

June 2004/24

**Core funding/operations**

Report on outcomes

This report is for information only

This document sets out the changes to the funding method for teaching that have been implemented following responses to the consultation announced in HEFCE 2003/42. It also summarises the responses we received to the consultation.

# Funding method for teaching from 2004-05

## Outcomes of consultation

## **Funding method for teaching from 2004-05**

### **Outcomes of consultation**

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
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### **Executive summary**

#### Purpose

1. This document sets out the changes to the funding method for teaching that have been implemented following responses to the consultation announced in HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05: consultation'. Annex A summarises the responses that we received to the consultation.

#### Key points

2. Following the consultation, we have made a number of changes to our teaching funding method for 2004-05. These have been incorporated in the allocations announced in HEFCE 2004/12 'Recurrent grants for 2004-05' and are listed below:

- a. We continue to have just four price groups: we have not split price group B as we had proposed in the consultation.
- b. Media studies provision continues to be funded according to the existing attributions to price groups B, C and D, pending a review to assess the relative cost of different types of provision.
- c. Sports science provision continues to be funded according to the existing attributions to price groups C and D, pending a review to assess the relative cost of different types of provision.
- d. Psychology is now funded entirely within price group C as proposed in the consultation.

- e. Computer software engineering is now funded entirely within price group C as proposed in the consultation. We are reviewing the criteria for assigning activity to Computer software engineering and Electrical, electronic and computer engineering.
- f. The price group weightings for 2004-05 are 4 for price group A, 1.7 for price group B, 1.3 for price group C and 1 for price group D.
- g. The assumed fees per part-time undergraduate full-time equivalent student match those for full-time undergraduates.
- h. The assumed fees for full-time postgraduate taught students have been increased to the level of the base price, and for part-time postgraduate taught students to the level of the base price plus 10 per cent.
- i. We have introduced a 10 per cent premium for all part-time students.
- j. We have introduced a 10 per cent premium for all students on foundation degrees.
- k. All sandwich year-out students are funded at price group C.
- l. After transfers to and from other funding bodies, compensation for increases in the costs of the Teachers' Pension Scheme has been reallocated pro rata to 2002-03 financial year data on employers' contributions and incorporated in individual institutions' teaching grant.
- m. The pensions premium for institutions in the Universities Superannuation Scheme is ending after 2003-04.
- n. We have reviewed the size of specialist institution premiums so that such institutions remain within the  $\pm 5$  per cent tolerance band following the above changes to the funding method. We expect any migration for other institutions above the band to be achieved in the first instance by increases in student numbers over a time-scale to be agreed with the relevant HEFCE regional team; and for those below the band, by additional funding phased over three years.
- o. Formula funding for widening access is now being based on a method that weights undergraduate new entrants according to quintiles that reflect young higher education participation by ward for full-time undergraduates under 21 on entry; and average educational achievement by ward, derived from the 2001 census, for part-time and mature full-time undergraduates.
- p. We have incorporated London weighting of 8 per cent for inner London and 5 per cent for outer London in the formula allocations for widening participation. The funding for improving retention continues to be allocated according to non-continuation risk factors associated solely with entry qualifications and age, and does not incorporate other weightings that are used in the main teaching funding method.
- q. Formula funding for widening participation for both full-time and part-time students has been split at 19 per cent for widening access and 81 per cent for improving retention.

r. We are not reducing the level of detail collected in our aggregate student number surveys in the short term, reflecting the views expressed by institutions in the consultation. However, we will continue to explore ways of reducing the accountability burden on institutions arising from data collections.

s. We are giving institutions an opportunity in 2004-05 to recover funding deducted from their baseline as a result of the consolidation of 2003-04 contract range holdback.

3. Further changes to the funding method after 2004-05 will be kept to a minimum for at least three years. During this time we will conduct a fundamental review of the funding methodology, which will be informed by a study to identify the full economic costs of different types of teaching activity. The study will be based on the Transparent Approach to Costing methodology,

Action required

4. No action is required.

## Background

5. In August 2003, we published the consultation document HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05'. In August and September we made supporting information available on our web-site. This included:

- a. 'Review of the assignment of academic cost centres to price groups'. This was the study of institutional expenditure and student number data that informed the proposals to change subject weights in our funding method.
- b. 'Survey of fees for postgraduate taught and part-time undergraduate students'. This was a study of the fees chargeable by institutions across the sector for those categories of student whose fees are not prescribed or recommended by Government. It informed our proposals to change fee assumptions within our funding model for these types of student.
- c. 'The costs of alternative modes of delivery'. This was a consultancy study into non-traditional, commonly 'off-campus', modes of delivery, such as e-learning, distance-learning, work-based learning, foundation degrees, sandwich years-out, part-time and the accreditation of prior experiential learning. It informed our proposals for changes to the funding of foundation degrees, part-time students and sandwich years-out.
- d. Simulations of the effects on institutions of the proposed changes to the funding method. These showed how institutions' position relative to standard resource might change, based on the underlying data used in the allocations for 2003-04. Further details of the calculations were provided individually to institutions.

6. In September we held consultative seminars with institutions on the proposed changes. The consultation period ended on 14 November. We asked for responses to be submitted through a web-based form, which included 18 specific questions and a general comments section. This helped to encourage more individuals to respond as well as those representing particular institutions or organisations. We have also had a few replies in paper copy and in letters to HEFCE staff. We received responses from:

- 121 higher education institutions (HEIs)
- 26 further education colleges (FECs)
- 84 other organisations, such as subject associations, academic departments and other representative groups
- 57 individuals, generally within higher education institutions.

7. A summary of the responses to the consultation is at **Annex A**. Following the consultation, we have implemented a number of changes to our teaching funding method. These were incorporated in the recurrent grant allocations announced in HEFCE 2004/12. We are publishing separately an updated version of our publication, 'Funding higher education in England: how HEFCE allocates its funds', to reflect the allocation methods adopted for 2004-05.

## Overview

8. Teaching funding is part of a block grant, and institutions have considerable freedom as to how they distribute it internally to support their own aims and objectives. The funding method aims to ensure that we allocate an appropriate level of teaching funding for an institution as a whole. As such, it is designed to be efficient in distributing funding between institutions in the sector, not between departments within an institution. We do not expect institutions to mirror our allocation methods for their own internal purposes. Although our funding is determined according to the activity in academic departments, it is intended to support institutions more generally, including, for example, their central facilities such as libraries, computer centres and administration. The proposals in our teaching funding consultation were about whether institutions as a whole were receiving the right level of resource for their teaching activities according to the latest available information.

9. Our funding method is based on a principle of similar resources for similar activities. For each institution our model calculates a level of 'standard resource' which reflects the numbers of students they have, their mix between different subject areas, and a number of other student or institution-related cost factors. Standard resource is not, however, what we actually pay institutions, but rather can be thought of as a notional benchmark of what we think institutions' share of overall resources should be to reflect their teaching activities. We compare standard resource with what institutions are actually receiving in HEFCE teaching grant plus broad, sector-wide assumptions about rates of fee income. We want this actual resource to come within 5 per cent of the standard level, supporting our principle of similar resources for similar activities. As long as institutions' actual resources remain within 5 per cent of the standard level, then HEFCE teaching grant will in general roll forward from year to year.

10. This 5 per cent margin (the tolerance band) exists, not because we think it reasonable for institutions' funding to vary by  $\pm 5$  per cent, but to give institutions flexibility and minimise the accountability burden. This flexibility is both in the nature of the provision they offer to students within broad subject areas (for example, in terms of course content, staffing structures and methods of delivery) and in allowing some changes to the mix and volume of student numbers without financial implications. It is for this reason that the principle of the funding method is to have similar resources for similar activities, not the same resources for the same activities. This broad-brush approach to funding helps to keep the accountability burden lower than might otherwise be the case. But again, because it is broad-brush, it may not be appropriate for institutions to replicate it for their own internal allocation purposes.

11. Most of the proposals in our consultation were primarily about how we calculate standard resource, not actual resource.

### **Timing of changes to the funding method**

12. A commonly stated and strongly expressed view among respondents was that HEFCE should not be changing its funding method now, when a more fundamental review would be needed for 2006-07. This view came from a variety of institutions, including those who would not see any significant change in their funding, or who might even stand to benefit. The arguments were that institutions needed a period of stability before potentially more far-reaching change in 2006-07; and that changes to subject weightings in particular would lead to pressures on institutions' internal resource allocation models, even if overall HEFCE funding did not change.

13. A number of our proposed changes were signalled in the Government's White Paper 'The future of higher education' or were otherwise a consequence of government policy. They include:

- a. The transfer of funding for rewarding and developing staff into teaching grant (paragraph 4.22 of 'The future of higher education').
- b. The review of funding for foundation degrees (ibid, paragraph 3.21).
- c. The replacement of the 'postcode' allocation (ibid, paragraph 6.24).
- d. Compensation for increases in the Teachers' Pension Scheme (TPS) and the consequent need to remove the pensions premium for institutions that are part of the Universities Superannuation Scheme (USS) (January 2003 DfES grant letter, paragraph 53).

14. Some change to the funding method, therefore, was inevitable for 2004-05. In HEFCE 2003/42, we signalled a need for a fundamental review of the teaching funding method to take account of the new fee regime, and that work would start on this in 2004. However, in arguing that we should not therefore change the methodology now, there was an underlying assumption among respondents that HEFCE would introduce a perhaps significantly different funding method to coincide with the planned change to the fee regime in 2006-07. This is not necessarily the case. Neither the extent of any further change, nor the timing of its introduction, are yet certain.

15. The questions that exercised respondents most were those about our proposed changes to price groups. These proposals were based on a study of relative expenditures per full-time equivalent (FTE) in different subject areas derived from data which institutions themselves provide. A number of institutions responded that this was an inappropriate method of determining subject weightings and that a better approach would be to undertake full economic costing using the Transparent Approach to Costing (TRAC) methodology. We accept that there would be merit in such an approach. The TRAC methodology, and a funding method derived from it, would help institutions to make informed decisions about the provision that they offer which take account of costs. Unfortunately the information that would give the necessary detail on the costs of different types of provision using the TRAC methodology will not be available for some time. It is likely to take three years to complete a full economic costing study of all teaching activity, and we are beginning work on this now. Implementation of a new method will also require further consultation with the sector and a review of the information required from institutions.

16. We recognised institutions' concerns about two significant reviews of the funding method in quick succession. The Board therefore agreed that the current method should continue for at least three years, keeping any further changes to a minimum. However it also concluded that some changes were necessary now to reflect the most recent information available and the responses to the consultation.

### **Changes to price groups**

17. The main changes to price groups that we proposed in the consultation were:

- a. Splitting the existing price group B into B1 (containing Physics, Chemistry, Chemical engineering and Mineral, metallurgy and materials engineering) and B2 (containing other laboratory sciences and engineering).

- b. Changing the assignment of particular subject areas to price groups:
  - i. Computer software engineering reassigned from price group B to price group C.
  - ii. Psychology, previously split between price groups B and D, reassigned entirely to price group C.
  - iii. Librarianship, communication and media studies, previously split between price groups B, C and D, reassigned entirely to price group D.
  - iv. Sports science and leisure studies, previously split between price groups C and D, reassigned entirely to price group D.
- c. Changing the weightings we applied to individual price groups.

18. As noted above, some respondents argued that the basis on which our proposed price group changes were made, using an analysis of institutional expenditure data, was flawed. Some suggested an alternative cost-based approach, although such data will not be available for some years. Others did not suggest an alternative method for determining subject relativities. It should be noted that such arguments are not a defence of the status quo: our previous price group weightings were also determined from an analysis of expenditure data, albeit data from 1994-95 rather than the five-year period up to 2001-02. In the absence of an available alternative, the expenditure data are the only objective information that exist to inform our subject relativities.

#### Splitting price group B

19. A significant majority of institutions did not favour splitting price group B. It was also not generally supported by the broad science and engineering subject bodies, who perceived that science and engineering as a whole would lose out, even if the B1 subjects gained. Many respondents argued that the B1 subjects were not intrinsically more costly to provide, but that the different relative expenditures we had observed merely reflected different success in recruitment. It is true that the four academic cost centres that we proposed to assign to price group B1 are all subject areas where student numbers have been in decline recently. The expenditure data suggest that institutions have continued to support these departments, which will have high levels of fixed costs, despite these recruitment difficulties. The other science and engineering subjects have in general not experienced the same shortfalls in student numbers.

20. Although the proposal to split price group B was made solely on the basis of our analysis of expenditure data, it could be seen as a policy question: to what extent should HEFCE provide higher rates of recurrent funding to support subject areas of national importance that are in decline? The Board gave this question careful consideration, but decided that we should not split price group B, reflecting the views of the sector. We will, however, continue to monitor provision in the subject areas that would have been included in price group B1 in case action to support these subjects, regionally or nationally, proves necessary.

## Assignment to price groups of individual subject areas

21. Responses on other price group-related issues concentrated on our proposals to change price group assignments for four subject areas:

- Librarianship, communication and media studies
- Psychology and behavioural sciences
- Computer software engineering
- Sports science and leisure studies.

22. Media studies has been split between price groups B, C and D according to the outcomes of a review of provision at each institution carried out in 1998-99. The expenditure data suggested it should be assigned entirely to price group D. This was perhaps the most severe of all the changes proposed in the consultation, certainly for those institutions which have a significant proportion funded at price group B rates. The responses emphasised the high cost of media production relative to more classroom-based media studies, while recognising that institutions commonly offered a mix of different types of provision. Some reported that significant costs associated with high cost media provision were not reported in that academic cost centre, and this would have contributed to why it was not being reflected in our analysis of the expenditure data. In excluding specialist institutions from our analysis, we will have also excluded a number of institutions with very high cost media provision.

23. We accept that further work to identify the relative costs of different types of activity in media studies is necessary and have agreed that, in the meantime, the existing attributions of institutions' media provision between price groups B, C and D should continue to apply. During 2004, we will undertake a further review of the relative costs of different types of media studies provision using an approach that is consistent with the TRAC methodology. The outcome of this review will inform decisions about how media provision at each individual institution should be funded in the longer term.

24. Sports science and leisure studies has been split between price groups C and D (the large majority in price group C) on the basis of the amount of expensive equipment in use. The expenditure data suggested that it should be reassigned entirely to price group D. Nevertheless, it is possible that these data did not pick up all the costs attributable to sports science provision, if use of central sports facilities is not reported in the academic cost centre. We have therefore decided to retain the existing price group C and D splits for the time being, but to undertake a further review to identify the relative costs of sports science provision. This will inform decisions about how provision at each individual institution should be funded in the longer term.

25. Psychology has been split between price groups B and D based on the outcomes of reviews of provision at each institution. Our data analysis showed that, on average, expenditure was at price group C levels, and this was true whether institutions had been predominantly funded at price group B or price group D rates. Views on reassigning the whole of psychology to price group C were split among institutions and generally depended on how their psychology provision had previously been funded.

26. We have not found anything in the expenditure data that suggests that psychology should continue to be split between price groups, nor heard arguments why the use of expenditure data might be particularly inappropriate for this subject area. We have therefore decided that psychology provision should be funded entirely at price group C rates, as set out in the consultation.

27. Computer software engineering was a new academic cost centre (number 39) created in 1997 in response to the original consultation on our funding method.<sup>1</sup> Other computing activity may be reported in Electrical, electronic and computer engineering (cost centre 20) or in Information technology and systems sciences (cost centre 25). Cost centres 20 and 39 have been funded at price group B rates and cost centre 25 at price group C rates. The data analysis found that expenditure in Computer software engineering was on average at price group C rates, while for Information technology and systems sciences it was at price group D rates. Nevertheless, in the consultation we proposed assigning both to price group C. There appear to be boundary issues between these two cost centres. In recent years, there have been significant increases in student numbers in Computer software engineering, while there has not been growth in Information technology and systems sciences. Assigning both to price group C would reduce the effect of these boundary issues, although there would remain a boundary with Electrical, electronic and computer engineering. We did not consider there were grounds for continuing to fund Computer software engineering at price group B and decided that it should be funded instead in price group C. We will also review the criteria for assigning activity to Computer software engineering and to Electrical, electronic and computer engineering.

#### Price group weightings

28. The expenditure data suggested a narrowing of the relative weightings that should be given to the price groups, and we did not receive any evidence to contradict this. The consultation had proposed splitting price group B, with B1 receiving a weighting of 2 and B2 receiving a weighting of 1.6. As a result of the decision not to split price group B, its weighting has now been set at 1.7. The weightings for other price groups are as proposed in the consultation and are summarised in Table 1. Annex B provides a full analysis of relative expenditure by cost centre to reflect the new price groups.

Table 1 **Weightings for each price group**

Price group		Previous weighting	Observed cost relativity	New weighting
A	Clinical subjects	4.5	4.36	4
B	Laboratory-based science, engineering and technology	2	1.63	1.7
C	Intermediate cost subjects with a studio, laboratory or fieldwork element	1.5	1.22	1.3
D	All other subjects	1	1	1

29. The weightings that we have introduced for price groups B and C have been rounded up compared with the relativities derived from the expenditure data. For price group A, they have been rounded down because the expenditure data include significant income from the NHS. Table 2 shows the effects of the price group changes on rates of resource per FTE (that is, ignoring all changes to the funding method other than those relating to price groups). In considering these percentages, it is important to remember that they are averages for all the subject areas that make up these price groups. In particular, the average change in resource rate for price group C is shown as -6.2 per cent. This is significantly affected by the movement into price group C of computer software engineering (previously in price group B) and, to a lesser extent, psychology (previously split between B and D). For subjects that have remained in price group C, the underlying change in the rate of resource is -1.5 per cent.

<sup>1</sup> First reported in HEFCE 97/25, 'Assigning departments to academic cost centres'.

Table 2 **Average changes in resource rates arising from price group changes**

Price group	Average change in resource rate	Underlying change in resource rate for subjects that remain in the same price group
A	1%	1%
B	-3.4%	-3.4%
C	-6.2%	-1.5%
D	13.7%	13.7%
Total	0%	0%

30. The percentage changes in Table 2 are those that result solely from the changes to price groups. Other changes that we have implemented for 2004-05, and which are described below, result in further increases. Table 3 shows the change in the basic rate of resource (that is, excluding student and institutional premiums) used in our main teaching funding method for each of the four price groups between 2003-04 and 2004-05. It is important to stress that most of the changes do not represent real increases in income. They result largely from the incorporation within the main teaching grant of previously separate streams of funding for rewarding and developing staff and to compensate for increases in TPS costs. The changes also reflect increases in assumed fee rates for postgraduate taught and part-time undergraduate students. As reported in HEFCE 2004/12, 'Recurrent grants for 2004-05', the overall publicly-funded unit of resource for teaching calculated on a like-for-like basis has increased in cash terms by 2.8 per cent between 2003-04 and 2004-05.

Table 3 **Changes in the main teaching funding method basic rates of resource for 2004-05**

Price group	Basic rate of resource in 2003-04	Basic rate of resource in 2004-05	Percentage change
A	4.5 x £2,808 = £12,636	4 x £3,484 = £13,936	+10.3%
B	2 x £2,808 = £5,616	1.7 x £3,484 = £5,923	+5.5%
C	1.5 x £2,808 = £4,212	1.3 x £3,484 = £4,529	+7.5%
D	1 x £2,808 = £2,808	1 x £3,484 = £3,484	+24.1%

### Fee assumptions and the part-time premium

31. Our funding model makes assumptions about fee income, because the Department for Education and Skills (DfES) plans higher education funding taking account of both HEFCE grant and full-time undergraduate fee income (whether paid by the Student Loans Company or students themselves). For full-time undergraduates, who represent over 74 per cent of total FTE student numbers, our fee assumptions reflect the regulated fee levels set by the DfES. In order to operate a resource-based model, we do, however, need also to make assumptions (at the sector-wide, not institutional level) about fees for postgraduate students and for part-time undergraduates, where institutions are free to determine their own fee rates. A large-scale survey of institutions carried out last year revealed that the fee assumptions we previously made for these categories of students were significantly below the levels that institutions on average actually charged.

32. Our proposals on fee assumptions were linked with a separate proposal to introduce a 10 per cent premium for part-time students. The study of alternative modes of delivery found that there were additional costs for part-time students, largely because of central costs that arise on a headcount, rather than FTE basis. At the same time, the fee survey found that institutions were receiving a higher rate of resource for their part-time students than we had previously assumed, because of the levels at which

they charged fees. Our proposals would make this explicit within the funding model, but would not result in any significant change in HEFCE funding. More institutions agreed to the proposal to increase the part-time undergraduate fee assumption than disagreed. Some two-thirds of institutions agreed with the introduction of the 10 per cent part-time premium. However, we would not implement one of these proposals without the other.

33. For postgraduate taught students, we proposed to increase the fee assumption to the level of the new base price for full-time students and to the base price plus 10 per cent for part-time students – in both cases considerably below what institutions actually receive on average. The postgraduate fee assumption was already above the base price for 2003-04. However, increases to the base price arising from price group and other changes would mean we would have to increase the fee assumption considerably in order for it to keep pace. If we did not, there would be a shift of funding towards price group D postgraduate activity, which is dominated by business and management courses.

34. Nevertheless more institutions disagreed with the proposal to change the postgraduate fee assumption than agreed. Much of the concern expressed by respondents arose from a misapprehension that institutions would have to charge fees at the level we assume. This is not the case. Institutions will continue to be free to set their own fee levels for these categories of student. Our proposals reflected what institutions are, on average, already charging (in fact for postgraduate taught students, the average charge is considerably higher). Any perceived disadvantage merely reflects the differences in fee levels that institutions already charge.

35. We have implemented the proposed changes to fee assumptions and introduced the part-time premium, because they minimise changes to grant for institutions. For part-time students, they make explicit the higher level of resource that such students have, on average, always attracted under our current funding method. For postgraduates they avoid a redistribution of funding towards postgraduate taught price group D students. Table 4 shows how the fee assumptions for 2004-05 compare with the average fees charged for these groups of students.

Table 4 **Fee assumptions for postgraduate taught and part-time undergraduate students**

<b>Mode and level</b>	<b>Observed<sup>2</sup> average fee per FTE in 2001-02</b>	<b>Observed fee uplifted<sup>3</sup> to 2004-05 prices</b>	<b>2004-05 assumed fee per FTE</b>
Part-time undergraduate	£1,059	£1,138	£1,150
Part-time postgraduate taught	£4,797	£5,153	£3,832
Full-time postgraduate taught	£3,664	£3,936	£3,484

### **Foundation degree premium**

36. We proposed in the consultation to introduce, as a temporary measure, a 10 per cent premium for foundation degree students. We signalled that in the longer term, this should be replaced by an allocation or premium to reflect additional partnership costs (irrespective of the type of course concerned), which the study of alternative modes of delivery found was the significant factor in making most foundation degrees relatively more costly. A majority of institutions agreed with the proposal. Concerns expressed

<sup>2</sup> Taken from the 'Survey of fees for postgraduate taught and part-time undergraduate students', published in August 2003.

<sup>3</sup> The uplift to 2004-05 uses the GDP deflators assumed in our funding allocations for 2002-03, 2003-04 and 2004-05 of 2.5 per cent, 2.25 per cent and 2.5 per cent respectively.

about the proposal related mainly to the temporary nature of the premium and the desire to move quickly to an allocation to support partnerships; and to the belief that it should only be applied if additional funding is made available to HEFCE, rather than through a redistribution of existing funding between institutions.

37. Many of the additional funded places that we have to allocate from 2004-05 relate to foundation degrees, and these are central to the Government's plans for increases in student numbers in the coming years. We have implemented the premium because it will contribute to ensuring an appropriate level of resource for future funded growth.

### **Sandwich years-out**

38. Students on sandwich years-out have been funded as 0.5 FTE, but weighted to reflect their subject of study. The report on alternative modes of delivery found that the costs of sandwich years-out varied according to the specification of the year (for example, how many times the lecturer visited the student in the workplace), but not according to subject of study. We proposed to fund all at price group C rates (consistent with the findings of the study) and to leave institutions to determine the specification of their years-out to reflect the total funding that they chose to make available from within their block grant. About twice as many institutions agreed with this proposal as disagreed and we have therefore implemented it.

### **Funding for rewarding and developing staff**

39. Alongside the consultation on the teaching funding method, we also consulted over the summer on the rewarding and developing staff initiative. Both consultations had asked about the consolidation into teaching grant of 2003-04 funding for rewarding and developing staff. The outcomes of this aspect of the consultation were reported in HEFCE 2004/03, 'Rewarding and developing staff in HE – round 2'. In particular, paragraph 28 explained that the actual 2003-04 allocations would be consolidated into teaching grants for 2004-05, instead of being redistributed pro rata to teaching resource as had originally been proposed.

40. In 2003-04, we also made an allocation of some £7.8 million for rewarding and developing staff engaged in initial teacher training (ITT) activity funded by the Teacher Training Agency (TTA). We had proposed that this should be incorporated in institutions' HEFCE teaching grant alongside the £176 million allocated to HEIs and FECs on the basis of their HEFCE-funded activity. However, we have instead transferred this element of funding back to the TTA, so that it will reflect future changes in ITT student numbers.

### **Recognising additional pension costs**

41. For 2003-04 we allocated £47.5 million in special funding to compensate HEIs for increases in employers' contributions to the Teachers' Pension Scheme. These contributions, at 13.5 per cent, are now similar to those of the Universities Superannuation Scheme, which stand at 14 per cent. Up to 2003-04 we recognised the additional costs of the USS, relative to the TPS, through a premium of 1.5 per cent in the teaching funding model. Our proposals on recognising pension costs were that:

- a. We should transfer funding between ourselves and other funding bodies (LSC, NHS and TTA) so that in future each reflects the additional pension costs in their recurrent allocations.

b. The balance of TPS compensation that rests with HEFCE should be transferred into the main teaching grant.

c. The USS pensions premium should end.

42. A majority of institutions agreed with our proposals both to transfer TPS compensation into teaching grant and to remove the USS pensions premium. These two proposals are complementary. Both serve to increase the base price per weighted FTE used in the calculation of standard resource, ensuring that neither group of institutions is disadvantaged in the funding method relative to the other. These changes have therefore been implemented for 2004-05.

### **Effects on institutions: migration**

43. All of the above changes affect the calculations of standard resource and, therefore, institutions' positions relative to the  $\pm 5$  per cent tolerance band. The consequences are that some institutions move outside the tolerance band. Where this is the case, we have in the first instance reviewed the size of specialist institution premiums so that such institutions remain within the band. Other institutions may need to migrate so that they come back within the tolerance band over time. For those above the band, we initially expect any migration to be achieved by increases in student numbers over a time-scale to be agreed with the relevant HEFCE regional team. We do not necessarily expect such increases in student numbers to begin in 2004-05. For those below the band, we are providing additional funding phased over three years. However, we are providing such migration funding only to the extent that an institution's position below the tolerance band is due to changes to the funding method, rather than its own recruitment behaviour in 2003-04.

44. Of the 131 HEIs that we are funding in 2004-05, 92 have remained in the  $\pm 5$  per cent tolerance band following the implementation of these various changes. Eight HEIs that were previously outside the tolerance band have moved within it and one other has moved towards it. Fifteen HEIs that were previously within the tolerance band have moved above it, usually because of the re-assignment of Computer software engineering from price group B to C. Another 15 HEIs have moved (further) below the tolerance band, generally because of the increase in the unit of resource for price group D provision, but also because of the assignment to price group C of their psychology provision that had previously been funded largely at price group D rates.

45. In general, FECs have benefited from the increase in the unit of resource for price group D and also because we are now providing price group B rates of funding for some science and engineering provision at FECs, which may previously have been funded within price group C. This means that almost all FECs appear relatively less well resourced compared to standard levels under the 2004-05 model than previously, because their actual resource has not increased as much as their standard resource. Approximately half of all FECs either remain within the tolerance band or have moved closer to it from a position above the band. Most of the remaining FECs have moved (further) below the tolerance band. FECs receive £1.3 million of the £3 million total required for migration funding in 2004-05.

### **Funding for widening participation**

46. Teaching funding for widening participation is allocated outside our main resource-based funding method. It comprises funding for widening access; funding for improving retention; and funding for

provision for disabled students. We did not propose, and have not made, any changes to the method for the disabled students' allocation.

#### Funding for widening access

47. Funding for widening access was previously based on a geodemographic classifier. The allocation was based on student numbers weighted according to higher education (HE) participation rates among 160 neighbourhood types. The Government's White Paper indicated that this postcode-driven allocation should be replaced. One of the alternative measures proposed was one based on the 'average results of the school attended'. However, comprehensive and reliable data on schooling is available only for young UCAS entrants. In the consultation, we proposed two measures of educational disadvantage, so that we could use school data where these were available. We proposed:

- a. An allocation for 18- and 19-year-old full-time undergraduates based on the average performance of the school attended (or an area-based proxy for school attended) at age 16.
- b. An allocation for other full-time and part-time undergraduates based on the average educational achievement within their ward.

48. Support from the sector for the first proposal on use of data on schooling was inconclusive: as many respondents disagreed as agreed. There was concern about the adequacy of school data for use in distributing funding across the sector. Institutions also expressed concern about making assumptions about school attended for individual students in the absence of actual school data.

49. We have now received data on school attended at 16 (up to GCSE level) for 18 and 19 year-olds who entered higher education through UCAS in 2002; however, we still have to analyse and interpret the data. For example, school performance within a region can be affected depending on whether a local authority structures its secondary schools along a fully comprehensive model, or provides selective grammar schools. Such factors will be important in devising a funding method. It has not proved possible to complete this work in time to inform funding for 2004-05. We will, however, continue to explore means of developing an appropriate allocation method, which takes account of information on school attended, in the context of the longer-term review of the teaching funding method.

50. There was more support from the sector for the proposal to allocate funding based on educational achievement by ward, with more institutions agreeing than disagreeing. Some argued that this should be adopted for all categories of student, including young full-time undergraduates, to ensure consistency in the allocation and avoid the possibility that some student groups might be disadvantaged by having weightings determined against different criteria.

51. In determining an allocation method, our aim has been to find the best way of allocating funding in order to have the maximum impact on widening participation. By allocating funding based on wards, it encourages institutions to concentrate their access initiatives in those wards. For 2004-05, we have therefore adopted a method for funding widening access that weights undergraduate new entrants according to quintiles reflecting:

- a. Young HE participation by ward, for full-time undergraduates under 21 on entry.

b. Average educational achievement by ward, derived from the 2001 census, for part-time and mature full-time undergraduates.

52. The weightings given to the quintiles are the same for the two separate student populations identified in a. and b. above. This ensures that there is no relative advantage for one group over the other.

53. The consultation document also explained that, in determining allocations, we would look to exclude those students that already have a higher education qualification, unless their previous qualification can be considered a normal progression route onto their current undergraduate course. As the funding is intended for widening access, this ensures that it is not allocated in respect of students that have already accessed higher education. Students are therefore only weighted according to their ward if their entry qualifications are recorded as being below their current undergraduate qualification aim.

#### London weighting

54. One effect of using ward-based data is that, all other things being equal, there is an adverse effect on allocations for institutions in London. There are two main reasons for this:

a. In using quintiles, we have weighted students only if they fall in the lowest two quintiles (lowest young HE participation by ward or lowest average educational achievement by ward). This skews the allocations more to the most disadvantaged areas. Previously, the geodemographic classifier applied weightings to neighbourhood types with average or below average participation and was therefore not as selective in weighting particular neighbourhoods.

b. The geodemographic classifier weighted students according to broad generalisations of neighbourhood type, which reflected a national average level of HE participation in that type of neighbourhood (irrespective of whether it was in London or elsewhere). In using actual HE participation rates for individual wards, London's generally higher participation rates mean that it no longer benefits from this national averaging.

55. We have introduced London weighting into the formula widening participation allocations, consistent with the main teaching and research funding methods, where London weighting already applies. This mitigates the adverse effects on London of using ward-based data in the widening access allocations. It recognises the additional costs, particularly those of staff, arising from operating in the capital and these will also occur in widening participation activity. The weights used are 8 per cent for those institutions in inner London and 5 per cent for those in outer London.

#### Funding for improving retention

56. Funding for improving retention was introduced for 2003-04. For full-time undergraduates it has been based on entry qualifications and age. The methodology calculates an average institutional weighting reflecting the profile (in terms of entry qualifications and age) of each institution's full-time undergraduates. This weighting is applied to their total full-time undergraduate FTEs to determine a pro rata share of the funding available. The consultation asked about incorporating two subject-related dimensions:

- a. How the **costs** of improving retention might vary according to a student's subject of study and for institutional premiums. This would involve allocating a proportion of the funding on the basis of FTEs weighted also by price group and institutional premiums.
- b. How the **risk** of non-continuation might vary according to a student's subject of study. This would involve incorporating subject of study alongside entry qualifications and age as a risk factor that was taken into account in determining the overall institutional weighting.

57. Approximately half of all institutions agreed with each proposal, although there was confusion among some respondents between the two questions. In the comments provided, very few respondents suggested what proportion of the funding should be allocated to take account of subject and institutional cost weights. A number argued that the variation in costs by subject was very small or even non-existent. Institutions in London argued that London weighting should be included.

58. The total funding for improving retention for 2003-04 had been found within existing teaching funding, rather than being additional. This meant that some institutions had no prospect of receiving as much through the improving retention funding as they would have received had the funding been allocated through the main teaching method. This was one of the reasons why we put forward the proposal to take account of subject and institutional cost weights in the allocation method. However, we did not receive strong evidence that the cost of improving retention varied according to subject of study or, for example, whether or not an institution was specialist. For this reason, we have decided that the improving retention allocations will incorporate London weighting (as explained in paragraph 55), but that they will not take account of the other weighting factors that are used in the main teaching funding method.

59. While we had similar levels of agreement to the proposal to use subject of study as a risk factor, some misunderstanding of the effects was evident, particularly among subject associations which thought erroneously that their disciplines would benefit. We have now completed further work on how subject of study influences risk of non-continuation. We have found that, once differences in entry qualifications and age are taken into account, the influence of subject is generally small, with perhaps the notable exception of medicine and dentistry, where non-continuation rates are generally low for all categories of student. Those areas (student groupings by subject, entry qualification and age) where there might be a case for a modest increase in weighting factors were generally ones with small student numbers, so that the effect on institutions' allocations would generally be modest. Because of this, we have decided not to further complicate the allocation method by taking account of how risk of non-continuation varies by subject.

#### Balance between funding for widening access and funding for improving retention

60. In 2003-04, for full-time undergraduates we allocated £36 million in formula funding for widening access and £155 million for improving retention (a ratio of 19:81). For part-time students the split was £2 million for widening access and £62 million for improving retention (a ratio of 3:97). We consulted on whether the split for full-time should remain approximately 20:80 and whether the same split should apply to part-time. A majority of all respondents agreed with both proposals. Among those that disagreed, more argued for a greater proportion being allocated for widening access, although others argued that the cost of improving retention was higher for part-time than for full-time students.

61. There were two particular reasons why consistency between full-time and part-time was desirable:

a. The change to the method for distributing funding for widening access using ward-based data meant that a significantly greater proportion would be allocated on the basis of part-time students than previously. Increasing the overall total allocated for widening access minimises any redistribution of funding from full-time to part-time.

b. Funding for improving the retention of part-time students has not been differentiated significantly between institutions, because it merely reflects FTEs and weighted FTEs, but not risk factors associated with non-continuation. By allocating more for widening access, we are able to effect a redistribution within part-time between institutions that reflects the types of students that they recruit: that is, to recognise the additional costs of recruiting students from wards where average educational achievement is currently low.

62. For these reasons, and given the general support from the sector, we have implemented both proposals. Table 5 shows the elements of formula funding for widening participation for 2004-05 that make up the total of £272.6 million announced in HEFCE 2004/12.

Table 5 **Formula funding for widening participation in 2004-05**

	<b>Full-time</b>	<b>Part-time</b>	<b>Total</b>
Funding for widening access	£36.8M	£12.4M	£49.2M
Funding for improving retention	£159.3M	£53.7M	£213.1M
Funding for students with disabilities			£10.3M

#### **Accountability burden: data collection issues**

63. We consulted institutions on a proposal to reduce the volume of data collected in our annual aggregate student number surveys – the Higher Education Students Early Statistics (HESES) survey for HEIs and the Higher Education in Further Education: Students (HEIFES) survey for FECs – by making greater use of the previous year’s HESA or LSC individualised student data. These data would be used to derive proportions (of, for example, students by price group and forecasts of non-completions) that could be applied to the current year’s student data. This proposal was intended to reduce the accountability burden on institutions. The response from institutions was mixed. Of those that agreed, some did so only on the condition that they might be allowed to submit amendments where proportions had changed. This was not something that we had envisaged, as it risks treating institutions inconsistently and defeats the intention of the proposal. Such conditional agreement should therefore probably be treated as disagreement.

64. Among those that disagreed, there were some significant areas of concern. This was most notable in relation to the proposal to determine non-completion rates from HESA data. This proposal had been made, not only with a view to reducing the accountability burden on institutions, but also as a means of ensuring greater accuracy in the forecast of non-completions. However, it was argued that it disadvantaged institutions that were improving their retention rates; and it did nothing to address the problem of institutions incorrectly interpreting and applying our definition, rather than merely producing unrealistic forecasts.

65. We reconcile the HESES data with the end-of-year individualised data reported to HESA and have adjusted institutions’ funding where differences that have financial implications are confirmed. We have

also provided software to help institutions forecast their non-completion rates using the previous year's HESA data and we audit institutions' data returns. All of these processes will continue. Given the significant concerns about our proposals expressed by institutions, we were wary of moving too quickly towards greater reliance on the HESA data in our initial grant allocations for the year. We therefore decided not to reduce the level of detail collected in HESES in the short term, but to continue to explore ways of reducing the accountability burden of our data returns. We will also continue to monitor the extent to which institutions reflect in their HESES returns estimates of non-completion rates that we derive from their previous year's HESA data.

### **Holdback of grant**

66. There are two main targets that we set institutions as part of their funding agreements, that may result in grant adjustments. The first is an FTE target relating to the delivery of additional funded places; the second is a requirement to remain within a certain margin around standard resource, called the contract range. The contract range is commonly the same as the  $\pm 5$  per cent tolerance band, but it may be wider for institutions that are migrating. We give institutions two chances to deliver additional student numbers that we have awarded, so that if they have holdback for a shortfall in year 1, they can recover the funding in year 2 if they make good the shortfall. For institutions that exceed their contract range, however, there has been no such second chance: funding has been deducted in-year and from their baseline for all subsequent years.

67. We consulted institutions on bringing these two forms of holdback into line, so that institutions that experienced contract range holdback had an opportunity in the following year to recover their position. As part of this concession, we would remove the current minimum thresholds (the lower of £50,000 or 10 per cent of teaching grant) that apply before we implement holdback. We presented this as being linked to the proposal to use more historic HESA data to inform our initial funding allocations. Virtually all institutions agreed with the proposal, some arguing that this should not be linked to the use of HESA data. Arguments against it commonly came from institutions that were at the bottom of the tolerance band. They argued that institutions above +5 per cent already had the advantage of a higher rate of resource, and that in the event of under-recruitment, funding should be available for redistribution to all institutions rather than set aside for those that were already experiencing recruitment difficulties.

68. Given the overwhelmingly positive response from the sector to this proposal, we have decided to implement it. Institutions that have had funding deducted in 2004-05 as a result of the consolidation of 2003-04 contract range holdback will have that funding repaid to the extent that its reinstatement keeps them within their 2004-05 contract range. Guidance on this was given in the individual grant letters sent to institutions on 1 March 2004 and will be confirmed later in the year in the publication that sets out the grant adjustment rules for 2004-05.

## Annex A

### Summary of responses to HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05'

#### General

1. This annex presents a summary of the responses to the consultation document HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05'. Many of the views expressed are not those of HEFCE, and in publishing them we do not necessarily accept that they are well-founded.

#### Overview

2. The consultation document was published in August 2003. Supporting studies and simulations of the effects on institutions of the proposals were made available on our web-site. In September we held four consultative seminars.

3. We asked for formal responses to the consultation to be made through a web-based form, which asked 18 specific questions and invited general comments. The deadline for responses was 14 November 2003.

4. We received responses from:

- 121 higher education institutions
- 26 further education colleges
- 84 other organisations, such as subject associations and other representative bodies
- 57 individuals: most of these had addresses at higher education institutions in England – approximately half came from one university.

5. Responses include a small number of letters to HEFCE staff, as well as the web-based submissions. Responses from HEIs cover almost all those that we fund, while responses from FECs cover only about one-sixth of those that we fund directly. Responses from other organisations were predominantly from those with an interest in subject areas which they perceived to be disadvantaged by our proposals on price groups. In the analysis which follows, references to proportions for or against a particular proposal mean 'among those that responded', rather than among any wider population. The format of the questions included a tick-box option (generally, 'Strongly agree', 'Agree', 'Neither agree nor disagree', 'Disagree', 'Strongly disagree') plus space to provide comment. In general, respondents provided more comments when they wanted to express why they disagreed with a particular proposal than why they agreed with it, or had no preference. The qualitative comments in this analysis can therefore present a more negative picture than is reflected by a quantitative analysis of numbers of respondents agreeing or disagreeing to a proposal.

6. Of the general comments provided, a frequently stated view (including from a majority of higher education institutions) was that HEFCE should not be changing its funding method now, when further change was expected in two years' time to coincide with the expected change to the fee regime. The consultation document had said that HEFCE would embark on a more fundamental review of its teaching funding method in 2004 to inform funding from 2006-07 and therefore to implement changes in the

shorter term was inappropriate. Even where an institution's overall grant might not change, it was argued that the proposals would impact on institutions' own internal resource allocations, creating management difficulties and internal turbulence at a time when work could be better directed towards preparing for the new fee regime. Of those that favoured a delay, a small number consequently decided to disagree with virtually every question asked, even where their comments indicated that they agreed in principle with some of them. Most, however, considered each question independently, but emphasised that their overriding preference was that HEFCE should not change the methodology now, even where they had signalled their agreement in principle to particular individual proposals.

7. The changes to price groups were seen as having the greatest impact on institutions, and the comments therefore concentrated on these proposals. Individual institutions also sought changes to or reassurance about the application of institutional premiums, particularly for specialist institutions and those in London. The consultation document had said that we would review the size of some specialist institution premiums to take account of the effects of other changes to the funding method, but that we would not, for the time being, review the other institutional premiums. Institutions in London commonly argued that their existing London weighting was inadequate.

### Summary of responses to specific questions

Question 1	Do you agree with the proposal to move to five price groups, by splitting price group B?
Question 2	Do you agree with the proposed assignments of individual academic cost centres (for HEIs) or leardirect codes (for FECs) to price groups?
Question 3	Do you agree with the proposed price group weightings?

8. For each question, the number of respondents disagreeing to the proposals (those that selected Strongly disagree, Disagree or Mostly disagree) outnumbered those agreeing to the proposals (those that selected Strongly agree, Agree or Mostly agree) by approximately three to one. Few respondents selected Neither agree nor disagree, and these were generally from institutions with no provision in the more affected subject areas. Respondents agreeing with the proposals wrote little or no comment, whereas those disagreeing with the proposals wrote extensive comments.

9. It was commented that the subject areas that were set to see a reduction in associated resource were generally taught at 'new' universities. However, the minority of responses from HEIs that agreed with the proposals were from a mixture of 'old' and 'new' universities, and many old universities disagreed with the proposals despite the fact that their standard resource would increase.

10. Besides questioning the timing of the proposed changes, a large number of respondents argued that future allocations should not be based on historical expenditure patterns. Some appeared to believe that we were using these data to determine the absolute cost of provision in different subjects, rather than merely to inform an assessment of relative costs. They proposed that HEFCE should undertake a study with the sector to establish the true costs of different subjects of study. Several institutions made reference to the use of the Transparent Approach to Costing (TRAC) methodology to support their arguments and suggested this as an alternative for the future. While this approach is being developed, it does not currently allow us to assess the relative costs of different subjects.

11. It was suggested that it might be more appropriate to revisit the make-up and definition of academic cost centres and how activity was assigned to them, rather than how cost centres were assigned to price groups. This was particularly relevant to cost centres with a wide range of activity, such as Earth, marine and environmental science; Psychology and behavioural sciences; Librarianship, communication and media studies; Architecture, built environment and planning; and Sports science and leisure studies.

12. There were numerous representations from subject associations for biosciences, earth sciences, engineering disciplines, computing, media studies and psychology, generally giving examples of the types of activity undertaken in these subject areas which made them more costly. All of these emphasised to a greater or lesser extent the vital contribution that their subjects made to the health and economic development of the UK and how this contribution would be jeopardised if HEFCE implemented its proposals on price groups.

13. Many responses claimed that the evidence provided in the supporting document, 'Review of the assignment of academic cost centres to price groups' was flawed, for the following reasons:

a. No account was taken of the time lag which occurred between a change in student numbers, and the associated change in expenditure. The cost centres which were being assigned to price group B1 had seen declining student numbers over the investigated period, resulting in the expenditure rate per FTE rising. Similarly, those cost centres with expanding student numbers (Biosciences; Pharmacy; Computer software engineering; psychology; Librarianship, communication and media studies; Sports science and leisure studies) demonstrated a lower expenditure rate per FTE.

b. The block grant principle allowed institutions to distribute their grant internally how they saw fit. This had allowed 'cross-subsidy' from strongly recruiting departments to those that had struggled to attract students, and from higher weighted subjects to classroom-based subjects. Respondents argued that future weightings should not be influenced by institutions' internal allocations, as this contradicted the block grant principle and inferred that institutions were now being driven to ensure that expenditure was in line with income streams.

c. Expenditure on administration and central services apportioned to each cost centre might have been affected by the subject of study – for example, laboratory-based subjects required expensive space and IT facilities. Media, psychology and sports science were also put forward as subject areas with higher capital costs. Many respondents claimed the method used for apportioning central overheads was crude (for example, in not taking account of differing capitalisation policies), and for this reason alone deemed the analysis unsuitable for informing decisions.

d. The HESA finance record allowed too much variation in practice, particularly on interest payable and depreciation charges. It was claimed that the analysis could have been skewed by misreporting. At the time the return was completed it was not made clear that these data could be used to inform the teaching funding methodology.

e. Quality-related research (QR) funds might legitimately make a contribution to teaching in research-intensive environments. Deducting QR to derive departmental expenditure associated with teaching resource could have made the apparent teaching expenditure in departments with

high research ratings appear lower than it really was. However, HEFCE's view is that not to adjust for this would result in double funding.

14. It should be noted that none of these arguments support the status quo. Our existing price group attributions and weights were determined from a similar analysis of expenditure data (from 1994-95, rather than the five-year period to 2001-02). These arguments therefore undermine the existing price group weights as much as the proposed ones. No respondent suggested an alternative, objective means of determining price group weightings from data that are currently available.

15. Other comments made in response to Question 1 (splitting price group B) included the following:

a. The trend in many institutions today was towards more combined science departments, for example biological and chemical sciences, where the costs of running both subjects were broadly the same. Some broad-based modules in science and technology would be split between B1 and B2. Increasing the differential between 'adjacent' subjects (such as mathematics and physics) would deter joint courses involving low-premium subjects and encourage institutions to teach some subjects in inappropriate departments.

b. Almost all responses from FECs claimed that their B1 activity should receive the full B1 weighting, rather than being funded at B2 rates as proposed in the consultation. One or two did acknowledge the different way in which FECs assigned activity to price groups, but claimed that a programme that is wholly 'B1 activity' should be funded accordingly. We had identified, from individualised student records, only about 200 FTEs at FECs as possibly being attributable to B1.

c. The variation in the expenditure rates per FTE was greater in price group A than price group B, but there was no proposal to split price group A. Further information on the reimbursable NHS income was requested, to justify the weighting of 4 for Clinical medicine.

d. The situation with the cost centres assigned to B1 was broadly analogous to the minority subjects for which HEFCE provides special funding. A short-term premium would be more appropriate for these subjects than a greater price group weighting.

e. The move to five price groups would encourage inappropriate behaviour in the sector. The proposals would reward supply-driven decision making rather than demand-led changes, and would sustain inefficiency and strengthen the reluctance to rationalise provision.

f. The proposal would run counter to increasing-access imperatives, since biosciences and pharmacy are more popular in terms of number of student applications – in short, it would support declining areas and stultify growth in areas of expanding demand. It would also run counter to the needs of the nation to produce graduates in biosciences. Eroding the unit of resource for engineering and the life sciences ran counter to the professed governmental policies of wealth creation.

g. The proposal contradicted the principle to fund similar activity at similar rates, and was counter to the broad-brush approach because it increased complexity. The cost centres that currently make up price group B were cognate subjects and should be funded at the same level, since the cost elements (staff, buildings, services and consumables) were very similar. It was

pointed out that the 'cognate disciplines' rule had been applied to pharmacy and pharmacology, but not to engineering.

h. The proposal contradicted the aspiration to assign academically cognate subjects to the same price group in order to reduce the likelihood of activity near the borders between disciplines being reassigned to higher-weighted cost centres. For example, civil engineering, mechanical engineering and materials engineering were closely related subjects that would attract differing levels of funding. The proposal might encourage departments to simply rename programmes to attract more funding.

16. Other comments made in response to Question 2 (individual cost centre to price group assignments) included the following:

a. Optometry (departments are assigned to Anatomy and physiology) was given as an example of a high cost subject where the expenditure was diluted in HESA finance returns, and it was being subsidised through other activities. It was suggested that a proportion of such provision should be assigned to price group A because optometry had a clinical element similar to medicine or dentistry.

b. A case was put forward that East Asian language studies cost significantly more to teach than other modern languages and required a rate of funding equivalent to at least price group B1. A continuation of current funding levels would be likely to lead to closure of departments which would be against the interests of the nation.

c. Purchasing for computing/information technology (IT) might have been pooled across academic and administrative areas in order to gain better discounts, causing the expenditure rate to appear low. In addition, it had been difficult to recruit appropriately qualified staff in computing science in recent years. Many respondents felt that the style of teaching and the nature of courses in Computer software engineering were comparable to those in electrical engineering, meaning that there was more commonality between cost centre 39 (Computer software engineering) and cost centre 20 (Electrical, electronic and computer engineering), than between cost centre 39 and cost centre 25 (Information technology and systems sciences). Some respondents were of the opinion that Computer software engineering and IT did not have similar cost structures and should be assigned to price groups B2 and D respectively. In conjunction with this, the criteria for assigning departments to cost centre 39 should be revised and constantly updated, as the technology involved advanced quickly. It was pointed out that Pharmacy, with an average expenditure rate of 1.39 had been rounded up to 1.6 (price group B2), whereas Computer software engineering had been rounded down from 1.35 to 1.3 (price group C).

d. Concern was expressed that the work undertaken by HEFCE in 1997-2000 to establish activity-based costs in several disciplines including media, psychology and sports science was to be disregarded despite widespread acceptance of its findings. Geography was also put forward as a subject with significant differences in its nature and cost structure as taught by different institutions.

e. The data used to support the proposed assignment of Librarianship, communication and media studies to price group D might have been significantly distorted by the provision of media teaching and learning resources within the framework of central learning resource centres. Given

the range of activity within cost centre 30, some respondents felt that it should be treated the same as psychology, and assigned to price group C. It was also suggested that cost centre 30 should be redefined to meet the needs of practice-based media courses and exclude librarianship, communication and all sociologically-based teaching, which could be accommodated in other cost centres. Alternatively, some respondents indicated that they would re-assign their departments to design and creative arts. Subjects such as television production, broadcast journalism, photography and film were given as examples of high cost provision where capital investment had been intense. Responses from FECs claimed that their media provision had more in common with price group C areas such as art and design.

f. For psychology the response was mixed. Supportive comments were given by institutions that currently have their provision in price group D, whereas subject associations and institutions that currently have their provision assigned to price group B maintained that the differential costs still existed and should be recognised.

g. A number of respondents argued that their sports science provision was laboratory-based and incorporated physiology, psychology and biomechanics, making it similar to biological sciences in terms of cost. Others stated that there were significant requirements for equipment and space, which made it more appropriately attributable to price group C. Some respondents commented that 'sports science' and 'leisure studies' were not academically cognate subjects, despite making up a single cost centre.

h. Many FECs expressed dissatisfaction with the method of using learndirect codes to map courses to price groups. However, they did not propose alternatives.

17. Other comments made in response to Question 3 (price group weightings) included the following:

a. Many respondents felt that they could not agree to the proposed weightings because they were based on the weighted average expenditure rate of the constituent cost centres, the classification of which they did not agree with.

b. Some respondents felt the differential between laboratory-based subjects (weighting of 1.6) and intermediate cost subjects (weighting 1.3) was not large enough. It was suggested that if the proposed changes were implemented, the teaching of science and engineering would become more like that of the arts and social sciences. The redistribution of funding away from science and engineering was counter to the government's recent policy statement that science education was crucial to the future of the UK's economy, which had to compete in an increasingly science-driven global competition.

c. It was stated that the changes to the weightings and the zero sum constraint had resulted in an increase in the base price, which might erroneously be perceived as a real increase in the average rate of resource for higher education. There was a risk that this might undermine the case for additional resources for teaching in the higher education sector.

d. It was argued that while previously institutions had had to cross-subsidise from B to D, they would now have to cross-subsidise from D to B. There was no net gain in funding, all teaching remained under-funded, and the institution had to bear the burden of the administrative changes required to maintain internal funding stability.

Question 4 Do you agree that the assumed fee level per FTE for part-time undergraduate students should match that for full-time undergraduates?

Question 5 Do you agree that assumed fee levels for postgraduate taught students should be increased to reflect the average levels of fees charged, but be capped to ensure they do not exceed the level of standard resource for a price group D subject?

18. On the question of the part-time undergraduate fee assumption, just under half of institutions agreed with the proposal, while a slightly smaller proportion disagreed. Those that agreed welcomed the simplification and claimed that it did reflect reality, especially as the boundaries between full-time and part-time were becoming blurred. On the question of the fee assumption for postgraduate taught students, the institutional responses were reversed, with one-third agreeing and a little under half disagreeing. Support was stronger among FECs.

19. There was a common misconception evident among respondents to both questions, in that some believed that institutions would have to charge fees at the level of the higher fee assumptions in order not to be disadvantaged in the funding model. In fact, institutions are and will continue to be free to set their own fee levels for these categories of student. Our proposals merely reflect what institutions are, on average, already charging (in fact for postgraduate taught students, the average charge is considerably higher). Any perceived disadvantage merely reflects the differences in fee levels that institutions already charge.

20. In replying, some institutions had not considered this proposal in the context of the other proposed changes, which would help to ensure that the level of HEFCE grant was maintained for provision at institutions. In particular, the 10 per cent premium for part-time students would offset the effects of raising fee assumptions for these categories of students, making explicit the level of resource that such students already attract. However, more agreed with the introduction of a part-time premium (see Question 8) than with the part-time fee assumption, even though the two proposals were linked.

21. Other comments made in response to Question 4 included the following:

- a. The fee survey did not take account of continuing education, where the fees charged were lower than for other part-time students, thus skewing the results. In fact continuing education students were included in our survey, although not identified separately in the results.
- b. Those that disagreed claimed that there were regional differences in how fees were charged depending on the local labour market and social conditions; higher fees would be a barrier to access. Also, many FECs claimed they were unable to charge a higher fee and again it would damage their work on widening participation.
- c. Higher fee assumptions should be introduced over a three-year period.
- d. Assumed fees for foundation degrees should be lower to provide specific support.
- e. Fee assumptions should not be included in the funding model at all.

f. Part-time fee assumptions should not follow those for full-time just because average fee levels were similar at present. The full-time fee was uniform and set in relation to a different set of market conditions and influences.

22. Other comments made in response to Question 5 included the following:

a. Those that agreed with the proposal still had concerns that if institutions could not charge the assumed postgraduate fee then funding for undergraduate provision would have to subsidise it.

b. The survey itself was skewed because of business and management. This is the largest single subject area of postgraduate taught activity. This subject was excluded from the price group analysis and so should also have been excluded here. The survey also showed that four out of the 10 subjects charged significantly lower fees. It would be fairer to include a subject dimension in the model.

c. The postgraduate market was unregulated, and by assuming a higher fee it undermined the autonomy of institutions. Demand for postgraduate provision would be affected and it could destabilise postgraduate recruitment. Many courses might have to close if they could not get the higher fee.

d. FECs were unable to charge higher fees. This also applied to the 'new' universities compared to the 'old' universities. HEFCE should reflect institution type in the model.

e. As in the previous question, there were regional and widening participation issues.

f. Introducing a cap was essential.

23. Many of the non-institutional responses misunderstood the concept of capping the assumed fee. They assumed we wanted to cap what institutions could actually charge as opposed to capping the assumption in the funding model.

Question 6	Do you agree that, as a temporary measure, a 10 per cent premium should be applied for students on foundation degrees?
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24. Nearly half of all respondents and a majority of institutions agreed to the proposal, while a third disagreed. The new universities and FECs were generally in favour whereas the old universities tended to disagree.

25. Although institutions welcomed the fact that partnerships were being recognised and agreed that foundation degrees were costly, many said that it should not be through a premium but through additional funds. Some argued that foundation degrees should not be favoured over other provision, especially honours degrees. Some also argued that it should not apply to converted Higher National Diplomas as they did not incur the higher costs, and that HEIs developing foundation degrees with no FEC involvement should not be entitled to the premium either. These arguments were echoed by those institutions that disagreed with the proposal.

26. In addition to the above, the comments made by those against the proposal included the following:
- a. The premium should be presented as 'encouraging foundation degrees' since it was not reflecting the true additional costs of foundation degrees. Others said HEFCE should resist including policy factors in the model.
  - b. Some institutions argued that the final year of an honours degree programme incurred additional costs and that, as foundation degrees were only for two years, they already had an inbuilt premium.
  - c. Partnerships were not confined to foundation degrees and HEFCE should wait until there was a robust measure of actual additional costs before introducing a premium. Not all foundation degrees had the higher costs associated with partnerships. It was inappropriate for those without such costs to have a temporary premium since additional funding was not justified and could lead to fluctuations in institutions' grants.
  - d. Part-time foundation degrees should not receive both 10 per cent premiums. A 10 per cent premium for foundation degrees was too high for a temporary premium: 5 per cent would be better. If foundation degrees were already successful, as was being claimed, then why did they need a temporary premium at all?
  - e. New developments always incurred higher costs. Foundation degrees had already been given development funding for this purpose, so there was no reason to also give a premium.
  - f. The characteristics of students on foundation degrees meant that they were likely to attract funding for widening participation. Since there were no additional funds available, this was an unwelcome concentration of funds.

Question 7	Do you agree that all students on sandwich years-out should be assigned for funding purposes to price group C, irrespective of their subject of study?
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27. Some two-fifths of institutions agreed with this proposal and one-fifth disagreed. In general the old universities were split but more FECs and new universities agreed than disagreed. Comments made in response included the following:
- a. Those that agreed thought it was reasonable but that the costs of very large scale provision and placement offices should be considered.
  - b. Some of those that disagreed thought price group D would be more appropriate since students were not drawing on the practical facilities of the institution, and tutors did not spend as much as the fee charged for sandwich year-out students. On the other hand it was argued that price group B placements, especially in engineering and biosciences, did cost more. Similarly, setting up placements with small and medium enterprises was more costly.
  - c. Sandwich years-out had such a wide range of costs that it was a generalisation to assume everything was at price group C. Costs did vary by subject, although these differentials did not necessarily correlate with the price groups.

- d. It was commented that we were moving away from a block grant principle to micro-management, and that we were 'tinkering for the sake of tinkering'.

Question 8 Do you agree that a 10 per cent premium in the main teaching method should be applied for part-time students?

28. Of the institutions that responded more than two-thirds agreed and one-fifth disagreed. Most of the new universities and FECs were in favour of the proposal; the old universities were split, though just over half agreed.

29. A high proportion of those that welcomed the proposal agreed that part-time provision was more expensive, though there was some discussion about the level of the premium. 10 per cent was thought to be 'arbitrary' or 'not enough'.

30. General comments included:

- a. Since the part-time premium offset the increase in assumed fees it was not worth introducing either change at this stage.
- b. The 10 per cent premium should not be applied to part-time foundation degrees – they should only receive the single 10 per cent foundation degree premium.
- c. There should be additional funds to support the additional costs of part-time, so that there is not a redistribution from full-time.
- d. The premium should relate to actual costs.
- e. The proposal supported widening participation.

31. The main concern against the proposal was that there would be a redistribution of funding from full-time. In fact this would not be the case, because the premium offsets the effects of the changed fee assumptions (see paragraph 20). A few claimed that there was no justification for the premium, and one suggested that as there was funding for part-time through the widening participation allocations then no additional funds were needed.

Question 9 Do you agree with the proposed method for incorporating the 2003-04 funding for rewarding and developing staff into the main teaching grant?

32. Among institutions, a majority agreed with this proposal while one-third were against. Most of the research-intensive institutions strongly disagreed whereas the majority of less research-intensive institutions and FECs agreed.

33. Those that agreed said it would be helpful to identify a proportion of teaching grant that was associated with rewarding and developing staff and that the conditions attached to the funding needed to be clarified. Since there was an element of funding for human resource initiatives within research grant it was consistent not to include an element of research funding when consolidating into teaching grant. There had been increases in research in the past, whereas teaching grant had been subject to cuts and transfers.

34. Many FECs were concerned that if the money was within teaching grant then it would not necessarily be spent for the purposes for which it was intended. The HE in FE development fund was one of the only HEFCE funds available to FECs and it was useful because it encouraged FECs to focus on HE activity, especially as it was expensive to recruit HE staff in FECs.

35. The comments raised from those that disagreed were:

- a. Rewarding and developing staff funding should be rolled into teaching grant as in the simulations (that is, not redistributed), especially as the White Paper did not say it should be recalculated.
- b. If the funding was in core teaching funds then it would reduce incentives to concentrate on human resource issues. It would also be subject to future efficiency gains. If funds were cut (through redistribution) then there was a danger that human resource initiatives would cease. By including the funds in the teaching model, some institutions appeared over-resourced and might be liable to holdback. Again, this loss of funding would damage human resource work.
- c. The research-intensive institutions argued that the increases for research were for a range of priorities, not just human resource issues. Also, not all institutions had actually had increases in their research funding. The additional funding in research was for 2005-06, which would not help institutions for the next academic year.
- d. All staff should be covered by human resource strategies and it sent out an unfortunate message to research contract staff, since it contradicted the White Paper regarding long-term support for career development.
- e. Some institutions suggested that if the funds were rolled into the teaching model they should be pro rata to standard resource. Another thought it should be based on the number of staff. Some argued that it would be better to roll the funding in with teaching and research grants, and that an element for human resource initiatives needed to be identified within research funding.
- f. ITT providers needed to have the relevant adjustments made to their grant calculations, to avoid them appearing better resourced.

Question 10      Do you agree that compensation for increases in TPS costs should be allocated solely through teaching grant from 2004-05?
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36. Of the institutional responses to this question, a majority were in agreement and one-eighth disagreed. The comments made were similar for those that disagreed and those that agreed:

- a. If there were changes in the future to pension contributions then they should be taken into account.
- b. We should not transfer the money between the other funding bodies. If we did, we should ensure that the funds were transferred to institutions pound for pound and that the TTA and NHS were compensated in full.

- c. One institution claimed that the original allocations were incorrect because they were only based on 2001-02 data and changes to staff in 2002-03 were not accounted for. Another argued that funding levels based on students do not always reflect the changes to staff.
- d. A couple of institutions asked that the funding be earmarked to ensure that lead institutions passed the funding on to their partner colleges.

Question 11 Do you agree that the current 1.5 per cent pensions premium should end from 2004-05?

- 37. A majority of institutions agreed with this proposal, while one-sixth disagreed.
- 38. In general the comments were:
  - a. If pensions' costs changed in the future we should consider reintroducing the premium.
  - b. HEFCE should look at all pension schemes in the sector, not just TPS and USS. This should include local government pension schemes and non-academic staff pension schemes. Pension cost support should be made equitable.
  - c. A few institutions that are part of the USS argued that since that scheme had not changed there was no reason to remove the premium.
  - d. We should explore a single unified HE pension scheme.

Question 12 Do you agree in principle that we should replace the current postcode-based allocation for widening access with:

- a. An allocation for 18- and 19-year-old full-time undergraduates based on the average performance of the school attended (or an area-based proxy for school attended) at age 16?
- b. An allocation for other full-time and part-time undergraduates based on the average educational achievement within their ward?

39. There was a broadly even split between those institutions and organisations that agreed and those that disagreed with the proposal to use data on school attended at age 16. More institutions agreed than disagreed with the proposal to reflect average educational achievement by ward; some argued that this should be adopted for all categories of student, instead of having different measures for different groups, which would add complexity to the funding method. Institutions were concerned that students from one group should not be disadvantaged compared with students from the other.

- 40. Comments made on the use of school data included:
  - a. Concern at the quality of data available. Some institutions believed that information on only the most recent school/college attended was available. In fact our proposals would collect data directly from UCAS forms, which include a longer educational history.

- b. Concern at the use of proxies to make assumptions about school attended where data were not available (in particular for those students who do not apply through UCAS).
- c. Concern that in using data on school attended at 16, we would not reflect post-compulsory education which might also have a significant impact on the likelihood of a student's progression into HE.
- d. Concern that the proposals would increase the level of data which institutions would have to collect and provide. However, as noted above, our proposals were to collect data from UCAS, rather than institutions themselves.
- e. Concern that as HEIs made efforts to improve progression into HE from particular schools, the consequence of any success would be a reduction in their widening access funding. Individual students might still face significant disadvantage, even if they attended schools that performed relatively well.

41. Comments made on the use of ward data included:

- a. Concern that wards may be too large a unit and that they may still result in some disadvantaged students not being picked up or would be inaccurate in metropolitan areas.
- b. Concern that allocations would significantly reflect the location of institutions and their proximity to certain wards, rather than particularly active policies in widening access.

42. General comments included:

- a. Concern that the old geodemographic classifier did not adequately reflect levels of disadvantage in disparate rural or metropolitan (particularly London) areas.
- b. Support for the geodemographic classifier as being easy to understand and transparent.
- c. Concern that alternative measures had not been fully explored.
- d. A desire to see simulated allocations before committing to a response.

43. A number of institutions argued for more sophisticated measures of disadvantage, pointing out that any allocation method based largely on one characteristic (related to educational disadvantage) was likely to leave individual students that had, for example, some social or economic disadvantage, inappropriately weighted. Alternative measures of disadvantage put forward included use of data on eligibility for fee support, a ward deprivation index, and other socio-economic indicators. In some of these arguments it appeared that the concern was to ensure each individual student was weighted appropriately, as if the funding was a form of student support, rather than an institutional allocation. Opinions were divided among respondents as to whether it was better to adopt a more sophisticated model, which would be more complex and less transparent, or whether it was better to keep the allocation method simple, as a broad-brush means of distributing grant to institutions.

Question 13 Do you agree that some of the funding for improving retention of full-time undergraduate students should be allocated to reflect total FTEs weighted by price group and institutional premiums?

Question 14 Do you agree that funding for improving the retention of full-time undergraduates should also reflect risk factors associated with subject of study, as well as age and entry qualifications?

44. These two questions were about how our existing allocation for improving retention, based on entry qualifications and age, might be refined to take account also of subject dimensions: firstly, how the **costs** of improving retention and, secondly, how the **risk** of non-continuation might vary according to a student's subject of study. The first question also proposed reflecting differential institutional as well as subject-related costs. There was confusion from some respondents between these two separate subject-related factors in the responses that we received.

45. Approximately half of all institutions agreed with each proposal, the remainder either disagreeing or not expressing a preference. Among other organisations, a majority supported the proposal that we should reflect subject as one of the risk factors. In the comments from these organisations (often subject associations in science and engineering) there appeared to be an underlying assumption that their disciplines would benefit, which would not necessarily be the case.

46. There was a wide range of opinion provided in the comments on the extent to which premiums and subject weights should be reflected. Very few respondents suggested how much of the total funding should be allocated on the basis of FTEs weighted by price group and institutional premiums, rather than unweighted FTEs. A number argued that the cost of improving retention was unrelated to a student's subject of study. For others, there was only a weak relationship, because much of the additional costs related to general pastoral support and because where remedial tuition was necessary, this might not be in a student's main subject of study. There were mixed comments for and against the inclusion of particular, or indeed, any institutional premiums. Institutions in London argued that London weighting should be included.

47. On reflecting the risks of non-continuation by subject, comments included:

- a. Concern that there was insufficient evidence to justify this additional dimension.
- b. Suggestions for other risk factors such as gender, ethnicity, financial difficulty. The view that risk factors should concentrate on characteristics of the individual student rather than of their course was also expressed.
- c. Concern that the subject groupings that might be used would be too broad to adequately reflect risks.
- d. Agreement, but with the qualification that the added complexity would only be justified if it made a significant difference to the funding outcomes.

48. General comments made in response to both questions included:

- a. Complaint that the funding for improving retention had been found from within existing teaching grant, rather than being additional; and that institutions with high institutional premiums or subject weights, or which were predominantly postgraduate, had been disadvantaged.
- b. Discussion about HEFCE's current definition of non-completion and suggestions about how it should change.

Question 15	Do you agree that, for full-time undergraduates, the proportionate split of funding should remain approximately 20 per cent for widening access and approximately 80 per cent for improving retention?
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49. A majority of all types of respondent agreed with this proposal and that the costs of retaining students were significantly more than those of widening access. Some agreed because they did not want any immediate change to the funding method. Respondents also recognised that other funding for widening access was also available through the Aimhigher initiative. Of those that disagreed, more argued for a shift towards funding for widening access than argued for a shift towards funding for improved retention.

50. The comments made in response included:

- a. The observation that our current formula funding for widening participation did not cover the full additional costs of supporting disadvantaged students. As with the previous questions, institutions argued that funding for widening participation should be additional, not found from within existing teaching grant.
- b. Concern that HEFCE was trying to prescribe how much funding institutions should spend on these activities, rather than determine a method of allocating block grant to institutions.

Question 16	Do you agree that, for part-time students, the proportionate split between funding for widening access and for improving retention should match that for full-time undergraduates?
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51. In 2003-04, formula widening participation funding for part-time students was split £2 million for widening access and £62 million for improving retention. Under the proposal, there would be a shift of funding, of perhaps £10 million, from improving retention to widening access. Funding for widening access is distributed according to a measure of educational disadvantage, whereas funding for improving the retention of part-time students is allocated to reflect FTEs and weighted FTEs, rather than any measures of disadvantage. A shift of funding towards widening access would therefore mean that more of this funding was allocated differentially between institutions according to a measure of the relative educational disadvantage of their part-time student population. The consultation document also explained that, without such a shift, proposed changes in the funding method would mean a redistribution of widening access funding from full-time to part-time.

52. Some two-thirds of institutions and other organisations agreed with the proposal. Those that disagreed included some of those which have large proportions of part-time students. Comments made in response included:

- a. Arguments that retaining part-time students was much more costly than for full-time and that the balance of funds should reflect this.
- b. Concern that the proposal would further disadvantage institutions with significant numbers of part-time postgraduates. The widening access allocations are made only in respect of undergraduate students, whereas the improving retention funding counts all part-time students.

Question 17 Do you agree that, instead of collecting the detail in our HESES survey, we should use a previous year's HESA data to determine:

- a. The attribution of students to price groups?
- b. The attribution of students to standard-length or long courses?
- c. The attribution of students to assumed fees categories?
- d. The proportion of students treated as non-completions?

53. The numbers of institutions agreeing with each of these proposals broadly equalled the numbers that disagreed. However, the strength of feeling appeared greatest among those that disagreed. Of those that agreed, approximately one-sixth agreed strongly; while of those that disagreed, a majority disagreed strongly. Those that indicated they agreed with the proposals still had some concerns. In particular, a number qualified their agreement by saying that institutions should still have the opportunity to submit the data themselves in the event of significant change, particularly where institutions have established strategies to improve retention rates or to change the balance of their activities between different subjects. This was not something that we had envisaged in our proposal. It risks treating institutions inconsistently and rather defeats the object of the proposals. Other institutions welcomed HEFCE's intention to reduce the accountability burden, but considered that the proposals would not have the desired effect.

54. Comments made in response to this question included:

- a. Concern that funding allocations would be based on data that were two years out of date. While some felt that the advantage of a reduced HESES survey outweighed the disadvantage of using such historic data, others strongly disagreed. In particular, it was felt that the proposal made an assumption of stability in institutions' student populations that was inappropriate. Postgraduate taught activity (where courses were commonly of one year's duration) and part-time activity were likely to be more volatile areas where the use of historic data was inappropriate. In an increasingly market-oriented sector, such volatility was likely to increase. Institutions whose non-completion rates were improving would be disadvantaged.
- b. Concern that institutions with small HE student numbers and those close to, or beyond, the limits of the  $\pm 5$  per cent tolerance band could be particularly disadvantaged, because inappropriate assumptions derived from HESA data could have a proportionately large effect on their position relative to standard resource and/or could result in holdback.
- c. The view that, while the reductions in the detail collected in HESES might reduce the accountability burden, it would not reduce institutions' workload. Institutions needed to collect

up-to-date information on price groups, fees and completion status for their own planning and budgeting purposes and to monitor their own contract position in-year. Concern from other institutions that they would not know whether they had met their HEFCE funding agreement targets until late in the year and that there would be a reduction in the transparency of our funding allocations, because the direct link between annual funding and in-year student numbers would be lost.

- d. Concern that non-completion rates need to be calculated at a course level, not according to broad price groups.
- e. A desire for any change to be implemented over an extended period of time, rather than immediately.
- f. Recognition that institutions already make use of HEFCE's HESA-HESES reconciliation software to estimate non-completions on the basis of previous year's data.
- g. Concern that the use of HESA data would not solve the problem of incorrect understanding and implementation of the definition of non-completion.
- h. Concern that the reduced accountability burden of HESES would be offset by requirements for increased monitoring of the HESA data: this was already occurring through the HESA-HESES re-creation exercise and software. Others recognised the improvements in data quality that this software had facilitated, but argued that this would be weakened, because a reduced HESES return would allow less cross-checking.
- i. The view that the current HESES survey was not over-burdensome.
- j. Concern from FECs about consistency of definitions between the individualised learner record (ILR) and HEIFES.

Question 18      Do you agree that institutions experiencing holdback for exceeding the 5 per cent tolerance band should have an opportunity to recover any funding deducted from their baseline if they recover their position in the following year?
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55. We linked this proposal with the previous one, on the basis that it might offset some of the disadvantages of using more historic HESA data to drive our funding allocations. We also said that, given this relaxation, we would remove the current minimum threshold before holdback of grant applied. Approximately 90 per cent of all institutions agreed with the proposal. Comments made in response included:

- a. The view that it would address the difficulties for institutions of unexpected volatility in recruitment before funding adjustments became permanent.
- b. The views that the proposal should not be linked with the use of more historic HESA data; and that it should not be at the expense of removing the minimum threshold for holdback, which was thought might particularly affect FECs and others with small numbers of students.

c. The view that consistency with the holdback rules relating to additional student number funding was to be welcomed.

d. The view that the current  $\pm 5$  per cent tolerance band was already wide enough to provide institutions with sufficient flexibility to avoid holdback. Some institutions, particularly among those currently at the lower end of the tolerance band, argued that the tolerance band should be narrowed and that an institution at +5 per cent already had a considerable benefit over institutions at the other extreme. Others argued that where an institution was having recruitment difficulties, consideration should be given to allowing other institutions to make good the shortfall, by redistributing the funding.

**Annex B**  
**Expenditure per FTE by cost centre and new price group**  
**All expenditures in £000s**

Price group	Cost centre	FTE	Median rate	Total expenditure	Normalised rate	Weight
A	1 Clinical Medicine	63,606	17.15	1,090,832	4.57	
	2 Clinical Dentistry	9,809	12.96	127,135	3.45	
	3 Veterinary Science	3,647	11.84	43,172	3.15	
<b>A Total</b>		<b>77,062</b>	<b>16.37</b>	<b>1,261,139</b>	<b>4.36</b>	<b>4.0</b>
B	17 Chemical Engineering	9,969	8.28	82,540	2.21	
	18 Mineral, Metallurgy and Materials Engineering	13,527	8.25	111,631	2.20	
	12 Physics	34,388	7.09	243,698	1.89	
	11 Chemistry	48,156	6.93	333,761	1.85	
	16 General Engineering	64,557	6.14	396,216	1.63	
	19 Civil Engineering	32,725	6.10	199,775	1.63	
	4 Anatomy and Physiology	20,958	6.05	126,784	1.61	
	14 Earth, Marine and Environmental Sciences	52,388	5.93	310,900	1.58	
	13 Agriculture and Forestry	20,256	5.90	119,600	1.57	
	10 Biosciences	143,322	5.87	841,532	1.56	
	20 Electrical, Electronic and Computer Engineering	80,778	5.76	465,642	1.54	
	21 Mechanical, Aero and Production Engineering	68,918	5.72	393,873	1.52	
	9 Pharmacology	4,892	5.71	27,927	1.52	
	8 Pharmacy	20,029	5.25	105,213	1.40	
<b>B Total</b>		<b>614,864</b>	<b>6.11</b>	<b>3,759,093</b>	<b>1.63</b>	<b>1.7</b>
C	39 Computer Software Engineering	154,069	5.08	782,779	1.35	
	23 Architecture, Built Environment and Planning	74,071	4.88	361,462	1.30	
	37 Archaeology	9,785	4.80	46,924	1.28	
	6 Health and Community Studies	89,819	4.72	423,635	1.26	
	36 Other Modern Languages	22,168	4.65	103,168	1.24	
	28 Geography	45,842	4.64	212,700	1.24	
	7 Psychology and Behavioural Sciences	87,550	4.63	405,274	1.23	
	35 French, Spanish and German Modern Languages	63,393	4.60	291,861	1.23	
	24 Mathematics	71,303	4.42	315,238	1.18	
	33 Design and Creative Arts	199,348	4.32	860,965	1.15	
	26 Catering and Hospitality Management	29,130	4.27	124,366	1.14	
	25 Information Technology and Systems Sciences	71,018	3.81	270,409	1.01	
<b>C Total</b>		<b>917,496</b>	<b>4.58</b>	<b>4,198,781</b>	<b>1.22</b>	<b>1.3</b>
D	29 Social Studies	347,268	3.83	1,328,530	1.02	
	32 Humanities	176,122	3.68	648,147	0.98	
	31 Language Based Studies	103,287	3.64	375,967	0.97	
<b>D Total</b>		<b>626,677</b>	<b>3.75</b>	<b>2,352,644</b>	<b>1.00</b>	<b>1.0</b>
<b>Other cost centres</b>						
C	5 Nursing and Paramedical Studies	266,006	5.21	1,386,245	1.39	1.3
C/D	34 Education	195,633	5.04	986,514	1.34	
D	41 Continuing Education	44,539	4.57	203,339	1.22	1.0
D	27 Business and Management Studies	404,482	4.21	1,704,695	1.12	1.0
B/C/D	30 Librarianship, Communication and Media studies	64,295	3.94	253,006	1.05	
C/D	38 Sports Science and Leisure Studies	47,146	3.82	179,977	1.02	

Other cost centres are not included when calculating the relative price group weightings, but are instead assigned to price groups afterwards. The reasons for this are as follows:

Cost centre	Reason
5 Nursing and Paramedical Studies	Largely funded by the NHS: funding provided by other public bodies for one subject should not influence rates of funding for other subjects provided by HEFCE.
34 Education	Largely funded by the TTA; expenditure cannot be meaningfully split between price groups C and D.
41 Continuing Education	Expenditure on non-award-bearing continuing education is included, but the equivalent student FTEs are not. This means that the expenditure per FTE is overstated.
27 Business and Management Studies	The expenditure per FTE will reflect significant income from sources other than HEFCE, but does not necessarily represent higher costs compared with other price group D subjects.
30 Librarianship, Communication and Media studies	Expenditure cannot be meaningfully split between price groups B, C and D
38 Sports Science and Leisure Studies	Expenditure cannot be meaningfully split between price groups C and D

## List of abbreviations

<b>DfES</b>	Department for Education and Skills
<b>FEC</b>	Further education college
<b>FTE</b>	Full-time equivalent
<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution
<b>HEIFES</b>	Higher Education in Further Education: Students
<b>HESA</b>	Higher Education Statistics Agency
<b>HESES</b>	Higher Education Students Early Statistics
<b>ITT</b>	Initial teacher training
<b>LSC</b>	Learning and Skills Council
<b>TPS</b>	Teachers' Pension Scheme
<b>TTA</b>	Teacher Training Agency
<b>TRAC</b>	Transparent Approach to Costing
<b>UCAS</b>	Universities and Colleges Admissions Service
<b>USS</b>	Universities Superannuation Scheme