activity of students reported as non-completions through a separate weighting factor. This weighting factor is known as the partial completion weighting (formerly the flexible study measure) and is described in more detail in paragraph 74c.

70. Students are counted in terms of full-time equivalents (FTEs). Full-time students count as 1 FTE. Students on a sandwich year-out (a work experience placement in business or industry) are counted as 0.5 FTE. The FTE of part-time students is based on the intensity of their study by comparison with an equivalent full-time student. This can be determined either by how long it takes

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<sup>4</sup> Broadly speaking, 'higher education level' means study of an academic level above A-level standard.

students to complete their qualifications, or by how many credit points they study in the year. For example, if a part-time student takes five years to complete a degree that would take an equivalent full-time student three years to complete, they would count as three-fifths (0.6) FTE in each year. Alternatively, if a part-time student studies for 60 credit points in the year, when an equivalent full-time student would be expected to study for 120 credit points, they would count as 0.5 FTE each year.

### **Why do we base funding on student completion?**

There are a number of reasons why we believe student completion is important. Firstly, we are concerned to protect the interests of students. Students will commonly have paid a substantial tuition fee on the assumption that they will complete a certain amount of activity in the year: we believe it is therefore important that institutions support students to complete all the activity that they have set out to complete.

There is also evidence that, for some students, those who enter higher education but fail to complete, are disadvantaged compared with equivalent students who could have entered but chose not to.

Our measure of student completion also avoids a link with academic success. Higher education institutions themselves are responsible for awarding their own qualifications. If their funding depended on the academic success of their students, then this could put pressure on academic standards. An accusation, however ill-founded, that students were passed in order to attract HEFCE funding would undermine the reputation of higher education. Our definition relates to funding and therefore completion; it is not about progression.

There are a number of reasons why students may not complete their year of study. This may be because, for example, they are less well prepared for higher education, have other personal circumstances that conflict with their studies, or because the institution does not do enough to support their students through to completion of all they set out to complete, and for which they paid a tuition fee.

We therefore recognise in our funding method that some students require additional support, but we avoid providing an incentive to institutions to recruit students who may have limited chance of completing their studies. We have found that the two main factors that affect whether or not a student continues their studies are their entry qualifications and age – those with lower entry qualifications and mature<sup>5</sup> students are more likely not to continue than those who are highly qualified on entry or are young. We therefore provide additional funding to institutions for improving retention that is based on these risk factors. This is described further in paragraphs 106 to 108.

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<sup>5</sup> 'Mature' students are those aged 21 or over on entry; 'young' students are those aged under 21 on entry.

## Data sources

71. For HEIs, there are two main data returns that we use to inform our teaching grant. These are:

- a. **The Higher Education Students Early Statistics (HESES) survey.** This is a return submitted directly to us that provides aggregate information on the numbers of students. It is submitted by institutions in December each year and reports on the student numbers in the current academic year. This ensures our funding decisions are based on the most up-to-date information available. However, because this is provided in-year, it includes elements of forecasting relating to students' activity up until the end of the academic year (that is, 31 July).
- b. **The HESA individualised student record.** This is submitted at the end of the academic year. We use it to gain information about student characteristics that are used, for example, in our funding allocations for widening participation. We also use it to reconcile against the HESES data previously provided to us by HEIs. We receive it approximately 12 months after the equivalent HESES data. Information about the HESA individualised student record is available from [www.hesa.ac.uk](http://www.hesa.ac.uk) under Data collection/Student stream.

72. FECs make equivalent data returns. These are the Higher Education in Further Education: Students (HEIFES) survey (the equivalent of HESES) and the individualised learner record (ILR), which is submitted to the further education Data Service and is the equivalent of the HESA individualised student record.

## Calculating the mainstream grant

### Similar resources for similar activities: standard and assumed resource

73. Having determined which students we are counting, and how we are counting them, we can then calculate what level of grant is appropriate for the institution. There are four key concepts that explain how we support the principle of similar resources for similar teaching activities:

- **standard resource:** this can be thought of as a notional benchmark of what an institution's share of the resources available for the sector should be, based on the students that they have
- **assumed resource:** this is what institutions actually receive through our mainstream teaching grant, plus our assumptions about their fee income (at sector average rates)
- **the tolerance band:** a margin of plus or minus ( $\pm$ )5 per cent around standard resource, within which we want an institution's assumed resource to fall. If it does, we consider the level of funding we provide to be broadly right for the amount of teaching activity the institution provides
- **migration:** the process by which institutions that are outside the tolerance band are expected to move into it over time. This can be achieved either by us adjusting the amount of funding we provide, or by the institution changing the numbers of students it recruits.

In paragraphs 74 to 95 we discuss these key concepts in more detail.



### How do we calculate standard resource?

74. Standard resource for each institution is calculated in proportion to their weighted student numbers, expressed in FTE terms. We explained in paragraphs 68 to 70 which students we count and how we count them. We weight them according to:

- a. **Their subject.** 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 expenditure and student FTE data in different academic groupings known as ‘cost centres’.

Price group	Description	Cost weight
A	The clinical stages of medicine and dentistry courses and veterinary science	4
B	Laboratory-based subjects (science, pre-clinical stages of medicine and dentistry, engineering and technology)	1.7
C	Subjects with a studio, laboratory or fieldwork element	1.3
D	All other subjects	1

- b. **London weighting.** This is provided to recognise the higher costs of operating in London. It varies depending on the institution’s location: in general, HEIs in inner London receive a weighting of 8 per cent, those in outer London 5 per cent. However, variations to this may apply for individual institutions to reflect the mix of their activity that takes place across the inner, outer or outside London regions. In each case, this percentage is applied to the FTEs weighted by price group.
- c. **The partial completion weighting.** (Formerly the flexible study measure) This is calculated to reflect the activity of students who are reported as non-completions (see paragraph 69), but who nevertheless complete at least one-sixth of a full-time year of study. This weighting factor therefore varies by institution and is calculated using their most recent HESA or ILR data (for 2008-09).

75. We calculate a basic amount of resource for an FTE student by dividing our total budget for the mainstream teaching 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 rate for a standard FTE student in price group D (before the application of London weighting and the partial completion weighting).

76. For 2010-11, the base price is £3,951. The resource rates for the other price groups are the base price multiplied by the subject price weighting. This results in:

- £15,804 for price group A
- £6,717 for price group B
- £5,136 for price group C
- £3,951 for price group D.

*Example: calculating standard resource*

77. The following table shows how we calculate standard resource. University X has 4,000 FTE students to be counted in our allocations for 2010-11. It is based in outer London and we have calculated its partial completion weighting to be 2 per cent.

University X								
		(a)		(b)	(c)	(d)	(e)	(f)
Price group	Mode and level	FTE	Price group weight	Price group weighted FTE	London weighting = 5% x (b)	Partial completion weight = 2% x (b)	Total weighted FTE = (b) + (c) + (d)	Standard resource = (e) x £3,951
B	FT UG	500	1.7	850	42.5	17	909.5	£3,593,435
B	FT PGT	100	1.7	170	8.5	3.4	181.9	£718,687
B	PT UG	200	1.7	340	17	6.8	363.8	£1,437,374
B	PT PGT	100	1.7	170	8.5	3.4	181.9	£718,687
C	FT UG	1,000	1.3	1,300	65	26	1,391	£5,495,841
C	FT PGT	200	1.3	260	13	5.2	278.2	£1,099,168
C	PT UG	300	1.3	390	19.5	7.8	417.3	£1,648,752
C	PT PGT	200	1.3	260	13	5.2	278.2	£1,099,168
D	FT UG	1,000	1	1,000	50	20	1,070	£4,227,570
D	FT PGT	150	1	150	7.5	3	160.5	£634,136
D	PT UG	150	1	150	7.5	3	160.5	£634,136
D	PT PGT	100	1	100	5	2	107	£422,757
<b>Total</b>		<b>4,000</b>		<b>5,140</b>	<b>257</b>	<b>102.8</b>	<b>5,499.8</b>	<b>£21,729,710</b>

Notes: FT – full-time, UG – undergraduate, PGT – postgraduate taught, PT – part-time.

### **How do we decide which subjects are in which price groups?**

Periodically we consult the sector on how we should assign subjects to price groups and the weightings we give to those price groups. The last such consultation took place in 2003<sup>6</sup> and determined the price group assignments and weightings from 2004-05<sup>7</sup>. Our consultations are informed by an analysis of the relative costs of different subjects.

The subject groupings used for these analyses are known as 'academic cost centres', which are coherent groupings of staff in academically cognate disciplines showing similar cost structures for both teaching and research. There are currently 35 academic cost centres.

The 2003 analysis looked at expenditure in each academic cost centre in relation to the student FTEs in those same cost centres, both of which are reported annually to HESA. More details of the 2003 review and its outcomes are at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Learning & teaching/Funding/Archive/Funding method for teaching from 2004-05. Some changes to our initial proposals on price group assignments were subsequently agreed in the light of consultation. We reviewed price group data again in 2008-09 and decided to make no changes to our weightings.

### **Why only four price groups?**

Any analysis of subject costs will reveal significant variation in the costs of different subjects, but also significant variation within a subject between different institutions. At the same time, the boundaries between subjects at higher education level are not always clear-cut. We wish to avoid getting embroiled in discussions with institutions about whether, for example, a particular course should be considered chemistry or chemical engineering: institutions themselves are generally best placed to make these assessments, which are ultimately matters of academic judgment.

By having only four price groups, we are able to recognise the main cost variations between different subjects, while keeping any boundary issues to a minimum. These four price groups allow broad differentiation between clinical (medical) subjects, laboratory-based subjects, intermediate-cost subjects (which may involve some laboratory, studio or fieldwork elements) and classroom-based subjects.

Our approach to price groups is consistent with our approach more generally in providing a block grant. We want to ensure institutions get an appropriate share of our fixed budget, while recognising that the diversity of the sector and the provision it offers will give rise to some inevitable variations in costs between institutions; equally, that it would be neither possible nor desirable to attempt to measure their activity in very fine detail.

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<sup>6</sup> 'Developing the funding method for teaching from 2004-05' (HEFCE 2003/42).

<sup>7</sup> 'Funding method for teaching from 2004-05: outcomes of consultation' (HEFCE 2004/24).

### How do we calculate assumed resource?

78. Assumed resource comprises the actual mainstream teaching grant that we pay the institution, plus our assumptions of their fee income (using notional sector-level rates, rather than actual institutional fee rates per student – see paragraph 79). The starting point for the actual grant is the equivalent grant that we paid in the previous year. We then adjust this for a number of different factors:

- a. **Institutions' recruitment in the previous year:** When we allocate teaching grant, we also set institutions targets that we expect them to meet as a condition of that grant. These targets relate in broad terms to the numbers and types of students they recruit (in terms of their subject and level of study). We adjust funding (either up or down) reflecting how these targets have been met.
- b. **Inflation or other pro rata adjustments:** We provide an uplift to reflect inflation and any other pro rata adjustment that may be necessary within the total funds provided by the Government. For 2010-11, our main teaching grant was subject to an uplift of 1.25 per cent, which was below the level assumed for inflation of 2 per cent. Following our provisional grant allocations announced in March 2010, we subsequently had to implement a pro rata reduction to teaching grant of approximately 1.09 per cent.
- c. **Additional student numbers:** We incorporate additional funding for any ASNs that we have agreed to support.
- d. **Other changes:** These might include, for example, transfers of student numbers between institutions, or certain elements of grant being transferred into or out of our mainstream funding allocation.

79. Having calculated an actual level of mainstream teaching grant, we then add on our assumptions about the institutions' income from tuition fees, to derive the assumed resource.

- a. For full-time undergraduates, our fee assumptions reflect the basic amount of fees that institutions are able to charge, rather than the higher amounts that have been permissible under the variable fee regime since 2006-07.
- b. In general, fees for part-time undergraduates are assumed to be the same, pro rata, as for full-time undergraduates.
- c. Assumed fees for most postgraduate taught students are set to match the base price in our standard resource calculations. This means that postgraduate taught students in price group D (classroom-based subjects) attract little or no funding through our mainstream teaching method, but those in higher-cost subject areas, such as laboratory-based science, will do so.

Table 2 shows in more detail the assumed fee rates per FTE student for 2010-11.

Table 2 **Assumed tuition fee income per FTE student, 2010-11**

	<b>Assumed tuition fee income (per FTE)</b>
Full-time undergraduates	£1,310
Sandwich year-out undergraduates	£1,300
Part-time undergraduates on courses with regulated fees	£1,300
Other part-time undergraduates	£1,310
Full-time taught postgraduates on courses with regulated fees (such as Postgraduate/Professional Graduate Certificate in Education and some architecture courses)	£1,310
Part-time taught postgraduates and sandwich year-out postgraduates on courses with regulated fees	£1,300
Other full-time, part-time and sandwich taught postgraduates	£3,951

*Example: calculating assumed resource*

80. The following illustration shows how we calculate assumed resource. As in the example for calculating standard resource (see paragraph 77), University X has 4,000 FTE students to be counted for 2010-11. In 2009-10, its mainstream teaching grant was initially £14,500,000, but £500,000 was held back because we identified that it had not recruited all the ASNs for which we provided funding in the year. Nevertheless it has further ASNs for 2010-11 (within the total of 4,000 FTEs expected for 2010-11), for which we are providing £1 million.

- a. The actual mainstream teaching grant would be calculated as follows:

2009-10 announced mainstream teaching grant	£14,500,000
Minus 2009-10 grant held back	-£500,000
Uplift (1.25 per cent of the sum of the above)	£175,000
Funding for ASNs for 2010-11	£1,000,000
Total mainstream teaching grant for 2010-11 (before implementation of 1.09 per cent pro rata reduction)	£15,175,000

- b. The assumed fee income would be calculated as follows. The FTE totals by mode are the same as in the example at paragraph 77. Paragraph 14 explains the difference between regulated and unregulated fees.

Mode and level	Fee type	(a)	(b)	Assumed fee income = (a) x (b)
		FTE	Assumed fee rate	
FT UG	Regulated	2,500	£1,310	£3,275,000
FT PGT	Unregulated	400	£3,951	£1,580,400
FT PGT	Regulated	50	£1,310	£65,500
PT UG	Unregulated	650	£1,310	£851,500
PT PGT	Unregulated	400	£3,951	£1,580,400
<b>Total</b>		<b>4,000</b>		<b>£7,352,800</b>

c. The total assumed resource would therefore be:

$$\pounds 15,175,000 + \pounds 7,352,800 = \pounds 22,527,800.$$

### Why do we take account of fee income in our calculations?

Our grant is not sufficient, nor intended, to meet all tuition costs: students and, increasingly, employers are also expected to contribute. If we want to make the best use of taxpayers' money, we need to prioritise it towards areas that are not adequately funded from other sources. Hence we make assumptions about the contributions from fee income. It is, however, important to recognise that making fee assumptions in our calculations does not affect the total budget we have to distribute (which is decided separately by the Government). It merely helps us to distribute that budget in the most effective and efficient way.

For any category of student, we make the same assumptions about fees for all institutions in the sector: we do not take account of what individual institutions charge. This ensures we target our funding towards particular types of courses where our funding is most needed, without disadvantaging those institutions that are able to charge higher fees, or subsidising those that may seek a competitive advantage by charging lower fees.

### Comparing standard and assumed resource: the tolerance band

81. The next step is to compare the standard resource with the assumed resource. We calculate the percentage difference between them as follows:

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

82. The funding method aims to ensure that similar activities are funded at similar rates in all universities and colleges. Therefore we want the percentage difference to fall within the  $\pm 5$  per cent tolerance band around the standard resource.

### **Why do we have a tolerance band?**

The tolerance band exists to give institutions flexibility and to minimise the 'accountability burden' (the work they must do to demonstrate they are spending our money appropriately). The flexibility is both in the nature of the provision institutions 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. The principle of the funding method has been to have similar resources for similar activities, not the same resources for the same activities, because this broad-brush approach to funding helps to keep the accountability burden down. Otherwise, we would have to measure learning and teaching activity much more finely (which would mean more work for institutions) because any change in student numbers, however minor, would potentially have a direct effect on grant.

83. If an institution is within the tolerance band, our funding will roll forward from the previous year. In other words, we will pay the actual mainstream grant as described in paragraph 78. This applies to most universities and colleges.

84. If an institution falls outside the tolerance band, we may take action to bring it within the band. This may be by expecting institutions to increase or reduce their student numbers, or by adjusting funding.

#### *Example: comparing standard and assumed resource*

85. Continuing the example for University X, as described in paragraphs 77 and 80, its percentage difference from standard resource is as follows:

$$\frac{\pounds 22,527,800 - \pounds 21,729,710}{\pounds 21,729,710} \times 100 = +3.7\%$$

86. At 3.7 per cent above standard resource, University X's percentage difference is within the  $\pm 5$  per cent range of the tolerance band, so we would confirm the actual level of mainstream teaching grant as calculated in paragraph 80a.

#### **What effect do our fee assumptions have on the distribution of grant?**

87. As Table 2 (at paragraph 79) shows, our fee assumptions vary only by: level (undergraduate or postgraduate taught); fee status (students subject to regulated or unregulated fees); and, to a much lesser extent, by mode of study

(full-time, sandwich or part-time). Our assumptions do not vary by subject or by institution. The main effects of this are:

- a. We prioritise more of our funding towards higher-cost subjects: the bigger the fee assumption, the more funding is targeted at high-cost areas. This is explained in more detail in paragraphs 88 to 92.
- b. We prioritise more of our funding towards undergraduate, rather than postgraduate taught, activity. This is because we make a higher fee assumption for postgraduate taught students than for undergraduates.
- c. We do not affect the market between institutions in the fees they charge to students of a given category. We make the same fee assumptions for all institutions, so we do not subsidise those that choose to charge low fees, or reduce grant for those that charge high fees.

#### **How do our fee assumptions affect rates of grant for different subjects?**

88. If fees do not vary by subject, then they will make a greater proportionate contribution to the total costs of a classroom-based subject than a laboratory-based subject. HEFCE grant provides the balance: we therefore need to make a greater proportionate contribution to the total costs of the laboratory-based subject. It should be remembered that the relative costs that we have observed (in the ratios 1, 1.3, 1.7 and 4 for price groups D, C, B and A respectively) are in resource terms, to be met through a combination of income sources, of which HEFCE is only one. In fact, the underlying HEFCE grant relativities are steeper than this because of our uniform fee assumptions. If we ignored fee income, the result would be that higher-cost subjects would be under-resourced relative to lower-cost subjects.

#### *Example: the effect on grant rates of a uniform fee assumption*

89. The following example illustrates the effect that our fee assumptions have on the relative grant rates for different price groups. The figures provided are not real, but are very broadly consistent with the numbers in our funding method.

90. Suppose that HEFCE has £4 billion to allocate and has 1 million FTE students to count in its allocations. The students are unevenly distributed between four price groups, which have relative costs of 1, 1.3, 1.7 and 4. In addition to HEFCE grant, institutions also charge a tuition fee, which does not tend to vary by subject and, we assume, averages at about £1,000 per student.

91. In this example, we present two scenarios, one where we make no fee assumption ('scenario 1') and one where we make a sector-wide fee assumption of £1,000 per FTE student ('scenario 2'). In both scenarios we still have £4 billion to allocate, so the fee income remains additional to our grant. But if we ignored the contribution from fee income, we would leave the higher-cost subjects, such as laboratory-based science, under-resourced compared with the



relative costs that we have observed. The tables below show that under scenario 1 (where we make no fee assumption) the relative resource level for price group B, for example, would be only 1.53, when the relative costs were 1.7. Under scenario 2 (where we make a fee assumption), more of our funding is targeted towards the high-cost subjects to ensure that, overall, all subjects receive an appropriate share of the resources available through grant and fees.

92. The importance of making these fee assumptions increases as fee income increases.

Scenario 1: We ignore the tuition fee income

Price group	Student numbers (000s)	Grant (£000s)	Grant relativity*	Fee income (£000s)	Resource (grant + fee) relativity*
D	370	1,112,364	1	370,000	1
C	420	1,641,488	1.3	420,000	1.23
B	185	945,509	1.7	185,000	1.53
A	25	300,639	4	25,000	3.25
<b>Total</b>	<b>1,000</b>	<b>4,000,000</b>		<b>1,000,000</b>	

Scenario 2: We take account of the fee income at sector average rates

Price group	Student numbers (000s)	Grant (£000s)	Grant relativity*	Fee income (£000s)	Resource (grant + fee) relativity*
D	370	1,020,455	1	370,000	1
C	420	1,631,860	1.41	420,000	1.3
B	185	996,887	1.95	185,000	1.7
A	25	350,799	5.09	25,000	4
<b>Total</b>	<b>1,000</b>	<b>4,000,000</b>		<b>1,000,000</b>	

\* The grant relativity compares the rates of HEFCE grant per student for each price group, with the relativity for price group D set to 1. The resource relativity similarly compares the rates of HEFCE grant plus fees combined per student.

### **Funding for additional student places**

93. The funding method allows institutions to obtain additional funded student places according to criteria and priorities that we determine, and within overall limits for growth set by Government. We have made funding available to support growth of approximately 9,000 fully funded full-time equivalent students (FTEs) for 2010-11. The majority of these have been allocated to major projects that have secured funding through our Strategic Development Fund<sup>8</sup>. The process for allocating additional places for 2009-10 and 2010-11 is set out in 'Allocation of funds for additional student numbers in 2009-10 and 2010-11' (HEFCE Circular letter 05/2008) and 'Additional student numbers for 2010-11' (HEFCE Circular letter 22/2009).

94. In addition to these, for 2010-11 further funded places are being made available through a new University Modernisation Fund. This £152 million Fund has been established by the Government to respond to two imperatives: enabling more young people to enter higher education to gain skills that the economy needs, while also supporting universities (and colleges) to take the robust action needed to increase efficiency and reduce cost over the medium term. Within the total funding available, £20 million is for a shared services pilot scheme. Roughly one-third of the £132 million balance will support the teaching of an additional 10,000 FTE student places in 2010-11 and the remainder will support efficiency activities undertaken during 2010-11, which will help those institutions receiving the additional places to reduce their future cost base. It is expected that these institutions will use the savings arising from the investment in efficiency activities to support the future costs of the additional new entrants in their subsequent years of study.

### **Rates of grant for 2010-11**

95. Table 3 shows notional rates of mainstream teaching grant per FTE student for 2010-11. The figures are based on the mainstream teaching funding method, and exclude other elements of teaching grant such as the funds for widening participation, teaching enhancement and student success, and other targeted allocations, that are described in paragraphs 97 to 121. The rates of standard resource and notional HEFCE grant incorporate subject weightings but exclude London weighting and the partial completion weighting, which vary by institution. They also exclude the 1.09 per cent pro rata reduction to teaching grant implemented in our July 2010 allocations to institutions. The table presents a simplification of the different fee types that are possible for different categories of student. For example, it does not take account of different fees that may be chargeable for students undertaking language years abroad.

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<sup>8</sup> A HEFCE fund used to support change and innovation in the sector.

Table 3 **Notional rates of HEFCE teaching grant per FTE student for 2010-11**  
(see paragraph 14 for an explanation of regulated and non-regulated fees)

Price group	Mode	Level	Fee type	Standard resource (£)	Assumed fee income (£)	Notional HEFCE grant rate (£)
A	FT and PT	UG	Regulated and non-regulated	15,804	1,310	14,494
A	FT and PT	PGT	Non-regulated	15,804	3,951	11,853
B	FT and PT	UG	Regulated and non-regulated	6,717	1,310	5,407
B	FT and PT	PGT	Non-regulated	6,717	3,951	2,766
C	FT	UG and PGT	Regulated	5,136	1,310	3,826
C	FT and PT	PGT	Non-regulated	5,136	3,951	1,185
C	SWOUT	UG	Regulated	5,136	1,300	3,836
C	PT	UG	Non-regulated	5,136	1,310	3,826
C	PT	UG and PGT	Regulated	5,136	1,300	3,836
D	FT and PT	UG	Regulated and non-regulated	3,951	1,310	2,641
D	FT and PT	PGT	Non-regulated	3,951	3,951	0

**Key:** FT – full-time, PT – part-time, PGT – postgraduate taught, SWOUT – sandwich year-out, UG – undergraduate.

### **Funding for students not counted in our mainstream teaching allocations**

96. Some categories of student are not counted in our mainstream teaching allocations but are instead counted towards allocations that we fund and monitor separately (although they are still part of the recurrent grant total). These generally relate to the development phase of special initiatives. For 2010-11, this applies to students co-funded by employers. This relates to a special initiative to encourage employers to contribute more towards the costs of higher education, as well as to become more actively involved in the development and delivery of higher education programmes. Students on such programmes attract a lower rate of HEFCE grant (reflecting the additional contribution from employers) and we therefore monitor them separately. For 2010-11 we are providing £26 million to support over 13,000 additional FTE places co-funded with employers.

## Targeted allocations

97. As well as the mainstream teaching grant we also provide targeted allocations, which have been introduced periodically to support important or vulnerable features of higher education in accordance with key policy initiatives. Because they are not part of the mainstream grant, and therefore fall outside the tolerance band calculation, these allocations will reflect more directly any changes in student profile. Institutions can more easily determine how much of their grant is associated with a particular policy priority – although of course all of the activities involved are likely to be supported by the mainstream teaching grant as well. We review the total amount allocated through each targeted allocation, and individual institutions' share of allocations, each year.

98. Targeted allocations can be either variable or fixed. Variable allocations recognise costs that vary according to the volume of learning and teaching activity. Fixed allocations recognise largely fixed costs. The targeted allocations that apply for 2010-11 are shown in Table 4 and each is described further in paragraphs 99 to 120.

Table 4 **Targeted allocations**

	<b>Total 2010-11 allocation (£ million)</b>	<b>Qualifying institutions</b>	<b>Paragraph reference</b>
<b>Variable</b>			
Widening participation	142	HEIs and FECs	99-105
Teaching enhancement and student success	266	HEIs and FECs	106-110
Foundation degrees	12	HEIs and FECs	111-112
Part-time undergraduates	71	HEIs and FECs	113-114
Accelerated and intensive provision	44	HEIs and FECs	115-116
<b>Fixed</b>			
Institution-specific costs	52	HEIs only	117-118
Non-exempt students aiming for ELQs in strategically important and vulnerable subjects	30	HEIs and FECs	119
Very high-cost and vulnerable science	25	HEIs only	120

## Widening participation

99. We allocate funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged backgrounds and students with disabilities. The allocations for widening participation 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. The widening participation targeted allocation incorporates funding for widening access and to improve provision for disabled students.

100. The formulae that we use for these allocations are designed to target funding towards those institutions that do most to widen participation or that recruit students who are likely to need more support. As for calculations of standard resource, we calculate the different elements of widening participation funding pro rata to weighted FTE student numbers. However, instead of using subject (price group) weightings, we use institutional weighting factors that reflect the broad characteristics of their students that give rise to additional costs. For widening access funding, the weighting factors reflect the numbers of students that come from areas with low rates of participation in higher education, or low average educational attainment; for the funding for disabled students, the weighting factor reflects the proportion of students who receive the Disabled Students' Allowance<sup>9</sup>.

### Widening access for people from disadvantaged backgrounds

101. The allocation for widening access recognises the extra costs associated with recruiting and supporting undergraduate students from disadvantaged backgrounds who are currently under-represented in higher education.

102. The £129 million is allocated to reflect levels of engagement in higher education in different Census wards. Institutions' allocations are calculated pro rata to 2009-10 weighted student FTEs, where the weightings reflect the broad institutional mix of students from different Census wards and London weighting.

103. To calculate the institutional weightings (separately for full-time and part-time undergraduates) we use postcode information from the individualised student records provided to HESA and the further education Data Service to map each undergraduate new entrant to a Census ward. We weight these students according to the young higher education participation rate (for young full-time undergraduates) or the proportion of adults with a higher education qualification (for part-time and mature full-time undergraduates) by 2001 Census ward. Students from wards with the lowest rates of higher education participation or qualification receive the highest weightings, while other students may receive a weighting of zero. Because the funding is for widening access to higher education for those who wish to enter for the first time, those part-time and mature students who already hold a higher education qualification at the

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<sup>9</sup> The Disabled Students' Allowance is an allowance to assist students who can show that they have a disability or medical condition that affects their ability to study.

same level as, or higher than, their current qualification aim, or have unknown entry qualifications, are given a weighting of zero, irrespective of their ward. The overall institutional weightings reflect the number of full-time or part-time undergraduate new entrants weighted by ward, divided by the unweighted full-time or part-time undergraduate new entrants. Only students who complete their year of study are included in these calculations.

Students with disabilities

104. The allocation for widening access and improving provision for disabled students reflects institutions' success in recruiting and retaining disabled students.

105. The £13 million allocated is calculated pro rata to 2009-10 weighted student FTEs. We assign each institution to one of four weighting bands according to the proportion of their students who receive the Disabled Students' Allowance, determined from HESA and Data Service individualised student data. The calculations also include London weighting where appropriate.

### **Teaching enhancement and student success**

106. Funding for teaching enhancement and student success recognises the additional costs of supporting students who may be more likely not to continue their studies. It also incorporates funding to support scholarship for those institutions that do not receive significant funding through our research funding method; and funding to support the development and implementation of institutions' learning and teaching strategies. The formulae that we use for these allocations are designed to target funding where it is most needed – in particular, towards those institutions that recruit students who are likely to need more support.

Improving retention

107. Like funding for widening participation, funding for improving retention of full-time undergraduates is allocated pro rata to weighted FTE student numbers. We use institutional weighting factors that reflect the broad characteristics of their students which give rise to additional costs. We have found that the main factors affecting the likelihood of a student not continuing their studies are their entry qualifications and their age. In general terms, those with lower entry qualifications are more likely not to continue than those with, say, high A-level grades; similarly, mature students are more likely not to continue than young entrants. Institutions are likely to face additional costs in supporting such students. We therefore weight students according to these two factors and determine an overall average weight for the institution as a whole. In total there are six student weighting categories: two age categories (young and mature), multiplied by three risk categories associated with entry qualifications (low, medium and high). We also provide London weighting where appropriate. The total funding allocated is £172 million.

108. The £54 million allocated to improve retention of part-time students is allocated pro rata to part-time 2009-10 FTE student numbers, incorporating London weighting.

#### Research-informed teaching

109. We want institutions' teaching to be informed by the latest research, including where their staff are not actively involved in research themselves. We therefore provide additional funding for those institutions that do not receive significant amounts of research funding relative to the numbers of taught students that we are funding. It is calculated using our 2010-11 quality-related research funding (see paragraphs 138 to 156). Where this amounts to less than £500 per 2009-10 student FTE, the funds available are allocated in proportion to the shortfall in the rate of funding (below £500) multiplied by the student FTEs. The total funding for research-informed teaching is £10 million.

#### Institutional learning and teaching strategies

110. All institutions receive funding to support the development and implementation of their learning and teaching strategies, with the funding in proportion to their teaching activity. The funding totals £30 million and is distributed pro rata to the standard resource associated with the student FTEs counted towards both mainstream and non-mainstream (employer co-funded) teaching allocations.

#### Foundation degrees

111. We recognise that there can be higher costs involved in setting up and maintaining foundation degrees because of costs associated with partnerships between institutions and employers. The variable targeted allocation for foundation degrees reflects this potential for additional cost. However, following consultation with the sector, this funding is now being phased out: 2010-11 is the final year that we will make such an allocation.

112. We are allocating £12 million to support foundation degrees as a variable targeted allocation in 2010-11. This is allocated pro rata to student FTEs on foundation degree programmes.

#### Part-time undergraduates

113. There are extra costs associated with part-time students. For example, an institution's administration costs for two part-time students, each with an FTE of 0.5, will be higher than for one full-time student. The targeted allocation for part-time undergraduates recognises these additional costs.

114. We are allocating £71 million to support part-time undergraduate provision as a variable targeted allocation. This is allocated pro rata to part-time undergraduate FTEs.

#### Accelerated and intensive provision

115. Some courses are taught over longer periods than others within the year and so cost more. Students studying on courses that last for 45 weeks or more within one academic year attract a targeted allocation. This does not apply to courses in price group A, where the course length has already been taken into account within the cost weight of 4, or to taught postgraduate provision in price group D, which generally also attracts no funding through the mainstream teaching grant (see Table 3 at paragraph 95).

116. We are allocating £44 million in 2009-10 to support accelerated and intensive provision as a variable targeted allocation. This is allocated pro rata to the student FTEs reported as being on long years of programme of study in price groups B, C or D (for undergraduates) or B or C (for taught postgraduates), weighted by price group.

#### **Institution-specific costs**

117. The targeted allocation for institution-specific costs recognises that some institutions face higher costs due to the nature of the provision they offer and their institutional circumstances and characteristics. Working with an advisory group, HEFCE has reviewed this funding. The review has determined the extent to which the higher costs incurred by many of these institutions should continue to be supported by public funds.

118. We are allocating £52 million to support institution-specific costs as a fixed targeted allocation in 2010-11. For most institutions concerned, this funding has been determined following a review of the exceptional funding for institutions. Further information on this review is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Learning & teaching/Funding/REFI.

#### **Non-exempt ELQs in strategically important and vulnerable subjects**

119. As part of our implementation of the ELQ policy, we are providing a fixed targeted allocation calculated to reflect students studying for ELQs in strategically important and vulnerable subjects (SIVS)<sup>10</sup>. This allocation is intended to allow institutions to maintain student numbers in SIVS, even if some of them are aiming for an ELQ. The total allocated in 2010-11 is £30 million.

#### **Additional funding for very high-cost and vulnerable science subjects**

120. In November 2006 we announced that we would allocate an additional £75 million over the three-year period 2007-08 to 2009-10 to support very high-cost science SIVS. The funding supports: chemistry; physics; chemical engineering; and mineral, metallurgy and materials engineering, to help maintain capacity in these subjects in universities and colleges while demand from students grows. Further information on this allocation can be found in 'Additional funding for very high-cost and vulnerable laboratory-based subjects' (HEFCE Circular letter 13/2007). This funding has now been confirmed as part of our recurrent grant for teaching and totals £25 million for 2010-11.

#### **Other recurrent teaching grants**

121. There are a small number of other recurrent grants that support teaching but are not part of the mainstream teaching allocation. For 2010-11 they comprise:

- clinical academic consultants' pay (£19 million)
- senior academic general practitioners' pay (£1 million)

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<sup>10</sup> Certain subjects that are deemed strategically important to the economy and society but that are currently in relatively low demand from students.



- additional costs of NHS pensions (£6 million)
- transitional funding for ELQs (£42 million)
- ELQ safety net (£1 million).

122. Transitional funding for ELQs is provided because funding to teach students aiming for an ELQ and not covered by an exemption from the policy is being phased out over a period of up to six years. The £42 million represents the sum still to be phased out after 2010-11. The ELQ safety net is provided to ensure that no institution sees a reduction to teaching grant in cash terms compared with the equivalent sums that were within mainstream teaching grant for 2007-08, as a result of the implementation of the ELQ policy.

### **The funding agreement**

123. We draw up a funding agreement each year with each institution that we fund. This sets out the amount of recurrent funding that we will provide to the institution for the academic year, and targets relating to the amount of teaching activity the institution is expected to provide in return for that funding. It also sets out some terms and conditions of grant that apply. The funding agreement targets relate broadly to requirements on institutions to:

- remain within, or move towards, the tolerance band of our mainstream teaching funding method
- ensure that they do not exceed limits on the numbers of students starting full-time undergraduate or Postgraduate/Professional Graduate Certificate in Education (PGCE) study
- meet certain student FTE targets relating to allocations of additional funded places: these are specified separately for student FTEs counted in our mainstream and non-mainstream teaching allocations
- meet certain student FTE targets for some medical and dental courses.

124. The first two targets apply to every institution: others will apply only where additional funded places have been allocated, or where medical or dental courses are offered.

125. We adjust institutions' funding within the year to reflect how they have met their funding agreement targets. These adjustments can be positive or negative:

- a. We reduce funding (by 'holding back' grant) if institutions do not have the numbers of students for which we have provided funding (for example if they have not met their FTE targets relating to allocations of additional funded places, or if they are too far above the tolerance band).
- b. We increase funding if institutions make good shortfalls in student numbers from the previous year and thereby recover sums that we have deducted in our initial grant allocations.
- c. We reduce funding if institutions exceed the limit of their new student number control limit relating to students starting full-time undergraduate or PGCE study in 2010-11.

126. In 2009-10, in response to a request from Government, we asked institutions not to increase full-time undergraduate and Postgraduate/Professional Graduate Certificate in Education (PGCE) entrants beyond the levels admitted in 2008-09 plus any additional places awarded. The purpose has been to reduce the risk of over-recruitment that might lead to a transfer of HEFCE grant back to the Department for Business, Innovation and Skills to meet consequent unanticipated student support costs. In our grant letter of 22 December 2009, the previous Secretary of State asked us to make appropriate adjustments to the allocations of those institutions that had over-recruited, at a rate of £3,700 per full-time undergraduate and PGCE student recruited above the permitted level. Information about the adjustments we are making was published on our web-site in July.

127. For 2010-11, we have specified provisional limits for a new student number control that applies to students starting HEFCE-fundable or employer co-funded full-time undergraduate or PGCE study in 2010-11. The limits have been calculated to reflect the numbers of such students in 2008-09 plus adjustments for additional funded places awarded and other miscellaneous adjustments and transfers implemented since then. Institutions will again be liable to a reduction of £3,700 (or such other sum as may be specified by BIS) for each excess student recruited.

128. To come within the tolerance band, institutions may vary their recruitment as long as the weighted volume of teaching activity is maintained within certain implied limits. So, for example, they may vary the balance of recruitment between full-time and part-time students (subject also to complying with the requirements of the student number control) or between different price groups.

129. 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. There may be fewer students 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. But if recruitment results in the assumed resource differing by more than  $\pm 5$  per cent from standard resource, then action may be 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.

130. When we provide funding for additional places to 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 additional funding we have provided. 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.

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

132. Other recurrent teaching grants that are not part of the mainstream allocation may also be subject to separate conditions of grant and monitoring arrangements.

## Funds for research

133. Public research funds are provided under a system known as ‘dual support’.
- a. HEFCE provides funding to ensure that the research base has the capacity to undertake high-quality innovative research and to contribute to supporting the research infrastructure. Our funds go towards the cost of the salaries of permanent academic staff, premises, libraries and central computing costs. They support fundamental and ‘blue skies’ research in institutions and contribute to the cost of training new researchers. This research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.
  - b. The Research Councils provide funding for specific programmes and projects. This is calculated as a proportion of the full economic cost of the work to be done (90 per cent for new grants applied for from 2008-09).
134. We are committed to promoting excellent research. HEFCE research funds are distributed selectively to HEIs that have demonstrated the quality of their research by reference to national and international standards. Since 1986, quality has been measured in a periodic Research Assessment Exercise<sup>11</sup> (RAE). This was a UK-wide peer-review exercise that produced quality ratings for those research groups that institutions chose to submit for assessment in different subject areas. The research funding allocation for 2010-11 is informed by the outcomes of the 2008 RAE. More information on the 2008 RAE is available at [www.rae.ac.uk](http://www.rae.ac.uk).
135. We are now developing, in consultation with the sector, the Research Excellence Framework (REF), which will replace the RAE as our system for assessing and funding research. Information about the REF is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Research/Research Excellence Framework.
136. FECs are not eligible for our research funding, because we are only empowered to fund them for prescribed courses of higher education (see paragraphs 35 and 37d).
137. Our recurrent funding for research in 2010-11 is £1,603 million.

### Quality-related research funding

138. Our recurrent research funding is known as quality-related research (QR) funding. The main research funding method (known as ‘mainstream QR’) distributes grant based on the quality, volume and relative cost of research in different areas.
139. First we determine how much funding to provide for research in different subjects, and then we divide the total for each subject between institutions. These decisions take account of the volume of research (using research-active staff numbers), the relative costs (reflecting, for example, that laboratory-based research is more expensive than library-based research), any government policy priorities for particular subjects and the quality of research as measured in the RAE.

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<sup>11</sup> In the early years, this was known as the Research Selectivity Exercise.

140. In addition to mainstream QR, other allocations are made to contribute towards other research-related costs. These are:

- a. **Funding for research degree programme (RDP) supervision.** This is allocated to reflect postgraduate research numbers and the relative costs of the subjects they are studying.
- b. **Charity-related funding.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs of research. We therefore provide additional funding to institutions in proportion to the income they receive from charities for research.
- c. **Business-related funding.** We also provide funding to support institutions undertaking research with business and industry. This is allocated in proportion to the income they receive from business for research.
- d. **Funding for national research libraries.** This is allocated to five research libraries on the basis of a review carried out during 2007.

141. The separate components of QR funding are shown in Table 5.

Table 5 **The components of quality-related research funding 2010-11**

<b>Mainstream QR</b> allocated to reflect the quality, volume and cost of research at institutions in different subjects	£1,130 million
<b>RDP supervision fund</b> allocated to support postgraduate research	£205 million
<b>Charity support element</b> allocated on the basis of eligible charity research income	£198 million
<b>Business research element</b>	£64 million
<b>National research libraries</b>	£6 million
<b>Total</b>	<b>£1,603 million</b>

### **Mainstream QR funding**

142. There are a number of different components used in our mainstream QR funding method. These are:

- a volume measure
- a quality profile
- subject cost weights
- London weighting.

### The volume measure

143. The volume measure in our research funding method is the number of research-active staff employed by the institution (counted in FTE terms) multiplied by the proportion of research that meets a quality threshold in the RAE. The quality threshold is explained in further detail below.

144. These staff numbers are fixed between RAEs to ensure they are consistent with the quality ratings. This means that there is a step-change in volume at each RAE. As is the case with teaching grant, the volume measure for research determines what we count for funding purposes, but does not define what we fund (or what our funding is for).

### The quality profile

145. The 2008 RAE reviewed research in all disciplines, divided into 67 subject areas, known as Units of Assessment (UOAs). A two-tier panel structure was used to determine the profile of research quality in each submission, with 15 main panels (A to O) co-ordinating and advising on the work of 67 sub-panels within cognate disciplines. It was for institutions to decide which (if any) research groups to submit for assessment in these UOAs.

146. For each submission made, the panels determined a quality profile, identifying what proportion of the research met certain quality thresholds. This profile was on a five-point scale:

- four-star (4\*): quality that is world-leading
- three-star (3\*): quality that is internationally excellent
- two-star (2\*): quality that is recognised internationally
- one-star (1\*): quality that is recognised nationally
- unclassified: quality that falls below the standard of nationally recognised work.

#### Example

147. The following is an example of quality profiles identified from the 2008 RAE

UOA 13 (Pharmacy)	FTE staff submitted for assessment	Percentage of research activity in the submission judged to meet the standard for:				
		4*	3*	2*	1*	Unclassified
		highest quality	←————→			lowest quality
University X	50	15%	25%	40%	15%	5%
University Y	20	0%	5%	40%	45%	10%

## Subject cost weights

148. There are three subject cost weights:

### Weighting

A	High-cost laboratory and clinical subjects	1.6
B	Intermediate-cost subjects	1.3
C	Others	1.0

#### **Why do the cost weights for research differ from the price group weights in the teaching funding method?**

The subject-related cost weights in both the teaching and research funding methods have been determined from analysis of data on expenditure in different subjects reported by institutions to HESA. However, for the teaching cost weights, we identify the relative expenditure per student FTE, whereas for research, we identify the relative expenditure per staff FTE. These approaches are consistent with the main volume measures that we use in the two funding methods. In addition, we make differing adjustments to the expenditure data when determining the teaching and research cost weights. For example, when we calculated the price group weights for teaching, we deducted the funding we provided for research to better identify teaching-related costs.

## London weighting

149. We provide London weighting as a percentage of the funding calculated for mainstream QR. This is 12 per cent for institutions in inner London and 8 per cent for institutions in outer London

#### **Why do the percentages for London weighting differ between the teaching and research funding models?**

The size of the weightings reflects differences in how they are applied in each method. London weighting in the teaching funding method (usually, 8 per cent for inner London and 5 per cent for outer London) is, in general, applied to resource – that is, both HEFCE grant and assumed fee income. In the research funding method, however, the weights are applied to HEFCE grant only.

### Calculating mainstream QR funding

150. There are three stages to the allocation of mainstream QR funds:

Stage 1: determining the amount provided for the 15 main RAE panel disciplines

Stage 2: distributing the main panel totals between the 67 UOAs

Stage 3: distributing the totals for each UOA between institutions.

Stage 1: Determining the amount provided for the 15 main RAE panel disciplines

151. Our first step in distributing mainstream QR is to decide how much to allocate to different subjects. The total has been divided between the subject fields of the 15 RAE main panels in proportion to the volume of research in each field that has been assessed as meeting, or exceeding, the 2\* quality level in the 2008 RAE, weighted to reflect the relative costs of research in different subjects. For 2009-10, we then adjusted these totals to ensure that the proportion of mainstream QR allocated to each main panel group in science, technology, engineering and mathematics (STEM, main panels A to G) was not less than in 2008-09. We have continued this practice for 2010-11 and also extended it, in a more limited way, to geography and psychology, because we recognise that around half of the research activity in these two disciplines could reasonably be regarded as more analogous to work in STEM disciplines than in the other social sciences.

Stages 2 and 3: Distributing the main panel totals between UOAs and then institutions

152. The next steps are to disaggregate the totals for each main panel subject group between its constituent UOAs, and then to disaggregate the totals for each UOA between institutions. For both calculations, this is in proportion to the volume of activity assessed to reach each of the 2\*, 3\* and 4\* quality levels in the 2008 RAE respectively, multiplied by quality weights, and also taking cost weights into account where these vary within a main panel group. We apply weightings to research volume attributable to each RAE quality rating, which ensure that our funding of research is highly selective, as shown in Table 6.

Table 6 Research funding weightings

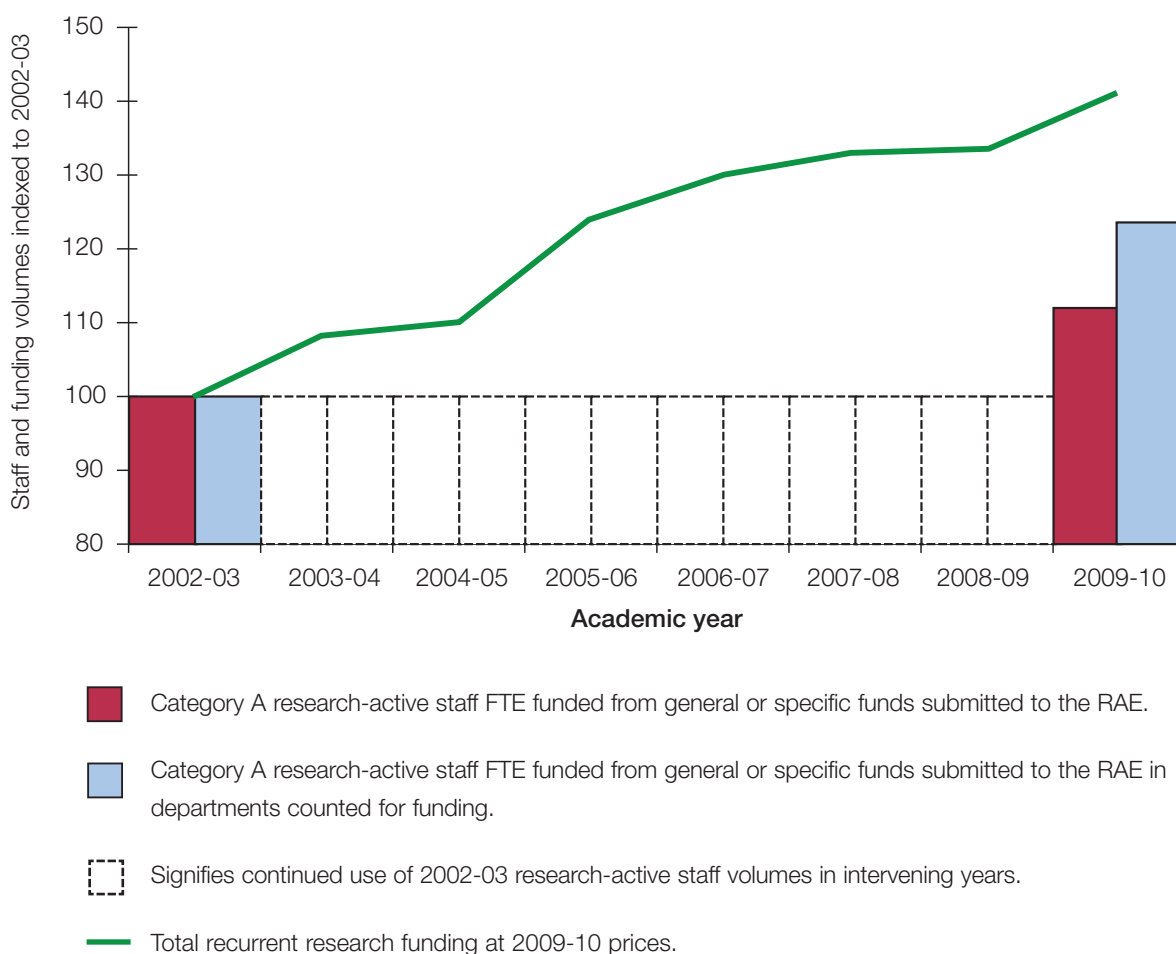
Quality rating (with abbreviated description)	Funding weighting
4* (world-leading)	9
3* (internationally excellent)	3
2* (recognised internationally)	1
1* (recognised nationally)	0
Unclassified (below the standard of nationally recognised work)	0

### Did HEFCE cut the rate of funding for research in 2009-10?

No. This charge is not based on a like-for-like comparison. As explained in paragraph 144, the staff numbers that we count are fixed between each RAE, so that they are consistent with the quality ratings that relate to them. By contrast, total research funding has increased in real terms each year between RAEs and this has allowed for increases in research volumes, as well as increases in cost. It is not, therefore, appropriate merely to compare the funding and staff FTEs in our allocations for 2008-09 with those for 2009-10 – rather, a longer time period is necessary to see how these have changed between RAEs.

Figure 5 compares staff FTE and funding changes between the 2001 RAE and the 2008 RAE. It starts from 2002-03, because this was the first year in which funding was informed by the outcomes of the 2001 RAE. Two measures of staff FTE volumes are shown: the first relates to staff submitted to each RAE ('Category A' refers to staff funded by institutions and in post at the RAE census date); the second relates to the staff counted in our research funding methods (that is, those associated with relevant quality thresholds in our funding method). The line shows how our total recurrent research funding has changed in real terms each year. All figures have been indexed to 2002-03 levels, rather than being expressed in absolute terms, to show more clearly that changes in funding have more than kept pace with changes in research-active staff over the period.

Figure 5 **Changes in research-active staff FTE and funding, 2002-03 to 2009-10**





### **Has HEFCE cut research funding for non-STEM subjects to protect STEM?**

No. Both STEM and non-STEM subjects have had real-terms increases in funding over the funding period informed by the 2001 and 2008 RAEs.

The previous Secretary of State wrote in his grant letter to HEFCE in January 2009 that he expected us to continue to recognise and respond to the high cost and national importance of STEM subjects. We therefore ensured that there was no reduction in the share of funding for each of the main panel areas associated with these subjects. The funding for three main panel areas in STEM subjects was increased as a result. This meant that non-STEM subjects did not get as large an increase in funding as they otherwise would have received, but they have still had significant increases over the period 2002-03 to 2010-11.

To make a fair comparison we need to compare the beginning of the funding cycles following the RAEs in 2001 and 2008. On this basis there has been an overall 26 per cent increase in real terms in the funds per researcher across all subjects.

Including the effect of protecting STEM, total funding for all non-STEM subjects has increased in real terms by 24 per cent whereas the number of researchers submitted to the 2008 RAE increased by 13 per cent compared with the 2001 RAE. The corresponding figures for STEM subjects are a 43 per cent increase in funding in real terms and an 11 per cent increase in the number of researchers submitted.

### **Research degree programme supervision fund**

153. Funding for RDP supervision is provided on the basis of postgraduate research student FTEs in all departments<sup>12</sup> that receive mainstream QR funding for research. The allocation is based on the numbers of eligible students in each department, weighted by the subject cost weights given in paragraph 148 and the London weighting percentages given in paragraph 149. There is no minimum quality threshold for eligibility for this funding.

154. We collect postgraduate research student numbers in our Research Activity Survey, which HEIs submit in December each year. As a condition of grant, we require all institutions to comply with the revised Section 1 of the Quality Assurance Agency for Higher Education's code of practice on postgraduate research programmes in respect of those departments that attract RDP supervision funding.

### **Charity support element**

155. In 2005 we announced the establishment of a new charity support element within QR. Funding is provided on the basis of research income from charities in departments that receive mainstream QR funding for research for

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<sup>12</sup> The term 'department' means a group of staff and their research activity returned in a single submission within one subject UOA, irrespective of whether this is identified as a single administrative unit within the institution.

2010-11. The allocation is made in proportion to the amount of eligible income from charities reported in the 2008 and 2009 Research Activity Surveys, weighted for London weighting (see paragraph 149). There is no minimum quality threshold for eligibility for this funding.

### **Business research element**

156. In 2007-08 we established a new business research element within QR funding to support HEIs undertaking research with business and industry. The allocation is based on the amount of research income institutions receive from UK industry, commerce and public corporations, using data for the two most recent years available (for the 2010-11 allocations these were 2006-07 and 2007-08 data) reported by institutions on the HESA Finance Statistical Record.

## **Higher Education Innovation Fund**

157. Funding under the fourth round of the Higher Education Innovation Fund (HEIF 4) is designed to support and develop a broad range of knowledge transfer activities that result in economic and social benefit to the UK. The fund builds capacity and provides incentives for HEIs to work with business, public sector bodies and third sector partners, with a view to transferring knowledge and thereby improving products, goods and services. HEIF 4 is a joint initiative between HEFCE and BIS.

158. Round four funding covers three academic years: 2008-09, 2009-10 and 2010-11. Funds are allocated by formula to all eligible HEIs, subject to acceptance by HEFCE of an institutional strategy that sets out the institution's knowledge transfer strategy and plans for use of HEIF 4 funding.

159. The key features of the HEIF 4 method are as follows:

- a. A first component (40 per cent) is allocated with a focus on capacity-building and HEIs' potential, and is based on FTE academic staff numbers.
- b. A second component (60 per cent) is allocated on the basis of performance, using various measures of income from business and non-commercial sources as a proxy for the value placed on HEIs' activities by users of knowledge in the wider economy and society. Income from small and medium-sized enterprises is double-weighted within this component.
- c. There is a minimum allocation of £100,000 per year for all HEIs.
- d. There is a cap of £1.9 million on an individual formula allocation in 2010-11 (with HEIs receiving allocations in 2008-09 and 2009-10 based on a linear progression between their 2007-08 HEIF 3 allocation and 2010-11 HEIF 4 allocation).
- e. There will be a maximum increase of 150 per cent between 2007-08 HEIF 3 formula allocations and final-year HEIF 4 allocations for 2010-11.
- f. 'Transition' funding is provided to ensure that throughout the three years of HEIF 4, no HEI's allocation will fall below 80 per cent of its 2007-08 HEIF 3 award. This is to protect HEIs against an unmanageable drop in funding between HEIF 3 and HEIF 4.

160. 'Higher Education Innovation Fund round 4: invitation and guidance for institutional strategies' (HEFCE 2008/02) sets out in more detail the policies and processes for allocating HEIF 4 funding. The final allocations, following approval of institutions' strategies, were announced in 'Higher Education Innovation Fund round four outcomes' (HEFCE 2008/34).

## Moderation

161. 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 2010-11, in general, no institution will see a cash reduction in their recurrent teaching and research grant of more than 1.2 per cent, compared with the equivalent unmoderated figure for 2009-10. We do not provide moderation funding if it amounts to less than £100,000 for an institution. We review our moderation policy annually.

## Data monitoring

162. Almost all of our recurrent funding (block grant) for institutions is allocated by formula and informed by data that higher and further education institutions provide on their student numbers and measures of research activity. We have a number of processes to check the accuracy of institutions' data returns that inform our funding:

- a. **Validation checks.** These ensure numerical consistency within the returns (for example that certain figures on one table match figures on another). Most of these are built into the electronic survey forms that institutions complete.
- b. **Credibility checks.** These will relate to data values or changes that, while possible, appear unexpected or unlikely. Some of these are also built into the electronic survey forms, which will generate warning messages if certain thresholds are breached. In addition, HEFCE staff carry out credibility checks of all data returns and will question institutions about them.
- c. **Data audit.** This tests institutions' systems and processes in preparing data returns. It involves visits to institutions (lasting at least three days on-site for HESES) to review their management information systems and the documentation that provides an audit trail showing how the return was produced, alongside substantial testing of the assumptions underpinning, and values reported on, the return. In the case of HESES, this will involve selecting samples of students and testing how they have been recorded in the return against the definitions in the survey.
- d. **Data reconciliation.** This occurs at the end of the academic year. We use the student data submitted by HEIs to HESA to reconstruct what the original HESES and Research Activity Survey returns for the institutions should have looked like. Where differences between the original and re-created returns result in significant funding discrepancies, the institutions are selected to go through a reconciliation process, which involves explaining the reasons for data differences and, if necessary, submitting amendments to their HESA data. A similar reconciliation takes place for FECs between their HEIFES and ILR data.

163. Although we have these processes to test the reliability of the data that institutions have provided, the responsibility for data quality ultimately rests with them: the data is theirs, not ours, and we do not sign it off. Our interest in testing data quality is to ensure that our allocations to institutions are fair and appropriate. 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.

## **Non-recurrent funding (special funding and earmarked capital grants)**

164. Non-recurrent funding is used to secure change or fund activities that cannot be secured through recurrent formula funding.

165. We aim to provide as much as possible of our funding for learning and teaching, widening participation, research, and engagement with business and the community through the block grant. We continuously review the level of special funding to ensure it is justified and the amount of special funding that comes from the recurrent baseline continues to decline.

166. Within this approach, and to reduce the burden on HEIs, we seek to minimise the total number of national special funding and earmarked capital programmes that we operate. For 2010-11 we are allocating £314 million for special funding, and a further £532 million for earmarked capital grants. The latter figure takes account of £250 million brought forward from 2010-11 into 2008-09 and 2009-10. Exceptionally, there is also a new separate element of non-recurrent grants for 2010-11 only: part of the University Modernisation Fund, totalling £88 million, that is provided to support efficiency projects at institutions.

167. Increasingly, non-recurrent 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.

168. Earmarked capital is additional funding provided by the Government to support sustainable investment in higher education.

169. Most of our earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund. Capital funding under these two streams for 2008-2011 was announced in ‘Capital Investment Fund: capital for learning and teaching, research and infrastructure 2008-2011’ (HEFCE 2008/04). All HEIs that receive HEFCE recurrent funding for teaching or research receive an allocation under these programmes. In addition we provide capital funding to directly funded FECs. Capital funding for indirectly funded FECs is accessed through the HEI through which they are funded.

170. We provide non-recurrent and earmarked capital grant to help deliver our strategic aims. The amounts by strategic aim are set out in Table 7.

Table 7 **2010-11 Non-recurrent and earmarked capital grant by strategic aim**

<b>Strategic aim</b>	<b>Funding (£ million)</b>
Learning and teaching	238
Research and knowledge transfer	300
Sustaining a high-quality sector	212
Widening participation	30
Excellence in delivery	1
Joint Information Systems Committee	65
<b>Total</b>	<b>846</b>

# Glossary of terms

<b>Accountability burden</b>	The work that institutions must do to demonstrate that they are spending HEFCE funds appropriately. We strive to achieve a fair balance between minimising this burden and ensuring public money is properly accounted for
<b>ASNs</b>	Additional student numbers. This refers to funding allocated by HEFCE in response to proposals submitted by institutions who wish to recruit extra students. ASNs are allocated to meet certain priorities that we specify
<b>Assumed resource</b>	HEFCE's mainstream teaching grant plus assumed income from tuition fees
<b>BIS</b>	Department for Business, Innovation and Skills. This is the government department to which HEFCE is accountable, but as a non-departmental public body we operate at arm's length from it
<b>Block grant</b>	The recurrent funding provided by HEFCE to an institution for teaching, research and related activities. This does not include special and earmarked capital funding. Recurrent funding is given to each institution in one 'block' that it can spend as it chooses (as long as it is for teaching, research and related activities); there is no expectation that their internal allocations will mirror the assumptions we used to calculate that total amount
<b>Capital Investment Framework</b>	A methodology to assess higher education institutions' approaches to investing their capital. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF will receive their capital without the need to apply for the funds; the grants will be paid directly in four quarterly payments. Institutions still working towards meeting the CIF requirements need to follow specific application requirements
<b>Co-funded employer engagement</b>	Projects led by institutions to deliver employer-responsive workforce development that is co-financed by employers
<b>Disabled Students' Allowance</b>	Grants to help meet the extra course costs students can face as a direct result of a disability or specific learning difficulty
<b>Dual support</b>	The system of funding research, partly by HEFCE and partly by the Research Councils
<b>Earmarked capital</b>	Part of non-recurrent funding to help universities and colleges invest in their physical infrastructure so it remains fit for purpose
<b>ELQ</b>	Equivalent or lower qualification. Most students who are studying for a qualification equivalent to, or lower than, one they already hold are not counted for HEFCE funding purposes
<b>FEC</b>	Further education college
<b>FTE</b>	Full-time equivalent or full-time equivalence, depending on context. 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 an equivalent full time course
<b>HE</b>	Higher education

<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution – a university or college of higher education
<b>HEIF</b>	Higher Education Innovation Fund. A fund for projects in which HEIs engage, in a variety of ways, with businesses and the community
<b>HEIFES</b>	Higher Education in Further Education: Students survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching
<b>HESA</b>	Higher Education Statistics Agency. HESA collects a number of different data returns from HEIs. The one that is most relevant for our teaching funding is the individualised student record, which we use in calculating funding for widening participation, and teaching enhancement and student success, and to reconcile with the HESES and Research Activity Survey returns. We also use data from HESA's Finance Statistical Record to inform some of our research funding and to review the cost weights in our teaching and research funding methods
<b>HESES</b>	Higher Education Students Early Statistics survey. The annual aggregate student recruitment survey completed by HEIs, which informs our funding for teaching
<b>ILR</b>	Individualised learner record. This is collected by the further education Data Service from FECs and is the equivalent of HESA's individualised student record
<b>Knowledge transfer</b>	HEIs increasingly engage with businesses, community groups, charities and other organisations, transferring or exchanging knowledge with the aim of improving their products, services, profitability and so on. This includes consultancy/advisory work, the development of new intellectual property, and a variety of other activities
<b>Level</b>	Level of study refers to undergraduate (UG), postgraduate taught (PGT) and postgraduate research
<b>LLN</b>	Lifelong Learning Network. A group of FECs, HEIs and others working together as a network to improve the coherence, clarity and certainty of progression opportunities for vocational learners into and through higher education
<b>Migration</b>	The process by which institutions that are outside the tolerance band of our mainstream teaching funding method are expected to move within it over time. This can be achieved either by us adjusting their funding, or by the institution recruiting more or fewer students
<b>Mode</b>	Mode of study refers to full-time (FT), part-time (PT) or sandwich year-out (SWOUT). For funding purposes FT and SWOUT are combined
<b>Moderation funding</b>	Funding provided to institutions for one year only to smooth significant year-on-year reductions in recurrent teaching and research grant, to ensure that they are manageable for institutions

<b>Non-recurrent funding (special funding and earmarked capital)</b>	Used to secure change or fund activities that cannot be secured through core teaching/research funding. Earmarked capital is additional funding provided by the Government over and above the annual budget it allocates for general higher education funding
<b>NHS</b>	National Health Service
<b>Price group</b>	A group of subjects that show broadly similar costs, used in our teaching funding method. There are four price groups, which attract different cost weights in the method
<b>QR funding</b>	Quality-related research funding. It is allocated according to research quality (as judged by expert review in the RAE), and the amount of research activity at each HEI
<b>RAE</b>	Research Assessment Exercise. A periodic, peer-review exercise that rates research quality in UK HEIs and counts numbers of research-active staff. Institutions submit research groups for assessment in different subject areas and are given quality ratings. The results are used by the higher education funding bodies for England, Scotland, Wales and Northern Ireland to allocate QR funding. The 2008 RAE has informed research funding from 2009-10
<b>RDP</b>	Research Degree Programme
<b>Recurrent funding</b>	Yearly allocations aimed at ongoing, core activities
<b>Research Activity Survey</b>	The method by which HEIs update us on their research student numbers and research income from charities, both of which inform elements of our research funding. It is submitted in December each year
<b>Research Councils</b>	The seven Research Councils are government-funded to support research in their fields of interest, in both their own establishments and in higher education institutions
<b>REF</b>	Research Excellence Framework. A new system for assessing and funding research, which is being developed to replace the RAE
<b>Sandwich course</b>	A course of study which includes periods of work experience in organisations outside the university or college
<b>SIVS</b>	Strategically important and vulnerable subject(s). Some subjects are considered economically or strategically important to the nation and therefore may require assistance to maintain the level of provision. If this is because the demand from students does not match the supply of courses, the subject is designated as both strategically important and vulnerable. Currently the following subjects are designated as SIVS: STEM, area studies and related minority languages; modern foreign languages; and quantitative social science
<b>Special initiatives</b>	Special initiatives are funds for specific activities for a limited period not linked to formula funding allocations
<b>Special funding</b>	Part of non-recurrent funding



<b>Standard resource</b>	A notional benchmark, calculated by our mainstream teaching funding model, of what an institution's share of the resources available for the sector should be, based on the students that they have
<b>STEM</b>	Science, technology, engineering and mathematics. In the case of research funding, this includes clinical subjects such as medicine
<b>Strategic Development Fund</b>	A HEFCE fund used to support change and innovation in the sector. It is generally allocated as non-recurrent development funding, but we may also allocate ASNs for our recurrent teaching allocations through the Strategic Development Fund process
<b>Student retention</b>	Some people need more support than others to complete their studies because of their background or circumstances. Student retention funding assists with this
<b>TDA</b>	Training and Development Agency for Schools. This agency funds school teacher education
<b>Tolerance band</b>	A margin of $\pm 5$ per cent around standard resource, within which we want an institution's assumed resource to fall
<b>Tuition fees</b>	Fees paid to a university or college for a student to attend a course
<b>University Modernisation Fund</b>	A Fund for 2010-11 established by the Government to respond to two imperatives: enabling more young people to enter higher education to gain skills that the economy needs, while also supporting universities (and colleges) to take the robust action needed to increase efficiency and reduce cost over the medium term. It comprises three different elements: £20 million is for a shared services pilot scheme; £44 million is to support the teaching of an additional 10,000 FTE student places in 2010-11; and £88 million supports efficiency activities undertaken during 2010-11, which will release savings that will support these students as they continue their studies into 2011-12 and beyond
<b>UOA</b>	Unit of Assessment. Used in the RAE to define subject areas
<b>Widening participation</b>	This refers to activities designed to ensure that all those with the potential to benefit from higher education have the opportunity to do so

# Further reading

## **HEFCE publications (all available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications)**

- 'Model Financial Memorandum between HEFCE and institutions' (HEFCE 2010/19)
- 'Recurrent grants for 2010-11' (HEFCE 2010/08)
- 'Recurrent grants for 2009-10: final allocations' (HEFCE 2009/42)
- 'Research Excellence Framework: Second consultation on the assessment and funding of research' (HEFCE 2009/38)
- 'HEIFES09: Higher Education in Further Education Students Survey 2009-10' (HEFCE 2009/37)
- 'HESES09: Higher Education Students Early Statistics Survey 2009-10' (HEFCE 2009/36)
- 'Additional student numbers for 2010-11' (HEFCE Circular letter 22/2009)
- 'Research Activity Survey 2009' (HEFCE 2009/33)
- 'HEFCE grant adjustments 2009-10' (HEFCE 2009/24)
- 'Higher Education Innovation Fund round four outcomes' (HEFCE 2008/34)
- 'Withdrawal of funding for equivalent or lower qualifications (ELQs): outcomes of consultation' (HEFCE 2008/13)
- 'Capital Investment Fund: capital for learning and teaching, research and infrastructure 2008-2011' (HEFCE 2008/04)
- 'Higher Education Innovation Fund round 4: invitation and guidance for institutional strategies' (HEFCE 2008/02)
- 'Allocation of funds for additional student numbers in 2009-10 and 2010-11' (HEFCE Circular letter 05/2008)

## **Other pages at [www.hefce.ac.uk](http://www.hefce.ac.uk)**

In the Finance & assurance section under The annual grant announcement

In the Learning & teaching section under Funding

In the Widening participation section under Funding

In the Research section under Funding

## **Information on RAE 2008 (all available at [www.rae.ac.uk](http://www.rae.ac.uk) under Publications)**

- 'RAE2008: the outcome' (RAE 01/2008)
- 'RAE2008: Membership of RAE2008 panels' (RAE 03/2007)
- 'RAE2008: Panel criteria and working methods' (RAE 01/2006)
- 'RAE2008: Guidance on submissions' (RAE 03/2005)



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