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Core funding/operations
Framework for accountability

This report is for information

We have a funding agreement with each institution that we fund, which specifies targets relating to student numbers. This document explains what action we will take if institutions do not meet their targets for 2008-09.

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HEFCE grant adjustments 2008-09

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HEFCE grant adjustments 2008-09

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, Student data, Planning
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Enquiries to	By e-mail to recurrentgrant@hefce.ac.uk or to HEFCE higher education advisers

Executive summary

Purpose

1. We have a funding agreement with each institution that we fund, which specifies targets relating to student numbers. This document explains what action we will take if institutions do not meet their targets for 2008-09.

Key points

2. Within our funding agreements with institutions, we specify three targets that apply to student numbers funded through our mainstream teaching funding, although these targets will not all apply to every institution. They are:
 - a. The contract range. Under our funding method for teaching, we calculate a standard level of resource for each institution, and an assumed resource (actual HEFCE teaching grant plus an assumption of income from fees). The percentage difference between assumed and standard resource for the academic year 2008-09 must be within a given range – known as the contract range.
 - b. Funding conditional upon delivery of growth. This applies to institutions that are expected to increase student numbers in 2008-09, as a result of being awarded mainstream additional funded places. Funding for those places is contingent upon institutions actually recruiting additional students to fill the places.
 - c. The contract full-time equivalent (CFTE) number for students on undergraduate medical and dental courses to which a quota applies, setting minimum numbers.

3. These measures are designed:
 - a. To maintain broadly comparable resource levels per student so that the quality of the student experience is not put at risk.
 - b. To ensure that funds allocated for expansion do indeed deliver additional places.
 - c. To ensure that the intended number of medical and dental students required to meet national needs is delivered, in return for the exceptionally high level of funding provided for such students.
4. To achieve these objectives we will withhold grant from an institution which:
 - a. Is found to have a level of assumed resource which takes it above its contract range.
 - b. Does not deliver the growth expected in 2008-09 – arising from an award of mainstream additional funded places.
 - c. Under-recruits against its CFTEs for medicine and dentistry.
5. Where an institution is found to be below its contract range, we will want to discuss the reasons with the institution, and to receive an action plan setting out how the institution will ensure it comes within the range in 2009-10. We expect that institutions will then take the necessary action to bring numbers into line with their targets.
6. In addition to the targets and monitoring arrangements that apply to our mainstream teaching grant, we are also funding some student numbers outside our mainstream teaching allocations. These include allocations for some Lifelong Learning Networks and for co-funded employer engagement. These allocations are subject to separate arrangements for monitoring and grant adjustments.
7. In relation to paragraphs 4-6, before taking any action we will give institutions an opportunity to tell us about any material changes in definitions or mitigating factors that may have influenced the calculated level of holdback.

8. If an institution does not recruit any students in 2008-09 then all funding for teaching allocated for 2008-09 will be held back.

Action required

9. No response is required.

Background: the funding agreement

10. We expect each institution to provide a certain level of teaching activity in return for our funding. Each July we issue a funding agreement, which specifies targets that we expect the institution to meet in the coming academic year. These targets set overall controls on its student numbers. In most cases, the targets apply to our mainstream teaching grant: that is, the funding that is included in our calculations of standard and assumed resource. However, some additional student numbers (ASNs) are allocated outside the mainstream teaching grant and are therefore subject to separate monitoring arrangements.

11. Within the mainstream teaching grant, there are up to three separate targets specified in the funding agreement for 2008-09, although not all apply to every institution. These are shown in Table 1.

12. If an institution does not meet one or more of its targets, we may withhold some of its grant. This is known as holdback.

13. Institutions should read this publication alongside their funding agreement for 2008-09, which will be issued in July 2008. The funding agreement explains how we monitor whether institutions are meeting these targets, and the students who may count towards them. Individual students may count towards more than one target, which means that there is an interaction between the different targets. To take account of this interaction, we will monitor against the targets in the following order:

- a. Funding conditional upon delivery of growth.
- b. Medical and dental CFTE.
- c. Contract range.

14. Where appropriate, we will take account of adjustments to funding arising from institutions' recruitment against one target, before we make further adjustments because of their recruitment against a subsequent target.

15. ASNs awarded outside the mainstream teaching grant include those for some Lifelong Learning Networks (LLNs) and for co-funded employer engagement. The monitoring and grant adjustment arrangements for these initiatives are described in paragraphs 38-45.

Funding conditional upon delivery of growth

16. Most allocations of ASNs form part of institutions' mainstream teaching grant. These include allocations awarded through historic bidding exercises, those to support major projects that have already secured funding through our Strategic Development Fund, and those to support growth that meets national or regional needs. In order to reduce our use of bidding schemes, which can be time-consuming and burdensome for the sector, we changed our process for distributing additional places from 2006-07. The process for allocating additional places for 2009-10 and 2010-11 is set out in HEFCE Circular Letter 05/2008, 'Allocation of funds for additional student numbers in 2009-10 and 2010-11'.

Table 1 **Targets for student recruitment**

Target	Applies to:
Contract range	All higher and further education institutions directly funded by HEFCE
Funding conditional upon delivery of growth	Those higher and further education institutions that are expected to increase student numbers in 2008-09 as a result of allocations of mainstream additional funded places (see paragraphs 16-22)
Medical and dental contract full-time equivalent (CFTE)	Only those higher education institutions with medical or dental schools

17. Where we have awarded additional places through such exercises we expect institutions to deliver corresponding growth in their overall student numbers. If they do not, they will be liable to holdback. Growth in individual programmes offset by reductions in recruitment to other programmes is not sufficient: the growth must be additional to the institution's previous total student numbers.

18. We give institutions two opportunities to deliver the growth arising from such allocations of ASNs:

- a. Institutions awarded mainstream additional funded places for 2007-08 will already have had some of their funding held back if they did not deliver sufficient overall growth in that year. That holdback of grant will have been consolidated into the baseline funding that rolls forward into the allocations for 2008-09. Institutions can recover the funding deducted in 2008-09, if they make good the previous year's shortfall in recruitment.
- b. Institutions awarded mainstream additional funded places for 2008-09 will have holdback if they do not deliver sufficient overall growth. This holdback of grant will be consolidated into the baseline funding level that rolls forward into the allocations for 2009-10. Institutions will be able to recover the funding deducted in 2009-10, if they make good the previous year's shortfall in recruitment.

19. In assessing whether institutions have delivered the overall growth expected, we count any growth achieved firstly against the places awarded for the previous year – that is, growth delivered at the second opportunity. Any remaining growth is then counted towards delivery, at the first attempt, of any new additional places awarded for the current year.

20. The funding agreement specifies a baseline full-time equivalent (FTE) figure and two FTE targets for institutions that are expected to deliver growth in 2008-09.

- a. Unless institutions reach the baseline FTE figure, they will not be able to recover any 2008-09

funding deducted for not delivering expected growth in 2007-08. They will also have all the funding held back for any 2008-09 ASNs.

- b. The first FTE target shows the FTEs required to recover in full any 2008-09 funding already deducted owing to under-recruitment in 2007-08. The maximum funding that may be recovered, and the rate per FTE for any recovery of funds for recruitment above the baseline FTEs, are also shown. The recovery of grant for recruitment above the baseline FTE figure will be at the rate per FTE up to the maximum level specified in the funding agreement.
- c. The second target shows the minimum FTEs required to avoid holdback of mainstream funding for ASNs awarded for 2008-09. This target may also incorporate student numbers that were previously outside the mainstream teaching grant, but which are being brought within it for 2008-09. The total funding that may be held back, and the rate of holdback per FTE, are also shown. Any shortfall against this second FTE target will lead to holdback of grant at this rate per FTE up to the maximum level specified in the funding agreement.

21. Any holdback or recovery of funds will be applied in 2008-09. Such grant adjustments are normally consolidated into the following year's baseline allocation. However, the creation of targeted allocations has complicated the way that funds recovered in 2008-09 should roll forward to 2009-10. We will adjust the amount which rolls forward to 2009-10 to take account of the establishment of targeted allocations. Further details are provided in the recurrent grant letter to individual institutions of 3 March 2008.

22. For the future, we will continue to set FTE targets for those institutions that are expected to deliver growth as a result of an award of ASNs. Institutions that are awarded additional funded places will need to show an appropriate increase in total FTEs, otherwise they will be liable to holdback.

The medical and dental CFTE

23. The Government expects HEFCE to control student numbers in medicine and dentistry because of the exceptionally high cost of the programmes. For this reason, we will continue to set a separate target for students on quota-controlled undergraduate medical and dental courses. This is expressed as a minimum FTE, recruitment below which will lead to holdback of grant.

24. Any shortfalls against the medical and dental CFTE will be subject to holdback at an average rate based on the standard five-year medical course. This is calculated as two-fifths of the standard price for price group B, and three-fifths of the standard price for price group A, minus £1,255 assumed fee income. The rate for 2008-09 is therefore £10,954. Any holdback will not be consolidated into institutions' baseline funding for 2009-10, since we would not expect the shortfall against the medical and dental CFTE to recur the following year.

The contract range

25. Our mainstream funding method for teaching is designed to fund similar activities at similar rates across the universities and colleges we fund. To do so, we calculate a standard level of resource for each institution and compare it with the resources that the institution receives (actual HEFCE teaching grant plus an assumption of income from fees). The method is designed to ensure, for all institutions, that this 'assumed resource' comes within a tolerance band of ± 5 per cent of the standard. Where institutions fall outside the band, they are expected to move within it over an agreed period. The funding agreement seeks to support this objective.

26. The funding method regulates the resource per student. Resources will vary according to the mix of students between subject, mode and level of study. This means that we cannot ensure similar levels of resources for similar activities merely by setting a minimum number of FTEs to be taught by each institution.

27. Instead, we set a target that specifies an acceptable percentage difference between an

institution's assumed and standard resource. This is known as the contract range. For most institutions, this will be the same as the tolerance band; that is, between -5 per cent and +5 per cent of the standard. However it may be extended for those institutions that are moving towards the band.

28. To monitor institutions' positions against their contract range, we will recalculate assumed and standard resource for each institution, using 2008-09 FTE data returned in our December 2008 aggregate student number surveys. The funding agreement explains in detail how we calculate these resource figures, and which students are counted towards them. We express assumed resource as a percentage of standard resource. We expect this percentage difference to come within the institution's contract range.

29. The electronic versions of the grant tables for individual institutions include worksheets that can be used to recalculate standard and assumed resource for 2008-09 and may help institutions to assess the effects of different recruitment patterns. The electronic grant tables for 2008-09 can be found on the HEFCE extranet at <https://extranet.hedata.ac.uk>. The organisation and group keys for 2008-09 grant tables were provided in Thom Brain's letter to heads of institutions of 22 February 2008.

30. In recalculating assumed resource, we will incorporate any holdback, or any recovery of funds, arising from institutions' recruitment against their FTE targets for funding conditional upon delivery of growth, or against their medical and dental CFTE. This is to ensure that we do not penalise institutions twice for a single instance of under-recruitment, and that institutions' ability to meet their contract range is not affected by the growth that we expect them to deliver to recover funding previously withheld.

Institutions above their contract range

31. If, when we recalculate assumed and standard resource using 2008-09 FTE data, the percentage difference is above the contract range, institutions will be liable to holdback. This will be calculated as

the variance between the percentage difference and the contract range, multiplied by the recalculated standard resource. For example:

- an institution has a contract range between -5 and +5 per cent
- its assumed resource is found to be 6.3 per cent above the standard resource (the percentage difference is +6.3 per cent)
- therefore holdback equals the difference between 6.3 and 5 = 1.3 per cent of recalculated standard resource (the variance multiplied by the institution's recalculated standard resource).

32. Any such holdback will be applied in 2008-09 and consolidated into baseline funding levels for 2009-10. Institutions will have the opportunity to recover some or all of the 2008-09 holdback consolidated into 2009-10, to the extent that the reinstatement of the funding keeps the institution within its 2009-10 contract range. See paragraph 35 for an example of how such recovery will operate.

Institutions below their contract range

33. We will not apply holdback in 2008-09 to institutions for coming below their contract range. We will, however, want to discuss with them why they have not met the contract range, and what action they will take to ensure they meet it in future. So long as the institution provides a credible action plan setting out how that will be done, and comes within the contract range set for the following year (2009-10), no further action will be taken. In the unlikely event that an action plan is either not provided or not implemented, we may take appropriate action at that stage.

34. We are continuing to monitor institutions' achievements against their contract range from year to year. We wish to ensure that institutions provide adequate resources for their programmes, so that the quality of the student experience is not put at risk. Furthermore, we do not expect an institution to move below its contract range by delivering significant unfunded growth, and would not wish to reward an institution for doing so when other institutions are behaving more responsibly in planning to meet their contract ranges. We therefore

expect institutions to meet their contract range each year. If we consider that institutions have not acted responsibly in managing their recruitment and compliance with the contract range, we may take this into account when considering any forthcoming proposals for funded growth.

Consolidated 2007-08 contract range holdback recoverable in 2008-09

35. Some institutions will have had holdback for failing to meet their 2007-08 contract range consolidated into 2008-09. They will have a chance to recover some or all of the funding, depending on their position relative to their contract range in 2008-09. This funding will be repaid to the extent that its reinstatement keeps an institution within its 2008-09 contract range. For example:

- an institution had a contract range between -5 and +5 per cent in 2007-08
- its assumed resource was found to be 6.3 per cent above the standard resource so holdback of 1.3 per cent of the 2007-08 recalculated standard resource was applied and consolidated into 2008-09 grant
- in 2008-09 assumed resource is found to be 4.5 per cent above the standard resource (the percentage difference is +4.5 per cent), within its contract range for 2008-09 of ± 5 per cent
- the institution therefore recovers some or all of the consolidated holdback in 2008-09. The amount recovered is the lesser of the cash sum held back in 2007-08 and 0.5 per cent of 2008-09 recalculated standard resource.

Further details are provided in the recurrent grant letter to individual institutions of 3 March 2008.

36. Any recovery of funds will be applied in 2008-09. Such grant adjustments are normally consolidated into the following year's allocation. However, the creation of targeted allocations has complicated the way that funds recovered in 2008-09 should roll forward to 2009-10. We will adjust the amount which rolls forward to 2009-10 to take account of the establishment of targeted allocations. Further details are provided in the recurrent grant letter to individual institutions of 3 March 2008.

Moderation

37. We moderate our allocations so that, in general, each institution's recurrent resource for teaching and research will be at least maintained in cash terms compared with the equivalent, unmoderated figure for 2007-08. We apply a minimum threshold of £100,000, below which moderation does not apply. Any reduction in core funding for 2008-09 due to institutions exceeding their contract range will be subject to these moderation rules. We will not moderate other forms of holdback.

Monitoring of additional student numbers outside mainstream teaching grant

38. Some allocations of ASNs are awarded outside the mainstream teaching grant. This means that they are not included in the main funding conditional upon delivery of growth targets, nor in assessing compliance with the contract range. Instead, they are subject to separate monitoring and grant adjustments. These ASNs include:

- a. Allocations for some LLNs (known as 'model 2' LLNs).
- b. Co-funded employer engagement.
- c. Higher level skills pathfinders.
- d. Other exceptional allocations, such as for some Skillset screen academies.

Additional student numbers for model 2 LLNs

39. The two models of funding arrangement for LLNs were described in a letter from John Selby of 2 May 2006. This is available from our web-site at www.hefce.ac.uk under Widening Participation/Lifelong Learning Networks/Monitoring & Evaluation/Monitoring LLNs. For those LLNs following 'model 1', allocations of ASNs are included in mainstream teaching grant and monitored through the main funding conditional upon delivery of growth targets and the contract range. For those following model 2, ASNs are

allocated outside the mainstream teaching grant to a lead institution and subject to separate arrangements for monitoring and grant adjustments.

40. The funding agreement for these lead institutions specifies:

- a. The funding for ASNs delivered in 2007-08.
- b. The funding for new ASNs awarded for 2008-09.
- c. The funding for ASNs not delivered in 2007-08, but recoverable in 2008-09.

41. We will use the December 2008 aggregate student number survey to recalculate the funding associated with the LLN student FTEs reported by the lead institution. This will be based on the standard resource minus the assumed fee income for the FTEs concerned, incorporating London weighting if this applies to the lead institution. We will count this recalculated funding firstly towards the funding for ASNs delivered in 2007-08; secondly towards the funding for ASNs not delivered in 2007-08 but recoverable in 2008-09; and thirdly towards the funding for the new ASNs awarded for 2008-09. We will pay any funding recovered, and hold back any funding where there are shortfalls against the initial allocations for 2008-09. Further explanation of grant adjustments for model 2 LLN ASNs is given in Thom Brain's letter of 24 July 2006, which is also available from our web-site at www.hefce.ac.uk under Widening Participation/Lifelong Learning Networks/Monitoring & Evaluation/Monitoring LLNs.

42. Any holdback or recovery of funds will be applied in 2008-09. Such grant adjustments are normally consolidated into the following year's allocation for the LLN. However, the creation of targeted allocations has complicated the way that funds recovered in 2008-09 should roll forward to 2009-10. We will adjust the amount which rolls forward to 2009-10 to take account of the establishment of targeted allocations. Further details are provided in the recurrent grant letter to individual institutions of 3 March 2008.

Additional student numbers for co-funded employer engagement

43. We are awarding ASNs that are to be co-funded with employers, following institutions' responses to HEFCE Circular Letters 06/2006, 'Employer engagement in learning at HE level' and 03/2007, 'Allocation of additional student numbers in 2008-09 for employer engagement'. Where such allocations are made for 2008-09, the ASN FTEs, the associated HEFCE grant and the rate of grant per FTE are shown on institutions' funding agreements. Variable allocations, which can be accessed if institutions exceed their FTE target, will also be shown. We will monitor achievement of these FTEs through a separate monitoring return at the end of the 2008-09 academic year. Further details about the arrangements for monitoring and grant adjustments relating to co-funded ASNs will be notified to relevant institutions in due course.

Additional student numbers for higher level skills pathfinders

44. Funding for higher level skills pathfinders will be identified outside mainstream teaching grant in the July 2008 grant announcement. Following monitoring at the end of the 2007-08 academic year, funding for this provision will be provided through mainstream teaching funding of participating institutions for 2008-09. This will be confirmed in our final 2008-09 grant announcement in October 2008.

Other additional student numbers outside mainstream teaching grant

45. Exceptionally, other allocations of student numbers may be made outside the mainstream teaching grant. For 2008-09 this includes some allocations for Skillset screen academies. Such allocations will be subject to monitoring and grant adjustment arrangements as separately notified to the individual institutions affected.

Funding for widening participation and other targeted allocations

46. Funding for teaching includes formula funding for widening participation and other variable targeted allocations. These are allocated to reflect expected FTE student numbers at each institution in 2008-09. We do not propose to recalculate this funding to reflect actual FTEs recruited in 2008-09. However, we may introduce measures for 2009-10 that could involve holdback of 2009-10 formula funding for variable targeted allocations, including widening participation, if we find that significant under-recruitment at institutions warrants recalculation of these elements of grant.

Other conditions of recurrent grant

47. The funding agreement also specifies particular conditions that apply to certain elements of recurrent grant, including research capability funding. We will withdraw some or all of this funding if the associated conditions are not met.

Conditions of recurrent grant relating to tuition fees and access agreements

48. The Secretary of State expects institutions not to charge qualifying persons on qualifying courses more than a prescribed amount in tuition fees. The prescribed amounts for 2008-09 reflect provisions in the Higher Education Act 2004 and are subject to overall limits that are set out in the Student Fees (Amounts) (England) (Amendment) Regulations 2007¹. Qualifying courses and persons have the meaning prescribed in the Student Fees (Qualifying Courses and Persons) (England) Regulations 2007, as amended². HEFCE Circular Letter 15/2006³, 'New condition of grant about tuition fees and

¹ Statutory Instrument 2007/1865, available from the Office of Public Information web-site, www.opsi.gov.uk under Legislation/Original/UK/Statutory Instruments.

² Statutory Instrument 2007/778, as amended by Statutory Instruments 2007/2263 and 2008/1640, also available from the OPSI web-site.

³ Available at www.hefce.ac.uk under Publications.

access agreements', sets out the arrangements for 2006-07, which also apply in 2008-09 subject to the updated prescribed fee limits and the revised definitions of qualifying persons and qualifying courses set out in legislation. Circular Letter 15/2006 also explains how institutions are required to comply with the provisions of any access agreement ('approved plan') in force, as approved by the Director of Fair Access. It also describes the action that HEFCE will take on its own account or on behalf of the Director of Fair Access if conditions of grant are breached. Any financial requirements may be applied in-year.

Institutions with no HEFCE-fundable students

49. If an institution fails to recruit any HEFCE-fundable students, all its funding for teaching will be held back. This includes mainstream teaching funding and funding for widening participation and other targeted allocations. We will not provide moderation funding in these circumstances.

Verification



50. Where our calculations suggest that grant should be withheld, we will notify institutions of the amount. We will give them the opportunity to verify the data used, and to tell us about any material changes in definitions or mitigating factors that may have influenced the calculated level of holdback.

Data audit and reconciliation

51. Data collected from institutions inform our allocation of funds for teaching and research. We will continue to audit these data selectively in this and future funding exercises, through audit visits. We will also use data which institutions provide to the Higher Education Statistics Agency (HESA) or the Learning and Skills Council (LSC) to verify the data institutions send directly to us. We will use the

outcomes of these data audits and reconciliations to review funding allocations both for the year in question and all subsequent years. We reserve the right to review funding allocations for the most recent seven-year period.

52. If we find, either through reconciliations with HESA or LSC data, or any data audit, that erroneous data have resulted in institutions receiving incorrect funding allocations (including for widening participation and other targeted allocations), we will adjust their funding accordingly (subject to the appeals process and the availability of our funds).



**Higher Education Funding Council for England
Northavon House
Coldharbour Lane
BRISTOL
BS16 1QD**

**tel 0117 931 7317
fax 0117 931 7203
www.hefce.ac.uk**