

March 2004/12
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 2004-05. Final allocations will be announced in July 2004.

Recurrent grants for 2004-05

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To	Heads of HEFCE-funded institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, planning
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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 2004-05.

Key points

General

2. The HEFCE Board agreed the allocations on 25 February 2004. We wrote to all institutions individually on 1 March 2004.
3. All years relate to academic years – that is, 1 August to 31 July. References to percentage changes in real terms use a GDP uplift of 2.5 per cent on the equivalent figures for 2003-04.
4. We are distributing £5,993 million in 2004-05, an overall cash increase of 9.3 per cent compared with 2003-04. The total includes £3,826 million for teaching, £1,081 million for research, £486 million for special funding and £584 million for earmarked capital funding.
 - a. Total funding for teaching has increased by 5.6 per cent (3.1 per cent in real terms) over the equivalent figures for 2003-04. This allows us to provide an additional 20,000 full-time equivalent (FTE) student places for 2004-05, while providing an uplift slightly above inflation. This increase for teaching includes an additional £48 million for rewarding and developing staff in higher education (HE), compared with the allocations for 2003-04. The overall publicly-funded unit of resource for teaching (including regulated fee income for full-time undergraduates) has increased by 2.8 per cent compared with 2003-04.
 - b. Funding for research has increased by 3.9 per cent. Taking account of increases in research activity, this has enabled us to maintain the average unit of resource for research.

- c. We are also providing £584 million for earmarked capital funding. This is a 60 per cent increase compared with 2003-04.

Teaching

5. The total of £3,826 million for teaching for 2004-05 includes the following:
 - a. £273 million to support widening participation for students from under-represented groups or who are at greatest risk of not completing their studies. We have made some changes to the allocation method so that it better reflects local circumstances.
 - b. £234 million for rewarding and developing staff (including golden hellos and the Promising Researcher Fellowship Scheme). (See paragraphs 19 and 25.)
 - c. £21 million for an additional 5,000 FTE foundation degree places, allocated in response to the new bids invited in HEFCE 2003/48, 'Foundation degrees: invitation to bid for additional places and development funds 2004-05'.
 - d. £43 million for additional funded students in 2004-05, allocated in response to earlier bidding exercises.
 - e. £21 million for increases in medical student numbers.

Research

6. A total of £1,081 million is allocated for research. This is an increase of 3.9 per cent compared with 2003-04. It has enabled us to maintain the average unit of resource in real terms for departments rated 5*, 5 and 4 in the 2001 Research Assessment Exercise (RAE). In addition, we are providing supplementary funding of £24 million to the 'best 5*-rated' departments.
7. We are no longer funding departments rated 3a or 3b through our main quality-related research funding (QR), but are continuing to provide funding for some such departments through the capability fund aimed at encouraging research in seven emerging subject areas (see paragraph 30).

Moderation of teaching and research

8. 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 2003-04.

Special funding and earmarked capital

9. In addition to our recurrent grants for teaching and research, we distribute special funding for specific purposes. In 2004-05, this funding totals £486 million. We will also allocate £584 million for earmarked capital grants.

Student numbers

10. We have provided for an additional 20,000 FTEs for 2004-05. Of these, 5,000 have been allocated through the most recent bidding exercise for foundation degrees announced in HEFCE 2003/48.

Action required

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

Elements of grant

12. The total distribution to institutions in 2004-05 is £5,993 million, allocated as follows:

	£M
Funding for teaching	3,826
Funding for research	1,081
Special funding	486
Earmarked capital funding	584
Provision for transfers to other funding bodies	12
Provision for flexibility and moderation funding	4
Total	5,993

13. The overall total is as announced in EP 03/2004, 'Funding for universities and colleges in 2004-05'. In finalising allocations, teaching funding has reduced by £4 million. This has released funds to provide for a flexibility margin and moderation funding.

14. Our funding methods for teaching and research, as they applied in 2003-04, are described in HEFCE 2003/29, 'Funding higher education in England: how HEFCE allocates its funds'. An updated version of this document will be available shortly. Since HEFCE 2003/29 was published, we have consulted institutions on changes to our funding methods for teaching and research. Summaries of decisions following those consultations were announced in EP 09/2003, 'Funding of teaching and research in 2004-05', EP 03/2004 and on our web-site (www.hefce.ac.uk). We will soon publish a report on the outcomes of the consultation launched in HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05'.

15. 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.

16. The allocations announced in this document are provisional. We will finalise them by July 2004, when we issue each institution's funding agreement. There may be differences between individual figures and totals, due to rounding.

Funding for teaching

17. The allocations for teaching shown in Table 1 total £3,825 million, made up as follows:

	£M
Core funding	3,448
Additional funded places	89
Widening participation	273
Other recurrent teaching grants	15
Total	3,825

18. A full explanation of the data in Table 1 is at Annex A. The balance of £1 million covers provision for allocations that are still to be finalised.

19. Core funding reflects changes to the teaching funding method made following the consultation in HEFCE 2003/42. It includes the incorporation within teaching grant of some previously separate streams of funding. These are:

- 2003-04 funding for rewarding and developing staff (R&DS) in higher education institutions (HEIs) (£170 million)
- 2003-04 R&DS funding within the HE in FE development fund (£5 million)
- additional funding for R&DS round 2 for 2004-05 (£48 million)
- compensation for increases in employers' contributions to the Teachers' Pension Scheme (TPS) (£47 million).

20. 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. Following the consultation in HEFCE 2003/42, we have changed a number of the parameters that are used to determine standard resource levels, such as the subject (price group) weights, and have introduced new premiums for part-time students and those on foundation degrees. Despite these changes, most higher education 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 2004-05.

21. A small number of institutions move outside the tolerance band as a result of the changes to the funding method. Where they move above it, we expect them to migrate back to the band by increasing student numbers over an agreed period of time. We do not necessarily expect such institutions to begin this migration in 2004-05. Where institutions move below the tolerance band, we will provide additional funding, phased over three years, to bring them back within the band. However, we will provide such additional funding only to the extent that their position below the tolerance band is due to changes to the funding method, rather than their own recruitment behaviour in 2003-04. The total funding for migration for 2004-05 is £3 million and is included under core funding.

22. Funding for additional funded places includes £21.3 million allocated in response to the foundation degree bids for 2004-05, invited in HEFCE 2003/48. We notified institutions of the additional places offered in February. The balance of £67.8 million comprises:

- funding for phased allocations arising from earlier bidding exercises (£42.8 million)
- additional funding for increases in medical intakes (£20.6 million)
- additional funding for social work (for which bids were invited in Circular Letter 24/2003, issued in October 2003) (£1.7 million)
- additional funding for part-time prototype foundation degrees, for which bids were invited in HEFCE 00/27 (£0.9 million)
- funding for diversification out of initial teacher training (ITT) (£1.8 million).

23. Following the consultation in HEFCE 2003/42, we have made some changes to the funding methods for widening participation. These changes were announced in EP 03/2004. Total funding for widening participation in 2004-05 has been increased by 2.5 per cent to £273 million, and comprises:

- £37 million for widening access of full-time undergraduates
- £12 million for widening access of part-time undergraduates

- £159 million for improving retention of full-time undergraduates
- £54 million for improving retention of part-time students
- £10 million for students with disabilities.

24. Funding for widening access is no longer based on a geodemographic classifier, but instead has been allocated using a method that weights undergraduate new entrants according to young HE participation by census ward (for full-time undergraduates under 21); and average educational achievement by ward (for part-time and mature full-time undergraduates). This change will better reflect levels of educational disadvantage in local areas, instead of the previously used broad generalisations of neighbourhood types. We are also incorporating London weighting in the allocations for widening participation.

25. Other recurrent teaching grants comprise:

- funding for the Promising Researcher Fellowship Scheme (£5 million)
- funding for golden hellos (5.6 million)
- funding for Dance and Drama Awards (£4.5 million).

26. Total grant for teaching represents an increase in cash terms of 5.6 per cent (3.1 per cent in real terms) compared with the equivalent figures for 2003-04. 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 for teaching has increased by 2.8 per cent compared with 2003-04.

Funding for research

27. Total recurrent funding for research in 2004-05 is £1,081 million, an increase of £41 million (3.9 per cent) over 2003-04. Following the consultation in HEFCE 2003/38, 'Review of research funding method', the HEFCE Board has decided in distributing research funding:

- to at least maintain the average unit of resource in real terms for departments rated 5* and 5 in the 2001 RAE.
- to provide supplementary research funding of £24 million to the 'best 5*-rated' departments. These are departments that either achieved a rating of 5* in both the 1996 and 2001 RAEs, or achieved a rating of 5* in 2001 while maintaining or increasing the numbers of staff submitted since the 1996 RAE
- to cap in real terms the average unit of resource for 4-rated departments at the 2003-04 level
- to continue to provide £17.5 million through a research capability fund, to support research in specific, emerging subject areas where the research base is not as strong as in more established subjects (see paragraph 30)
- to provide £2 million for veterinary research, through a joint initiative with the Department for Environment, Food and Rural Affairs (DEFRA). This £2 million allocation is not included in Table 1, which shows the distribution of the remaining £1,079 million.

28. The amount of funding that we provide for each RAE unit of assessment (UoA) reflects the volume of research and a subject-related cost weight. Because 3a-rated departments are no longer to be funded, UoAs with a relatively high volume rated at 3a could see a reduction in the overall funding provided. This in turn would affect the average unit of resource for departments rated 4 or above in those units. In order to avoid this, we have continued, as last

year, to smooth changes in total funding for each UoA. This will ensure that there is no cash reduction in the funding in any UoA going to 4, 5 and 5* departments combined, other than for changes in their volume between 2002-03 and 2004-05.

29. As in previous years, we have sought to ensure that the proportions of QR attributable to each of the elements of research volume remain broadly constant. For 2004-05, we have adjusted the weighting applied to income from charities to ensure that the proportion of QR attributable to this source remains unchanged compared with 2003-04. The weighting has therefore been reduced from 0.191 to 0.177.

30. Funding for the research capability fund has been maintained in cash terms and is shared between the following seven UoAs:

- Nursing (UoA 10)
- Other Studies and Professions Allied to Medicine (UoA 11)
- Social Work (UoA 41)
- Art and Design (UoA 64)
- Communication, Cultural and Media Studies (UoA 65)
- Dance, Drama and Performing Arts (UoA 66)
- Sports-related Subjects (UoA 69).

Earmarked capital and special funding

Earmarked capital

31. We are allocating £584 million for earmarked capital grants. This is an increase of £220 million (60 per cent) compared with 2003-04. 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).

Special funding

32. 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).

33. For 2004-05, we are allocating £486 million for special funding. This covers various recent government initiatives, for which we have received additional funding, such as the Higher Education Innovation Fund (HEIF). It also covers other allocations that we fund from the overall grant available to us, such as the Teaching Quality Enhancement Fund. Total funding for these other allocations continues to reduce and now represents less than 5 per cent of total grant. This allows us to distribute a greater proportion of funding through our formula recurrent grant allocations.

34. 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. A breakdown of special funding and earmarked

capital between the different programmes is shown in Table 3. These allocations are grouped by HEFCE strategic aim, as detailed in our 2003-08 strategic plan (HEFCE 2003/35).

35. We have also made provision to transfer funding to other funding bodies. This comprises £10 million for transfer to the Teacher Training Agency (TTA) for the rewarding and developing of staff engaged in ITT; and a net £2 million to other funding bodies relating to TPS compensation, so that each can reflect the additional TPS costs in supporting activities for which they have funding responsibility.

Moderation

36. 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.

37. The HEFCE Board decided in February that the thresholds for moderation should be set at a cash increase of 2.5 per cent (a zero per cent change in real terms) compared with the equivalent figures for 2003-04, but that we should not provide moderation where it amounts to less than £100,000.

38. 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.

Student numbers

39. We have provided for an additional 20,000 FTEs in 2004-05. The distribution of these places is in the table below.

Additional places for 2004-05	Full-time	Part-time	Total FTE
		headcount	
<u>New places awarded for 2004-05:</u>			
Foundation and sub-degree	4,700	8,000	9,800
Degree and postgraduate	7,900	1,000	8,500
Sub-total	12,600	8,900	18,300
<u>Places rolled forward from 2003-04:</u>			
Foundation and sub-degree	300	700	600
Degree and postgraduate	600	1,300	1,100
Sub-total	900	2,000	1,700
Total	13,400	11,000	20,000

40. The new places awarded for 2004-05 comprise:

- 5,000 FTEs awarded through our most recent bidding exercise for foundation degree places announced in HEFCE 2003/48
- 10,200 FTEs awarded through phased allocations from earlier bidding exercises
- 500 FTEs for additional social work places, awarded following the invitation to bid in Circular Letter 24/2003

- 200 FTEs for part-time prototype foundation degrees
- 1,800 FTEs for increases in medical student numbers
- 500 FTEs to support diversification out of ITT.

41. The 1,700 FTEs rolled forward from 2003-04 were allocated through earlier bidding exercises.

42. Institutions are required to remain within ± 5 per cent of standard funding levels. 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 through our annual additional student number (ASN) bidding exercises. In 'HEFCE grant adjustments 2003-04' (HEFCE 2003/24), we warned institutions (in paragraph 36) that we might introduce measures for 2004-05 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 2004-05.

43. 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 2004-05 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 2003-04 has not yet been delivered, or we have awarded additional places for 2004-05. The grant letters also identify the funding that is contingent upon those FTEs being delivered.

Conditions of grant

44. 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).

45. In July we will send institutions their funding agreement for 2004-05. 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.

46. 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.

47. The Secretary of State has made it clear that he 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 given in EP 02/2004, 'Tuition fees for 2004-05', as:

- a. £1,150 for students on full-time undergraduate courses.
- b. £560 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. £560 for part-time courses of ITT.

48. 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.

49. Formula funding for widening participation is summarised in Table 1. We are reviewing the requirement for institutions to submit widening participation strategies and action plans. It is anticipated that institutions will be drawing up access agreements for submission to the Office for Fair Access (OFFA) which will be effective from 2006-07. Therefore, the requirement to submit widening participation strategies and action plans for the period 2004-07 has been put on hold while the Government is finalising its proposals for OFFA. We will consult with the sector later this year about the information needed to support HEFCE funding for widening participation. In the meantime we will provide details about monitoring widening participation funds in our 2004 request for annual monitoring statements, which will be issued shortly.

50. Also included within teaching grant is funding for rewarding and developing staff (including golden hellos and the Promising Researcher Fellowship Scheme). The sums involved are identified in the individual grant letter and tables sent to institutions on 1 March. This funding is 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, 'Golden hellos: outcome of consultation and funding allocations', issued on 14 July 2003; or as may be separately notified.

51. 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. Where concerns are raised, we may request further information. In the meantime, we will continue to pay the funding, but if acceptable assurances are not given, then further payments of capability funding will cease and any funds already paid may be recovered.

52. 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 2004-05. Details are contained in the letters to institutions, dated 1 March 2004.

Audit of funding data

53. 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 2004-05 funding allocations.

54. 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, then the funding for those institutions will be reduced accordingly.

Further information

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