

Consultation on approach to institution-specific funding

1. This document invites feedback on HEFCE's proposed approach to determining institution-specific funding allocations from 2016-17 onwards. Any feedback or questions should be addressed by email to specialist@hefce.ac.uk by 1700 on Monday 29 February. **Annex A** provides the template to be completed.
2. An event will be held on Thursday 25 February for institutions that submitted to the 2015 review of institution-specific funding, or have received allocations of institution-specific funding up to 2015-16.
3. Information provided in response to a request, invitation or consultation from HEFCE may be made public, under the terms of the Freedom of Information Act or of an appropriate licence, or through another arrangement. Such information includes text, data and datasets. The Freedom of Information Act gives a public right of access to any information held by a public authority defined within the Act, in this case HEFCE. It applies to information provided by individuals and organisations, for example universities and colleges. HEFCE can refuse to make such information available only in exceptional circumstances. This means that data and information are unlikely to be treated as confidential except in very particular circumstances.

Background

4. Institution-specific funding is additional and discretionary funding currently provided by HEFCE to a subset of HEFCE-funded higher education institutions. It is intended to recognise the higher cost and distinctive nature of small and specialist higher education providers, and the public value that these institutions bring to the sector.
5. Institution-specific funding allocations are being reviewed in 2015-16, to ensure that the funding goes to support and enhance specialist institutions that are providing world-leading teaching. There was a consultation on the principles and process for the review in March 2015¹. The guidance and criteria for the review were published in June 2015². Institutions made submissions in September 2015.
6. The review of institutions' submissions against the published criteria is now complete. As the Government's priorities and the teaching budget for higher education in 2016-17 are yet to be announced, the HEFCE Board has not seen or agreed the review's recommendations for individual institutions.
7. However, the HEFCE Board has agreed principles for funding allocations, which can be applied once the Government's priorities and teaching budget for 2016-17 are known. These principles have been informed by the deliberations of the international and independent review panel which made recommendations on institutions' world-leading teaching outputs.

¹ See 'Review of institution-specific funding' (HEFCE Circular letter 06/2015, www.hefce.ac.uk/pubs/year/2015/CL_062015/).

² See 'Institution-specific funding: Circular letter outcomes and invitation to make a submission' (HEFCE 2015/10, www.hefce.ac.uk/pubs/year/2015/201510/).

8. This document presents the proposed funding approach for comment.

Funding principles

9. In HEFCE Circular letter 06/2015 we indicated that we anticipated moving away from the current system of institution-specific funding whereby allocations are based on historical funding.

10. To create a new approach, the following funding principles have been agreed by the HEFCE Board:

- a. Funding allocations for successful institutions should make a meaningful difference that supports their continued sustainability.
- b. Funding should be allocated on a clear and understandable basis. Where possible, anomalies between institutions specialising in the same discipline should be diminished.
- c. As far as possible, funding should be targeted at areas of strength. Some aspects of specialist institutions' provision are stronger than others. This is especially the case for the larger organisations and those that have arisen from merger or collaboration.
- d. Higher levels of funding should go to institutions that face the biggest challenges in meeting justifiably high costs.

Proposed funding approach

11. To align with these principles, and the general approach of aiming for the sustainability of world-leading specialist teaching provision, we propose a funding approach with the following main features.

12. The funding approach should be based on an institution's average home and European Union (EU) student full-time equivalences (FTEs) over three years (2012-13, 2013-14 and 2014-15), multiplied by a rate of funding linked to their total income in 2014-15 (as per audited accounts).

13. Allocations should be provided for a capped number of student FTEs, not necessarily the total number of FTEs at the institution (thus FTEs above a threshold level will not have a rate applied to them).

14. The rate of funding per FTE should be related to the scale of the institution as measured by its total income, with higher rates of funding provided where income levels are lower.

15. We are proposing average home and EU student FTEs and total audited institutional income because they are robust and transparent factors. In addition, data on average home and EU FTE numbers is already collected and agreed with institutions, so this will minimise burden. Data on institutional income is likewise already available and externally audited.

16. After considering alternative existing sources of information about institutional income, we are proposing to base any funding allocations on the latest year for which we

have audited information. In proposing this we have noted that institutional income tends not to fluctuate significantly over short periods.

17. There should be a minimum allocation for institutions that have satisfied the review's criteria. If the funding approach described above were to generate an allocation below this, an institution would receive the minimum allocation.

18. This funding approach (and the data described above) should be used to inform allocations for the whole funding period; it should not be re-run every year. Dependent on government priorities and the higher education teaching budget, we would expect funding to be allocated until 2019-20. In 2019, allocations for 2020-21 would be reviewed again. This is to help institutions' financial planning. A further review will be required to ensure that the funding continues to provide support.

Transition funding

19. We are conscious that this has been a significant part of overall HEFCE funding for some institutions. We do not wish to make funding changes that would pose unmanageable short-term financial challenges for institutions, so propose that some of the overall budget available for this strand of funding should be used for transitional funding.

20. Transitional funding should be provided for institutions that previously received institution-specific funding, but are no longer eligible (because they do not satisfy the review's criteria). These institutions will be able to receive transitional funding if, in 2015-16, their allocation represented a significant proportion of their total recurrent HEFCE grant for that year.

21. Transitional funding for these institutions should be provided for 2016-17 only, unless there is a clear case that a longer phase-out period is required. We would anticipate transitional funding amounting to half an institution's allocation in 2015-16. This contributes to supporting these institutions. Giving a higher level or longer period of transition funding significantly reduces the funding available to support world-leading teaching at specialist institutions.

22. Because of the diverse funding histories of institutions, applying the funding approach above may mean that some institutions which satisfy the review's criteria will see a reduction in their allocation. Therefore, we believe that transitional funding should also be used to cover any significant negative differences between an institution's previous allocation and their new allocation. We propose that these institutions should receive half the difference between their new and previous allocation. Again, this would be for 2016-17 only, apart from cases where a demonstrably longer phase-out is required.

Timeline

23. Table 1 shows the timeline for finalising the review's outcomes. We recognise that institutions will wish to be informed of review outcomes as soon as possible.

Table 1: Timeline for finalising review outcomes

Date	Activity
25 February 2016	Event for institutions that submitted to the review or received an allocation of institution-specific funding in 2015-16.
29 February 2016	Close of consultation on funding approach.
9 March 2016	HEFCE Board considers outcomes of this consultation and recommendations as to which institutions have satisfied the review's criteria, and approves funding allocations (depending on the timeline for the HEFCE grant letter).
Mid-March 2016	As soon as the review's recommendations are confirmed, we will write to institutions with the Board's decisions and feedback from the assessment process.
Mid-April 2016	Institutions will be notified of their allocations as part of the main 2016-17 grant announcement.

Annex A: Consultation questions

Question 1: Overall, do you mostly agree or disagree with the proposed funding approach?

- Agree
- Disagree
- Neither agree or disagree

Please provide any additional comments:

Question 2: Overall, do you mostly agree or disagree with the proposals for transition funding?

- Agree
- Disagree
- Neither agree or disagree

Please provide any additional comments: