

March 2005/13

Core funding/operations

Allocation of funds

This report is for information

This document summarises our provisional allocations of recurrent funding to institutions for the academic year 2005-06. Final allocations will be announced in July 2005.

Recurrent grants for 2005-06

Recurrent grants for 2005-06

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, Planning
Reference	2005/13
Publication date	March 2005
Enquiries to	HEFCE higher education advisers

Executive summary

Purpose

1. This document summarises our provisional allocations of recurrent funding to institutions for the academic year 2005-06.

Key points

2. We are distributing £6,332 million in 2005-06. This represents an overall cash increase of 5.6 per cent compared with 2004-05. The total includes recurrent funding of £4,004 million for teaching, (of which £282 million is for widening participation) and £1,251 million for research. In addition, we are providing a further £649 million for earmarked capital grants and £428 million for special funding.

3. A major concern expressed by institutions over the last year has been the need for stability as the sector prepares for the introduction of a new variable fee regime in 2006-07. Our recurrent grant allocations for 2005-06 achieve this, while providing a significant real-terms increase in funding for the sector as a whole. This will offer greater financial security and enable institutions to plan more effectively for the dynamic environment created by the 2004 Higher Education Act.

4. There are substantial increases in funding for research, in keeping with the Government's commitment to enhancing the research base through both sides of the dual-support system.

5. Many institutions have gained significant additional funded student numbers, while overall there is also an above-inflation increase in the unit of resource per student for teaching.

6. We are continuing to reduce the accountability burden on institutions by distributing a greater proportion of funds through our formula recurrent allocations, and less as special funding.

7. Funding for earmarked capital has increased by 11 per cent compared with last year. The distribution of this funding between institutions has been announced separately and is not included in this document (paragraph 54 provides further information).

Teaching

8. Our total recurrent funding for teaching has increased by 5.4 per cent over the equivalent figures for 2004-05. This has allowed us to provide approximately 26,000 additional full-time equivalent (FTE) student places for 2005-06, while providing an above-inflation uplift in the unit of resource per student. This increase for teaching includes an additional £64 million for rewarding and developing staff in higher education, compared with the allocations for 2004-05. The overall publicly-funded unit of resource per FTE student for teaching (including regulated fee income for full-time undergraduates) has increased by 2.9 per cent compared with 2004-05, which represents an increase of 0.4 per cent above the rate of inflation.

9. Funding for widening participation has been maintained in real terms. Some changes to the allocation methods have been implemented for 2005-06, largely to reflect changes in the underlying data available.

10. The total of £4,004 million for teaching includes the following:

- a. £282 million to support widening participation for students from under-represented groups or who are at greatest risk of not completing their studies. We have adapted the allocation method to reflect changes in the data available that inform the method.
- b. £64 million in additional funding for rewarding and developing staff.
- c. £67 million for additional funded places awarded in recent years through our general bidding exercises.
- d. £19 million for increases in medical and dental student numbers.

Research

11. A total of £1,251 million is allocated for research. After allowing for transfers from teaching and special funding, this is an increase of 10.8 per cent compared with the equivalent funding for 2004-05. Within this overall increase we have:

- a. Established a significantly enhanced supervision fund for research degree programmes.
- b. Increased the average unit of funding for departments rated 5 and 5* by 4.6 per cent (taking account of both mainstream quality-related research - QR - and the additional funding for the 'best 5-star' departments).
- c. Maintained the average unit of funding for departments rated 4 in real terms.

Moderation of teaching and research

12. We have continued our policy of phasing in changes by moderating the allocations. Institutions will not receive a reduction in resource (teaching and research grant, plus regulated fee income) in real terms, compared with the equivalent unmoderated figure for 2004-05.

Special funding and earmarked capital

13. Funding for earmarked capital has increased by 11 per cent compared with last year. We have also reduced the amount of grant we distribute as special funding by 12 per cent, enabling us to distribute a greater proportion of our total budget through our formula recurrent grant allocations.

Action required

14. No action is required in response to this document.

Elements of grant

15. The total distribution of HEFCE grant to institutions in 2005-06 is £6,332 million. This is broken down between our main strategic themes, and between recurrent and non-recurrent (earmarked capital grants and special funding) elements, as shown in Table A below.

Table A HEFCE grants to institutions 2005-06

All figures in £ million	Recurrent grant	Non-recurrent grant	Total
Main strategic themes			
Learning and teaching	4,004	523	4,527
Of which, widening participation	282	30	312
Research	1,251	226	1,477
Business and the community	0	105	105
Building on institutions' strengths	0	125	125
Leadership, governance and management	0	10	10
Excellence in delivery	0	1	1
Joint Information Systems Committee	0	55	55
Other	0	33	33
Total	5,255	1,077	6,332

16. The overall total is as announced in EP 01/2005 'Funding for universities and colleges in 2005-06'. Unless otherwise stated, all years in this document relate to academic years – that is, 1 August to 31 July. References to percentage changes in real terms use a GDP uplift of 2.53 per cent on the equivalent figures for 2004-05.

17. This publication is mainly concerned with the distribution of recurrent grant between institutions. Table 1 summarises those allocations for each institution; Table 2 provides a comparison for each institution between their recurrent allocations for 2004-05 and 2005-06. In addition, a summary of the different allocations that make up the non-recurrent elements of grant for the sector as a whole is provided in Table 3.

18. The HEFCE Board agreed the allocations of recurrent funding announced in this document on 24 February. All institutions received details of their individual grant allocations on 1 March.

19. Our funding methods for teaching and research, as they applied in 2004-05, are described in HEFCE 2004/23, 'Funding higher education in England: how HEFCE allocates its funds'. An updated version of this document will be available later in the year. We have implemented some changes to our recurrent funding methods since HEFCE 2004/23 was published, which generally arise from the consultations on our teaching and research funding methods in 2003 (HEFCE

2003/38 'Review of research funding method: consultation' and HEFCE 2003/42 'Developing the funding method for teaching from 2004-05: consultation'). These changes to the methods are described in the sections on teaching and research below.

20. Our funding methods operate in broad terms and are designed to be efficient in distributing funding between institutions in the sector, not between departments within an institution. It is not necessarily appropriate for individual institutions to replicate our funding methods when allocating funds internally.

21. The allocations announced in this document are provisional. We will finalise them by July 2005, when we issue each institution's funding agreement. There may be differences between individual figures and totals, due to rounding.

Funding for teaching

22. The allocations of recurrent funding for learning and teaching shown in Table 1 total £3,952 million, made up as follows:

	£M
Core funding	3,571
Additional funded places	86
Widening participation	277
Other recurrent teaching grants	18
Total	3,952

23. A full explanation of the data in Table 1 is at Annex A. The balance of £52 million available as recurrent funding for teaching comprises:

- a. £24 million set aside to meet the potential costs of institutions recovering funding in 2005-06 by making good shortfalls in core or additional student numbers that occurred in 2004-05.
- b. £18 million towards the costs in 2005-06 of implementing the new consultants' contract for clinical academic staff.
- c. £5 million for widening participation set aside for allocation by July to allow for corrections by institutions to their underlying data.
- d. £3 million for additional funded places in social work to support the replacement of the two-year diploma with a three-year degree.
- e. £2 million set aside to meet the costs of inherited leases previously supported through special funding.

Core funding

24. Our main teaching funding method is designed to ensure that each institution's resources come within 5 per cent of standard levels (the ± 5 per cent tolerance band), taking account of their teaching activities and various institutional cost factors. Where resource levels fall outside this band, we will work with the institution to help it come within the ± 5 per cent tolerance band over an agreed period, by adjusting funding or student numbers. This process is called migration.

25. In 2004-05, we implemented a number of changes to our teaching funding method following the consultation launched in HEFCE 2003/42. The outcomes of that consultation were published in HEFCE 2004/24 'Funding method for teaching from 2004-05: outcomes of consultation'. There are a small number of further changes that we are implementing for 2005-06, which either follow from the 2003 consultation or involve incorporation within teaching grant of previously separate elements of special funding. They are:

- a. Transfer of funding for postgraduate research (PGR) students in year 1 (full-time) or years 1 and 2 (part-time) from the teaching to the research funding model. This follows the consultation in HEFCE 2003/38, and was announced in EP 07/2004 'Postgraduate research degree programmes: new funding methodology'. PGR students are no longer fundable through teaching grant, but will instead be supported through a newly enhanced research degree programme (RDP) supervision fund within QR. The transfer of funds for these students to the new QR RDP supervision fund has been calculated in a way that is consistent with how these students will be funded through the new supervision fund, rather than how they have historically been funded through the teaching funding method. This ensures that the transfer from teaching is financially neutral for all institutions, although this is guaranteed only for 2005-06. Funding is not transferred where institutions cannot expect to receive funding for their PGR students through the research funding method. However, we will no longer count any PGR students as fundable through our teaching funding method.
- b. Changes to the price group attribution of provision in Media studies and Sports science and leisure studies, following the review that was announced in HEFCE 2004/24.
- c. Incorporation within mainstream teaching grant of 2004-05 special funding for minority subjects and some allocations for inherited leases, as announced in EP 01/2005.
- d. An addition to mainstream teaching grant for individual institutions to ensure that none are financially disadvantaged by a change to the funding method for improving the retention of part-time students within widening participation funding (see paragraph 31).

26. Despite these changes, most institutions remain within the ± 5 per cent tolerance band. For some HEIs we have reviewed their specialist institution premium to ensure they remain within the tolerance band in 2005-06. However, where any of the above changes to mainstream teaching grant would result in an institution moving (further) below the tolerance band, we have provided additional funding to ensure that they are able to remain within the tolerance band or keep to their expected migration position for 2005-06.

27. Funding for rewarding and developing staff (R&DS) has been incorporated into recurrent teaching grant from 2004-05, although it remains subject to separate conditions of grant and monitoring. Core funding for teaching includes an uplift of 2.8 per cent on funding for 2004-05, at a cost of £98 million. Of this total, £64 million is the increase to R&DS round 2 funding for 2005-06.

Additional funded places

28. Funding for additional funded places comprises:

- a. £63 million for phased allocations arising from the general additional student number bidding exercises.
- b. £4 million for new additional foundation degree places for 2005-06, arising from an extension to the bidding exercise invited in HEFCE 2003/48 for particular regions where insufficient places had originally been awarded.
- c. £18 million for increases in intakes to undergraduate medical courses.
- d. £1 million for increases in intakes to undergraduate dental courses.

Widening participation

29. The funding of £277 million for widening participation announced in this publication comprises:

- £37 million for widening access of full-time undergraduates
- £13 million for widening access of part-time undergraduates
- £160 million for improving retention of full-time undergraduates
- £55 million for improving retention of part-time students
- £12 million for students with disabilities.

30. Some changes to the allocation methods for improving retention have been implemented for 2005-06. Changes to the method for the full-time allocation (which reflects students' entry qualifications and age) have been necessary to reflect the replacement of the old A-level points system with UCAS tariff points. We have also assigned students with unknown entry qualifications or unknown UCAS tariff points to the lowest weighted risk category. This may mean that institutions receive lower allocations than would be the case if entry qualifications were fully recorded. For this reason we have set aside £5 million for allocation by July, to allow for institutions to correct their 2003-04 individualised student data.

31. The allocation for improving retention of part-time students now takes account only of undergraduate students, making the method more consistent with that for full-time. Where institutions would have been disadvantaged by the exclusion of postgraduates, funding has been restored to their mainstream teaching grant (see paragraph 25d).

32. The submission of widening participation strategies and action plans to HEFCE is no longer a condition of grant (see Circular letter 21/2004 for full details). Our Board agreed to this

change in policy in light of the establishment of the Office for Fair Access (OFFA) and because it felt that institutions should not have to deal with two closely-related demands from OFFA (access agreements) and from HEFCE (widening participation strategies). However, we continue to believe that widening participation strategies are a useful way for institutions to draw together different strands of activity contributing to wider access. We also note that OFFA guidance recommends institutions to incorporate access agreements as part of a widening participation strategy, and we believe that this is the best solution. We remain committed to widening participation and shall be running a series of regional seminars in spring 2005 to engage the sector in a dialogue on our new approach of working with institutions to embed widening participation.

Other recurrent teaching grants

33. Other recurrent teaching grants comprise funding for:

- the Promising Researcher Fellowship Scheme (£5 million)
- golden hellos (£8.2 million)
- Dance and Drama Awards (£4.7 million).

34. Total grant for teaching represents an increase in cash terms of 5.4 per cent compared with the equivalent figures for 2004-05. Once increases in student numbers and the contribution from regulated tuition fees for full-time undergraduates are taken into account, the overall publicly-funded unit of resource per FTE student for teaching has increased by 2.9 per cent (0.4 per cent in real terms) compared with 2004-05. This unit of resource now relates only to undergraduate and postgraduate taught students, as postgraduate research students are now funded through the research funding method.

Student numbers

35. The allocations announced in this document provide for an additional 21,900 full-time equivalent student numbers in 2005-06, awarded through our additional student number bidding exercises in recent years and for increases in medicine and dentistry. The distribution of these places is shown in Table B below (numbers have been rounded to the nearest 100).

Table B Additional places for 2005-06

	Full-time	Part-time headcount	Total FTE
New places awarded for 2005-06:			
Foundation and sub-degree	5,700	9,900	11,300
Degree and postgraduate	5,300	900	5,700
Sub-total	11,000	10,900	17,000
Places rolled forward from 2004-05:			
Foundation and sub-degree	1,700	4,000	3,800
Degree and postgraduate	800	400	1,000
Sub-total	2,500	4,400	4,800
Total	13,500	15,200	21,900

36. The new places awarded for 2005-06 comprise:
- a. 840 FTEs for new foundation degree places for 2005-06, arising from an extension to the bidding exercise invited in HEFCE 2003/48 for particular regions where insufficient places had originally been awarded.
 - b. 14,500 FTEs awarded through phased allocations from earlier bidding exercises.
 - c. 1,500 FTEs to support increases in intakes to undergraduate medical courses.
 - d. 170 FTEs for increases in intakes to undergraduate dental courses.
37. The 4,800 FTEs rolled forward from 2004-05 were allocated through earlier bidding exercises.
38. In addition to the growth that we have provided through our allocations of additional student numbers, further growth of approximately 4,000 FTEs may be delivered by institutions that had reductions in core funding for 2004-05 because they were above their contract range, and that have an opportunity to recover their position in 2005-06. The contract range is usually the ± 5 per cent tolerance band, but it may be extended for institutions that are migrating. Finally, funding that we have set aside to support growth in social work should be sufficient to provide over 500 additional FTEs.
39. Institutions are required to remain within their contract range. This means that there is a limit to which institutions can recruit students without securing additional grant, and institutions wishing to expand recruitment significantly should do so by bidding for our additional student number (ASN) allocations. In 'HEFCE grant adjustments 2004-05' (HEFCE 2004/28), paragraph 33, we warned institutions that we might introduce measures for 2005-06 which could involve financial or other penalties for institutions that come below their contract range. Later in the year we will publish the rules governing holdback of grant for 2005-06.
40. In 2000-01, we introduced overall targets for FTE numbers for institutions that had been awarded additional funded places through our general bidding exercises. We have again set such targets for 2005-06 to ensure that, where we have provided additional funding, institutions deliver the expected increases in their overall student numbers. The grant letters to individual institutions specify overall FTE targets if either the growth in 2004-05 has not yet been delivered, or we have awarded additional places for 2005-06. The grant letters also identify the funding that is contingent upon those FTEs being delivered.
41. The grant letter we received from the Secretary of State on 13 December 2004¹ set out the Government's plans for funding and student numbers in the period 2005-06 to 2007-08. These take account of commitments made that would enable the Government to maintain real-terms student funding per head, and to progress towards its target of increasing participation in higher education towards 50 per cent. That letter stated, in particular:

¹ Available at: www.hefce.ac.uk under Finance and assurance/Finance and funding.

'The grant settlement over the period 2005-06 to 2007-08 is dependent on the assumptions we have made about the overall growth in student numbers over the planning period not being exceeded. My commitment to maintain the unit of funding can only be achieved over this period if the sector as a whole manages recruitment of students in line with the underlying planning assumptions. We therefore look to the Council to encourage institutions to exercise appropriate control over their student numbers, to monitor carefully student recruitment and growth for next year and to report to me in good time if there are signs that student numbers will exceed current plans. Any over-recruitment in the coming year could result in a transfer of HEFCE grant back to this department in order to meet the consequent additional student support costs.'

42. Our allocations make provision for growth in the sector (either through additional student numbers for 2005-06 or second chances to make good shortfalls in 2004-05) that is consistent with the Government's plans. We expect institutions to recruit responsibly in 2005-06 and have not introduced any new kind of funding agreement target this year.

43. Nevertheless, we may wish to take further action if individual institutions or the sector as a whole significantly over-recruit in 2005-06 and if the Department for Education and Skills (DfES) were to reduce HEFCE grant in order to meet its additional student support costs. The action to be taken, and the institutions to which it would apply, cannot be specified at this time. The further action may, depending on the circumstances, include, for example:

a. Introducing a new student number target for 2006-07, recruitment above which would result in a reduction in HEFCE grant. The calculation of any reduction in HEFCE grant might be at a level to cover, for example:

i. A proportion of the average publicly-funded tuition fee for each student above the target.

ii. A proportion of the average maintenance grants and loans payable from public funds for each student above the target.

b. If the DfES were to reduce HEFCE grant either in-year or in 2006-07, because of increased student support costs in 2005-06, then we would pass that reduction on to institutions. This may be solely to those institutions that we consider responsible for the increased student support costs, or, if we consider we cannot identify those responsible satisfactorily, then it may be to all institutions. In either case, this might include reductions for institutions that have otherwise met their HEFCE funding agreement targets for 2005-06.

Funding for research

44. Total recurrent funding for research in 2005-06 is £1,251 million. This includes a transfer from teaching funding for postgraduate research students in year 1 (full-time) or years 1 and 2 (part-time) and a transfer from special funding for research libraries. These transfers total £54

million; when they are excluded the underlying increase in research funding is 10.8 per cent. The total funding for research is made up of the following elements:

- quality-related research (QR) funding of £1,227.8 million, comprising:
 - £981.2 million for mainstream QR
 - £32.7 million London weighting for mainstream QR
 - £24 million for the ‘best 5-star’ departments
 - £183.6 million RDP supervision fund for departments rated 4 and above
 - £4.5 million transitional RDP supervision fund for departments rated 3a in subjects not eligible for the Research Capability Fund
 - £1.7 million transitional special funding for research libraries
- Research Capability Fund of £21.6 million, comprising:
 - £17.6 million rolled forward from previous years, allocated according to staff FTEs
 - £4 million supplementary funds for RDP supervision
- funding of £2 million for the joint veterinary science research initiative with the Department for Environment, Food and Rural Affairs (DEFRA). The distribution between institutions of this last element of funding is not included in this document.

45. EP 07/2004 announced the establishment of the new QR RDP supervision fund for departments rated 4 and above which followed the consultation in HEFCE 2003/38. It also announced that we would increase our funding for units receiving research capability funding, to take account of the costs of supervising research students in those departments; and that transitional RDP supervision funding would be available for departments rated 3a in other units of assessment (UoAs).

46. The volume measures in the mainstream QR allocation have changed since 2004-05, because PGR students are no longer counted as one of the minor volume measures. We have also adjusted the weightings that we apply to the residual minor volume measures to ensure that the proportion of mainstream QR attributable to each source remains unchanged compared with 2004-05. The weightings have therefore changed as follows:

Minor volume measure	2004-05 weight	2005-06 weight
Research assistants	0.1	0.077
Research fellows	0.1	0.07
Income from charities	0.177	0.131

47. In distributing mainstream QR funding, we are:

- a. Increasing the average unit of funding on a like-for-like basis for departments rated 5 and 5* by 4.6 per cent. These increases take account of both mainstream QR and the additional funding for the ‘best 5-star’ departments. EP 01/2005 explained that the increases would be approximately 4 per cent. The subsequent rise to 4.6 per cent is a result of refinement following finalisation of the model.
- b. Maintaining in real terms the average unit of funding for 4-rated departments.

48. Institutions are reminded that these changes are averages across all UoAs, but may not hold for individual UoAs because of the influence of volume changes between them. The table below shows how the mainstream quality weightings have changed between 2004-05 and 2005-06.

RAE rating	Funding weights for:	
	2004-05	2005-06
5*	3.362	3.7552
5	2.793	3.0059
4	1	1
3a, 3b, 2, 1	0	0

49. EP 01/2005 announced that the Board had reviewed special funding for research libraries. From the total of £4.4 million allocated in 2004-05, £1.7 million is being allocated in 2005-06 as transitional funding for six heavily used libraries of national importance, and this funding will continue until 2009. The balance of the funding previously allocated for research libraries has been added to the overall total available for QR grant in 2005-06.

Moderation

50. As in previous years, we are providing funds to moderate significant changes in funding. Moderation funding is a short-term measure. It is not an entitlement or general subsidy, but is intended to support actions that will enable institutions to secure change and manage the transition to lower funding levels.

51. The HEFCE Board decided in February that the thresholds for moderation should be set at a cash increase of 2.53 per cent (a zero per cent change in real terms) compared with the equivalent figures for 2004-05, but that we should not provide moderation where it amounts to less than £100,000.

52. In all cases where the moderation funding is significant, we need an assurance that it is being used appropriately. We will therefore ask institutions with significant levels of moderation funding to explain how they are using the allocation to secure necessary change arising from the change in recurrent resource.

53. Allocations of moderation funding for 2005-06 are shown in Table 1. As with other allocations in this document, these figures remain provisional until our allocations are finalised later in the year. Any changes to grant for 2005-06, or to underlying data, may result in a change (up or down) to the moderation funds. In particular, some moderation funding may be attributable to reductions in widening participation funding that arise because of poor underlying institutional data. As explained above, we have set aside £5 million for allocation by July to allow for corrections by institutions to their data. The distribution of this £5 million may result in consequential reductions to moderation funding.

Earmarked capital and special funding

Earmarked capital

54. We are allocating £649 million for earmarked capital grants. This is an increase of £65 million (11 per cent) compared with 2004-05. Most of our earmarked capital is allocated by formula, the two main elements being Project capital round 3 (announced in Circular letter 02/2004) and our contribution to the Science Research Investment Fund round 2 (announced in HEFCE 2003/06). Capital funding under these two streams for the financial years 2006-08 was recently announced in HEFCE 2005/08, 'Capital funding for learning and teaching, research and infrastructure: 2006-08'.

Special funding

55. We also allocate a small proportion of our total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through our recurrent funding methods (such as support for national facilities).

56. For 2005-06, we are allocating £428 million for special funding. This covers various recent government initiatives, for which we have received additional funding, such as the Higher Education Innovation Fund and funding for Centres for Excellence in Teaching and Learning. It also covers other allocations that we fund from the overall grant available to us. The total special funding budget has reduced by £58 million (12 per cent) since last year, allowing us to distribute a greater proportion of funding through our formula recurrent grant allocations.

57. The distribution to institutions of special funding and earmarked capital is not shown in this publication. We will publish in due course a separate report detailing payments made to institutions for the completed academic year. Table 3 shows a breakdown of special funding and earmarked capital between the different programmes. These allocations are grouped by HEFCE strategic aim, as detailed in our revised 2003-08 strategic plan (HEFCE 2004/17).

Conditions of grant

58. Our grants to institutions are conditional on the funds being used for the eligible activities set out in section 65(2) of the Further and Higher Education Act 1992. The conditions of grant that apply to funding are given in the model Financial Memorandum between HEFCE and institutions (HEFCE 2003/54).

59. In July we will send institutions their funding agreement for 2005-06. This will form Part 2 of the Financial Memorandum between HEFCE and each institution. It will specify the conditions attached to our teaching funding, in terms of the levels of teaching activity that must be provided.

60. Institutions are expected to follow government policy on public sector pay by taking account of fairness; the need to recruit, motivate and retain staff; and affordability.

61. The Secretary of State expects institutions not to charge students who have been assessed as eligible for support, more than a prescribed amount in fees. The prescribed amounts are:

- a. £1,175 for students on full-time undergraduate courses.
- b. £570 for students on courses, including sandwich courses, where the student spends a significant time during the year away from their institution (that is, where periods of full-time study are in aggregate less than 10 weeks).
- c. £570 for part-time courses of initial teacher training.

62. The Secretary of State may require us to impose a condition of grant on an institution to ensure that the fees payable by students assessed as eligible for support on designated courses are equal to the prescribed amount.

63. Some allocations for rewarding and developing staff (R&DS) within recurrent teaching grant (funding for R&DS round 2, the Promising Researcher Fellowship Scheme and golden hellos) are subject to separate conditions of grant and monitoring arrangements, as set out in HEFCE 2004/03, 'Rewarding and developing staff in HE – round 2', in Circular letter 19/2003, or as may be separately notified. All conditional R&DS allocations are identified in the individual grant letter which institutions received on 1 March. Institutions have now met the conditions of grant for R&DS round 1, so from 2005-06 R&DS round 1 funding is no longer subject to separate conditions and monitoring.

64. Research capability funding is allocated to institutions on the basis of approved strategies, submitted by them for each unit of assessment for which they receive this funding. As set out in Circular letter 10/2003, 'Research Capability Fund: request for strategies', progress will be monitored through the annual monitoring statements that institutions submit to us each July, with particular reference to indicators and milestones included in the strategies.

65. Funding for minority subjects, which until 2004-05 was allocated as part of special funding, has now been transferred to mainstream teaching grant. Institutions are reminded that if at any stage they intend to close the subject for which they receive funding, they should notify us one year in advance. We reserve the right to reclaim funding allocated under the minority subjects programme, in whole or in part, including any inflationary or pro rata adjustments to it that may subsequently be implemented.

66. Our Financial Memorandum with institutions contains sections on providing information. These information requirements are part of the terms and conditions attached to the funding for 2005-06. Details are contained in the grant letters that institutions received on 1 March.

Audit of funding data

67. The allocations of funds for teaching and research are informed by the data we collect from institutions. We will continue to audit these data selectively in this and future funding exercises. We will make a number of audit visits, covering the full range of data provided by institutions to inform the 2005-06 funding allocations.

68. In addition, we will use data which institutions provide to the Higher Education Statistics Agency (HESA) or the Learning and Skills Council to verify the data they submit directly to us. If

we find that erroneous data have resulted in institutions receiving higher allocations than would otherwise have been the case, funding for those institutions will be reduced accordingly.

Further information

69. Institutions requiring further information should contact their HEFCE higher education adviser.

Annex A

Descriptions of columns in Tables 1 and 2

Table 1 Recurrent resources for academic year 2005-06

Teaching funds

1. **Core funding** is derived from the previous year's core. The 2005-06 core funds comprise:

	£M
2004-05 Core funding	3,448
2004-05 Additional funded places	89
Adjustments to 2004-05 baseline because of the consolidation of holdback	-32
Increase for inflation, including increase for rewarding and developing staff (R&DS) round 2	98
Transfer to research of funding for postgraduate research students in year 1 (full-time) or years 1 and 2 (part-time)	-49
Transfer from special funding for minority subjects	3
Transfer from special funding for inherited leases	3
Adjustment to mainstream teaching grant due to change to allocation method for improving retention of part-time students	6
Miscellaneous adjustments	1
Migration funding	5
Total	3,571

2. **Additional funded places** shows funds for:

- a. Phased allocations of additional funded places arising from our general additional student number bidding exercises (£63 million).
- b. New additional foundation degree places for 2005-06, arising from an extension to the bidding exercise invited in HEFCE 2003/48 for particular regions where insufficient places had originally been awarded (£4 million).
- c. Increases in intakes to undergraduate medical courses (£18 million).
- d. Increases in intakes to undergraduate dental courses (£1 million).

3. **Widening participation** shows allocations of funding for teaching to recognise the extra costs associated with: recruiting and supporting students from disadvantaged backgrounds currently under-represented in higher education (£50 million); improving the retention of students most at risk of not completing (£215 million); or supporting students who have a disability (£12 million).

4. **Other recurrent teaching grants** comprise funding for golden hellos (£8.2 million), the Promising Researcher Fellowship Scheme (£5 million) and Dance and Drama Awards (£4.7 million).

Research funds

5. **Quality-related research** comprises:
 - a. Mainstream QR (£981 million).
 - b. London weighting for mainstream QR (£33 million).
 - c. The supplement for the 'best 5-star' departments (£24 million).
 - d. Research degree programme (RDP) supervision fund for departments rated 4 and above (£184 million).
 - e. Transitional RDP supervision fund for departments rated 3a in subjects not eligible for the Research Capability Fund (£4 million).
 - f. Transitional special funding for research libraries (£2 million).

6. **Capability fund** comprises:
 - a. Funding allocated as in previous years in respect of staff in departments rated 3a or 3b in the 2001 Research Assessment Exercise (RAE) in seven units of assessment (£18 million).
 - b. Supplementary funds for RDP supervision within those same departments (£4 million).

Other funds

7. **Moderation of teaching and research** is a short-term measure to smooth changes in grant. A minimum allocation threshold of £100,000 has been applied.

8. **Regulated fee income 2005-06** is the tuition fee for students who receive, or are in principle eligible to receive, awards from the Student Loans Company (SLC), the Student Awards Agency for Scotland (SAAS) or the Department for Employment and Learning (DEL) in Northern Ireland. It is calculated on the basis of 2004-05 student numbers. It excludes fee income for students funded by the Teacher Training Agency (TTA).

Table 2 Comparison with 2004-05 academic year recurrent resources

9. **Recurrent funding for teaching and research from HEFCE 2004/38** shows 'Total teaching funding' plus 'Total research funding' taken from Table 1 of HEFCE 2004/38 'Recurrent grants for 2004-05: final allocations'.

10. **2004-05 adjustments to mainstream teaching grant** includes:

- a. Adjustments to grant for 2004-05 in the light of recruitment that year. This comprises holdback of grant for exceeding the contract range, any recovery of funding originally deducted in 2004-05 because of contract range holdback in 2003-04, holdback for shortfalls against the ASNs awarded for 2004-05, and additional funding for delivery of 2003-04 ASNs at the second attempt.
 - b. Transfer from special funding for minority subjects.
 - c. Adjustments to fee compensation for outgoing ERASMUS/SOCRATES students.
 - d. Other miscellaneous adjustments and transfers for 2004-05.
11. **2005-06 adjustments to mainstream teaching grant** includes:
- a. Transfer from special funding for inherited leases.
 - b. Other miscellaneous adjustments and transfers for 2005-06.
12. **2005-06 additional funded places** are taken from Table 1 (see paragraph 3 of this annex).
13. **2004-05 Adjustments to research grant** comprise 2004-05 funding for research libraries plus other miscellaneous changes to recurrent research grant since HEFCE 2004/38.
14. **2004-05 Regulated fee income** is the tuition fee for students who receive awards from the SLC, SAAS or DEL, or who are in principle eligible for means-tested support for such awards. It is calculated on the basis of 2004-05 student numbers and excludes fee income for students funded by the TTA.
15. **2004-05 Moderation** shows, for comparison purposes, any moderation funding provided in 2004-05, either as previously announced in HEFCE 2004/38, or newly allocated in-year as a result of 2004-05 holdback.
16. **2004-05 Total adjusted resource** is the sum of the previous seven columns.
17. **2005-06 Total resource** is taken from the final column of Table 1.
18. **Percentage change adjusted for volume** shows the percentage change in resource between 2004-05 and 2005-06 for reasons other than the award of additional funded places in 2005-06.
19. **Percentage change in total resource** shows the percentage change including the effects of funding for ASNs for 2005-06. The comparison is with the '2004-05 Total adjusted resource' minus '2005-06 Additional funded places'.

List of abbreviations

ASN	Additional student number
DEL	Department for Employment and Learning Northern Ireland
EP	HEFCE electronic publication
FTE	Full-time equivalent
GDP	Gross domestic product
HE	Higher education
HEFCE	Higher Education Funding Council for England
HESA	Higher Education Statistics Agency
PGR	Postgraduate research
QR	Quality-related research
R&DS	Rewarding and developing staff funding
RAE	Research Assessment Exercise
RDP	Research degree programme
SAAS	Student Awards Agency for Scotland
SLC	Student Loans Company
TTA	Teacher Training Agency
UOA	Unit of assessment