

August 2003/38
Policy development
Consultation

Responses should be returned by
e-mail by Thursday 6 November

HEFCE is reviewing its method for allocating research funds, in the light of its strategy for research, the Government's policy on research funding as set out in the White Paper, and the recent review of research assessment. This document seeks views on a number of proposed changes to the method.

Review of research funding method

Consultation

Review of research funding method: consultation

To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Research strategy, Planning
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Executive summary

Purpose

1. We are reviewing aspects of our method for allocating research funding. This document seeks the views of stakeholders on a number of proposed changes to the method.

Key points

2. We are developing proposals for changes to the research funding method in the context of:
- our policy and strategy for funding research, most recently articulated in the HEFCE strategic plan 2003-08 (HEFCE 2003/35)
 - the evolution of government policy for research as set out in the White Paper 'The future of higher education', the policy statement 'Investing in innovation' and the recent Office of Science and Technology consultation paper, 'The sustainability of university research'
 - the recommendations of Sir Gareth Roberts' 'Review of research assessment' (HEFCE 2003/22).
3. From 2004-05, we propose to:
- revise our approach to identifying and rewarding the best departments rated 5* in the 2001 Research Assessment Exercise (RAE)

- continue to provide support for research in 4-rated departments at the same level as in 2003-04, to help institutions to improve and develop selectively the work of these departments
- provide additional capital funding to support leading research institutions in achieving their institutional goals
- support substantial research collaborations within the sector
- establish a Promising Researcher Fellowship Scheme to enable promising researchers in middle ranking departments to spend time working in leading research centres.

4. With effect from 2005-06 we plan to establish a single funding stream within the block grant to meet the costs of the training and supervision of research students.

5. We are also seeking views on a number of elements we expect to feature in a reformed funding model for use following the results of the next RAE. We propose to:

- simplify the minor volume measures used in determining quality-related (QR) research funding
- reconsider the basis on which we calculate the relative costs of different subjects.

6. We plan to undertake a further review of our funding for research, considering what additional changes may be needed after the next RAE, once the current consultations on research assessment are concluded and we have agreed the way forward with the other HE funding bodies.

Action required

7. We welcome all responses to the consultation, which should be returned by e-mail by **Thursday 6 November 2003**. Please use the electronic response form at Annex A of this document, which can be downloaded from the HEFCE web-site under Publications. (Annex A is reproduced for reference in the printed copy.)

Context

8. The Council's recently published strategic plan (HEFCE 2003/35) re-affirms our commitment to enhancing excellence in research in higher education institutions (HEIs) in England. It sets out our aim to develop and sustain a dynamic research sector that holds a strong position among the world leaders. Our objectives for the planning period include developing a funding policy that:

- supports and rewards world-class research, encourages effective collaboration, and provides capacity for developing and extending research capability in new areas of work
- fully reflects both the economic and social benefits of research
- is responsive to changes in the research environment and in the demands made on researchers
- enhances skill levels and working conditions for researchers and research students.

9. This objective will be achieved in the context of developments in government policy for higher education and for research, and of some significant parallel initiatives. Government policy is set out in the policy statement 'Investing in innovation' (July 2002) and in the White Paper 'The future of higher education' (January 2003). The key elements in this policy, and significant activity in hand to progress them, are as follows:

- a. Reiteration of the Government's commitment to the dual support system, in which public funding for research is channelled through a mixture of HEFCE block grant and project funding by the Research Councils and other government departments and agencies.
- b. A continuing policy of selective funding, focusing resources first upon the institutions and departments that produce research of the highest quality. This will continue to be underpinned by expert assessments of research quality. The report of the review of research assessment chaired by Sir Gareth Roberts is out for consultation until 30 September 2003 (HEFCE 2003/22). The HE funding bodies are expected to announce their plans for carrying this forward around the end of the year. Key recommendations in the report include the retention of a system of peer review by subject-based panels of experts; a modified quality rating scale; and conducting the next assessment in 2007. This would mean that the outcome would inform HEFCE grant from 2008-09.
- c. Placing public funding for research on a more transparent and more sustainable basis. Work undertaken in the context of the Transparency Review has made it possible to identify more clearly than before the amount of public funding to HEIs being channelled into research, and the actual cost of the work that this supports. This has demonstrated in stark terms the extent to which the full economic cost of the research undertaken by HEIs now exceeds the resources available from all sources to pay for it. We have undertaken in our strategic plan to move towards a more sustainable funding regime by 2008; and to introduce from 2004 measures to help HEIs establish the full cost of the research that they do, taking into account the need for sensible investment to renew and update the research infrastructure. The Office of

Science and Technology has recently issued a consultation paper on 'The sustainability of university research'. This proposes the introduction of a new approach to costing and funding research supported through the Research Councils from 2005. Under these arrangements HEIs would establish the full economic costs of each project that they took on; would meet an agreed proportion of these from their own resources; and would be able to demonstrate how their contribution was funded within the resources available to them.

d. The HE White Paper also identified specific actions to align research funding more closely with government policy, which we have been asked to carry forward immediately.

10. All of these have implications for the way in which we allocate funding for research to HEIs now and into the future. We have considered how best to introduce any necessary changes in good time without exposing individual institutions to undue or unmanageable fluctuations in funding. We have concluded that:

- there are some steps that need to be taken now
- there are some desirable changes, including changes to ensure that our funding method embraces transparency and sustainability, that can be identified now though they may not best be implemented immediately
- further changes are likely to be needed but cannot be specified fully until we have considered the outcome of the consultations on research assessment, and its implications for our funding method.

11. We are therefore conducting a review of research funding in two stages. This, the first stage, covers funding policy for the years 2004-05 to 2007-08, during which period we will continue to use the results of the last RAE (RAE2001) to inform funding. We shall seek to ensure that any changes proposed and made now are compatible with the broad direction of government policy and the foreseeable impact of the new assessment model.

12. In the second stage of the review we shall consider the development of a research funding model using the outputs of a reformed RAE. This phase will begin once the collective decisions of the HE funding bodies with regard to the review of research assessment are known.

13. The next section of this document therefore sets out proposals for specific changes to our funding method to be implemented from 2004-05. The following sections consider what further changes might be required to maintain a funding model based on volume, cost and quality in the context of the policy developments discussed above.

Changes proposed from 2004-05

Rewarding the best 5* departments

14. The White Paper states in paragraph 2.15 that:

'The Government intends to improve the position of research further by focusing resources more effectively on the best research performers (paragraph 2.8)...We will ask HEFCE, using the results of the latest Research Assessment Exercise, along with international peer review of additional material, to identify the very best of the 5* departments which have a critical mass of researchers – a "6*" – and will provide additional resources to give them an uplift in funding over the next three years.'

15. Devising an assessment-driven approach on the lines proposed in the White Paper has not proved to be straightforward. Informal consultations with the chairs of assessment panels for the last RAE have revealed unease about any form of reassessment based upon submissions to the 2001 RAE, or drawing upon work done at that time by the panels. This would require the application of information or judgements first collected without this end in view. Equally, any assessment based upon new information – and especially one requiring the involvement of international referees – would impose an administrative burden upon HEIs which could be out of proportion to the resources involved. The current total allocation, at £20 million, is only a small proportion of around £1 billion of QR funding, although it yields quite significant grants to a few HEIs. It would also not now be possible to conduct such a process with due rigour in time to inform allocations for 2004-05.

16. For 2003-04, we have made allocations totalling £20 million (for that year only) to departments rated 5* in both the 1996 and 2001 RAEs. These departments have demonstrated sustained excellence over a nine-year period (1992-2000 inclusive). Given the difficulties associated with an assessment-based approach, we judged that it was reasonable to accept sustained excellence as indicating achievement of the very highest levels of excellence.

17. We remain convinced of the case for using a formula-based approach. Feedback from HEIs on the approach we adopted in 2003-04 has indicated that a formulaic allocation is not unacceptable in principle. We used the 'double 5*' approach in that year because it recognised consistent excellence over a period, and because we considered that some of the departments concerned might have suffered since 1996 from a ceiling effect, making it impossible for further improvements in their quality profile to be recognised.

18. We have, however, become aware of unease about the weight which that method places upon 1996 data, which reflect research performance between 1992 and 1995. We also recognise that the best 5* departments now will inevitably include some which did not achieve a 5* in 1996. Accordingly, we propose a modification to the formula used in 2003-04, to include departments which achieved a 5* grade for the first time in 2001 without a drop in

the number of staff submitted. (A department that first achieved a 5* in 2001 by submitting fewer staff than in 1996 would thus continue to be excluded from the allocation.)

19. We did consider giving each institution an allocation based upon its volume of 5* research, and then asking it to identify the very best 5*s and to guarantee that they would receive the additional funds. However, such an approach departs further than is necessary from the Government's intention to create a process which identifies the best 5* departments, and would allow institutions less flexibility to manage their funds. It would also necessitate an additional audit process to guarantee that additional funds were spent in the departments concerned.

20. We considered too whether there was a case for taking into account the proportion of staff in a department submitted for assessment. But we did not feel we would be justified in withdrawing now from our previous undertakings not to use the proportion of staff submitted as an indicator in funding allocations.

Proposal 1

For the duration of the current RAE funding cycle, we propose to distribute the funds available for the leading 5* departments between:

- departments rated 5* in both 1996 and 2001, and
- departments rated 5* for the first time in 2001 which achieved this without a drop in the number of staff submitted.

We envisage that the amount of grant allocated in this way for 2004-05 will be similar to the £20 million we have allocated as described above for 2003-04.

Rewarding potential in 4-rated departments

21. The White Paper states that:

'..we will ask HEFCE to look at how funding for departments with lower ratings under the existing system can be related to potential to progress further, and linked to good planning for future improvement.'

22. In 2003-04 the Council was able to allocate £118 million to institutions with departments rated 4 in the 2001 RAE. We anticipate continuing to allocate grant to these institutions on the same basis until the next RAE starts to inform our funding. We welcome the commitment, in the Government's recent statement¹ to maintain the total grant for 4-rated departments at £118 million until 2005-06, and we advise HEIs to plan on the basis that this sum will be available throughout the period until the next RAE.

23. We recognise that this is a lower level of funding per active researcher in 4-rated departments than we were able to provide up to 2001. However, it should be recognised that in the 2001 RAE 57 per cent of research active staff submitted by English HEIs were in 5

¹ The future of higher education: response to the report from the education and skills committee. Fifth report of session 2002-3 (DfES July 2003)

and 5* departments. This is an increase since 1996 from some 13,000 to 22,000 full-time equivalent staff in these departments. Considerable additional funding has been required to maintain the unit of funding for them, and thus the future funding for 4-rated departments is necessarily limited.

24. Our policy objectives will not be met by spreading this limited funding too thinly. Institutions for their part are best placed to exercise strategic judgement in deciding how to use the resources available to them. We would wish to see institutional strategies emerge for identifying and selectively developing areas of strength or of particular potential. In practice this might mean, in different cases, building up existing departments, identifying units within them to be developed, or new collaborations between departments.

25. To this end we have considered whether we should introduce a modified formula-based allocation – taking into account in our funding only a subset of 4-rated departments, perhaps those which had improved their grade in 2001. We also considered whether to ask institutions with 4-rated departments to submit strategies setting out their plans to focus the funds on developing selected departments and units.

26. We have ruled out both of these approaches. We have been unable to devise a formula-based approach using existing data in which we could have sufficient confidence, and the requirement to submit strategies would impose an additional burden which is unlikely to be justified by the benefits. Similar objections would apply to other possible assessment-based approaches; moreover, ostensibly forward-looking assessment is particularly difficult, and any form of ‘mini RAE’ for these funds would run into the problems of burden and timing mentioned above.

27. We have already established a new funding stream from 2003-04 to support the further development of departments rated 3b or 3a in seven units of assessment that we considered to be less well established and thus in need of particular support². These include subjects which have only recently become embedded within HE and have not yet built up a tradition and body of research. We propose to continue this funding until the next RAE.

Proposal 2

We propose to maintain the sum available for allocation to institutions with 4-rated departments at £118 million, allocated through our present formula. We wish institutions to consider how best to respond to our policy aim for the continuing selective development of promising departments and units. We also propose to maintain our funding for capability in selected subjects until the next RAE, and to keep the list of eligible subjects under review.

Additional capital for leading research institutions

28. An important element in our strategy is to ensure that HEIs not only maintain the existing research base but also invest in new areas and types of research which have yet to win recognition from the Research Councils or through the RAE.

²HEFCE Circular Letter 10/2003 ‘Research Capability Fund: request for strategies’

29. The White Paper indicates that we will be given funds to provide additional capital to leading research institutions:

'The Lambert Review of links between higher education and business will ask business for its views on the present governance, management and leadership arrangements and their effectiveness in supporting good research and knowledge transfer and providing relevant skills for the economy.

Where [institutions] have these arrangements in place in addition to the critical mass of excellent research, we will allocate additional capital funding to allow them additional flexibility to achieve their institutional goals for research.'

30. At present we have available up to £8 million for this purpose in each of the two years 2004-05 and 2005-06. (This is, of course, additional to the £845.1 million available to English HEIs through the second round of the Science Research Investment Fund, SRIF, over the same two year period³.) We will wish to deploy these sums to help institutions with a strong and substantial research base to fund new developments that will help them to stay at the leading edge internationally. To avoid spreading the money too thinly to achieve this, and to keep the administrative requirements of our allocation in proportion to the sum available, we envisage distributing this money by formula to a small number of institutions.

31. Our current thinking is that we would distribute the funding to the four institutions with the highest research income on the measure used for the SRIF allocations (QR grant plus non-HEFCE research income). We shall wish to be assured that the receiving institutions are paying due regard to the need to modernise and strengthen their governance and management, especially as this affects their research effort. It is likely that the Lambert Review, due for submission in autumn 2003, will address these areas. We will consider further the necessary requirements for good management and governance in dialogue with the receiving institutions, and in the light of the Lambert Review's findings, before releasing any funding.

Proposal 3

The Government has earmarked £8 million for additional capital support for the leading research institutions. We propose to allocate this by formula to four institutions with the greatest amount of high quality research (using the same measure of research income as for SRIF). This funding will be subject to satisfying ourselves that these institutions have strong and appropriate management and governance arrangements.

Promoting and rewarding collaboration

32. Our strategic plan and the HE White Paper have recognised the value of collaboration between departments and institutions in building strong and sustainable world-class research units. We wish to foster and support this; but we also recognise that research

³ HEFCE 2003/06 'Science Research Investment Fund: Round two – invitation to apply for funding'

collaborations are not best planned or supported in a top-down way. In the words of the White Paper:

‘We do not have a blueprint for particular sorts of collaboration – we want to encourage them to grow organically over time.’

33. The White Paper asks us to pay particular attention to pump-priming for new collaborative arrangements over the next few years:

‘We propose to ask HEFCE, in consultation with Office for Science and Technology, to provide funding which will incentivise the formation of productive collaborations through initial pump-priming.’

34. We are considering how best to deliver this aim. We take seriously the point made above, that the best collaborations are unlikely to be generated top-down in response to external pressure. For that reason we do not at present plan to introduce new grant arrangements with that as their primary aim. At the same time, we recognise that establishing strong and productive collaborations can require the investment of substantial additional time and effort at the start of a project, which may take time to be rewarded, and that this is more likely to happen if there is a clear incentive.

35. We recently announced criteria for allocations from the new Strategic Development Fund⁴. One of the three primary purposes of the fund is to support collaborative arrangements between institutions. These could range from very large merger or strategic alliance projects, to more modest projects where a smaller initial investment can facilitate desirable collaboration, including in research. We have already allocated resources from the fund to support the creation by merger of a major institution in Manchester. We hope that groups of HEIs will come forward with further regionally based projects such as joint graduate research schools.

36. Beyond this, we recognise that there can be scope to promote collaboration by designing other funding initiatives with an eye to encouraging collaboration. For example, in allocating resources for infrastructure renewal through SRIF we place a premium on collaborative projects; and we see the Promising Researcher Fellowship Scheme as a means of forging links between departments as well as developing individuals. We shall continue to have this aim in view as new funding initiatives are developed.

37. The most influential instrument that we have to encourage collaboration between HEIs is, of course, our mainstream QR funding. It has been suggested that we should offer premium funding for joint submissions after the next RAE, as an incentive and to recognise the higher costs of some collaborations. This would be a powerful instrument. But, as the report on the review of research assessment points out,⁵ we would need to be sure that the incentives were not so great as to encourage manufactured collaborations, and that we had

⁴ HEFCE 2003/28 ‘Strategic Development Fund’

⁵ HEFCE 2003/22 ‘Joint consultation on the review of research assessment’ paragraph 221

effective means of checking whether collaborations existed in fact as well as on paper. This option will be kept under review and we welcome comments on possible ways forward.

38. There is no similar mechanism for encouraging collaboration between HEIs and research organisations outside the HE sector. As initiatives are developed we will consider whether there is scope to build in incentives for collaboration with non-HE sector organisations, without the risk of subsidising activities that we should not otherwise regard as a reasonable use of HEFCE grant.

Proposal 4

We will use the Strategic Development Fund actively to promote substantial research collaborations, and propose to seek opportunities for 'mainstreaming' collaboration through the design of other funding streams. We welcome suggestions for what more we might do to recognise and support collaborative activity through the RAE and QR funding.

The Promising Researcher Fellowship Scheme

39. Paragraph 2.32 of the White Paper says:

'We will introduce a Promising Researcher Fellowship Scheme which will provide funding for a talented researcher in a non research intensive department (scoring 4 or below in the RAE) to spend 6 months researching in a high scoring department.'

40. We are in discussion with bodies that have experience in managing fellowship schemes about how they might help us to take this forward. The Government has set us a target of 100 fellows a year by 2005-06, so we plan to start the scheme during 2004-05.

41. Though we have not yet consulted with the sector on this, many 4-rated departments in less research-intensive institutions have expressed concern that this scheme could lead to the most promising researchers being lost to higher-rated departments, unless the scheme is effectively designed to foster lasting collaborative relationships between institutions. We have also been pressed to ensure that the scheme is sufficiently flexible to allow for real differences between disciplines: for example, in some disciplines it may be unnecessary to require researchers to relocate (this would also enable less geographically mobile staff to participate). We will bear these issues in mind when developing the scheme.

Proposal 5

We propose to establish a Promising Researcher Fellowship Scheme. In designing the scheme we will look for ways to encourage lasting collaborative relationships between HEIs.

Funding for postgraduate research students

42. In this section we propose a new approach to funding for postgraduate research students, to come into effect from 2005-06.

43. At present our funding arrangements reflect the costs incurred by HEIs in providing for postgraduate research students (PGRs) through the supervision fund. This is paid at a flat rate per student (weighted for subject-related cost variations but not for quality). For students in their first year (or the equivalent period for those studying part-time) the tuition fee is paid within the block grant for teaching and applies to all home and EU PGR students. For those in their second and third years (or the equivalent for part-timers) it is paid within the block grant for research, and applies only to those in departments rated 3a and above. The total grant paid in these ways is some £120 million in 2003-04.

44. These arrangements lack transparency for several reasons. First, while it may be the case that PGR students in their first full year require more supervision and support, there is no longer a strong reason to split their overall funding between teaching and research in this way. Second, while we believe the current level of grant to be reasonable, we have not checked recently how closely it reflects the actual costs incurred by institutions in providing for the students. A further complication is that we include numbers of PGR students in years 2 and 3 in the volume measure for mainstream QR grant. This is done primarily as part of a compound proxy measure for overall research capacity in departments. Nonetheless it may cause confusion as to the institutional behaviours that we wish to reward.

45. We have made proposals in a separate consultation (HEFCE 2003/23) for minimum threshold standards and an underlying framework of good practice for postgraduate research degree programmes (RDPs). We envisage that all HEIs receiving HEFCE funding for RDPs should be required to comply with these standards as a condition of their grant. We are committed to maintaining a reasonable gap between introducing the threshold standards and linking these to funding. We hope to have appropriate light-touch assessment arrangements in place by 2006-07, sooner if possible. We are discussing with the Quality Assurance Agency the possibility of undertaking these assessments as part of their institutional audits. We also plan to commission a study to establish the costs of delivering RDPs.

46. In parallel with this consultation on research funding, we are consulting on possible changes to our arrangements for funding teaching. This would therefore be a good time to make changes affecting both funding streams.

47. Putting all of this together, we conclude that we should now review our arrangements for funding RDPs; and that any changes to our grant allocation method should be made in keeping with the timetable for introducing threshold standards. We therefore propose:

- a. To bring together the two streams of grant for the supervision fund as a single element within the block grant for research.
- b. To ensure that this is paid at a level per student reflecting the actual costs of providing RDPs, the length of time required to complete a programme, and the extent to which they are supported from other sources, including tuition fees.

- c. To pay the supervision fund within the research grant, at the appropriate rate, to departments meeting the quality threshold set out above from 2005-06.
- d. From the same date, to cease counting PGR students in the QR volume measure (see paragraphs 59-60 below).

48. This raises the question of how we link our grant to student numbers. We would not wish to create a purely financial incentive to HEIs to take on more PhD students than they do at present. On the other hand, we recognise that existing financial arrangements exert pressure to limit this number; and that the threshold standards may encourage HEIs to think even more carefully about whether prospective students are likely to complete their research programme successfully. Our preferred approach is to cap the funding for these students and programmes nationally at its level in 2003-04, and to seek a mechanism for allocating the grant between HEIs that will preserve its unit value. We will consider this further in the light of responses to the consultations.

49. We will also investigate further the scope for supporting collaboration between institutions in training and supervising research students; and for enabling departments that fall below the quality threshold for research funding, yet have the skills and resources to train research students to a high standard, to do so. This could be particularly important where students wanted to follow a programme of work with a strong vocational link, and for part-time students needing to study near home as far as possible.

Proposal 6

We propose from 2005-06 to pull together the Council's supervision fund grant for students on research degree programmes into a single stream within the block grant for research; and to pay this at a level reflecting a study of RDP costs to be conducted in the meantime. We also propose to investigate further the options for maintaining the level of grant per student and for supporting collaborative provision.

Allocating the Council's baseline grant for research

50. In this section we propose changes to our arrangements for allocating mainstream QR grant, to come into effect after the next RAE. We also propose transitional arrangements to take effect from 2005-06.

Background

51. For 2003-04, we allocated recurrent grant of £1,042 million for research. Of this, £898 million was allocated under a single formula driven primarily by indicators of quality and volume (generally referred to as mainstream QR grant)⁶. The following paragraphs consider the case for making changes to the formula to reflect current HEFCE and government policy.

⁶ The other indicators are PGR supervision payments and London extra costs.

52. Our current method for allocating QR funds for research is described fully in our guide to funding (HEFCE 2003/29). Briefly, there are two stages to the process. First, the available funds are divided into 68 'subject pots', one for each unit of assessment (UOA). The size of each subject pot is determined by indicators of the volume of research in the UOA in departments rated 4 and above, and a measure reflecting the costs of undertaking research in the subject. Second, each institution's share of each pot is calculated using the same volume indicators, now quality-weighted to reflect RAE ratings. The total grant awarded to each institution is paid as a block grant to the institution. We may 'moderate' grant at either stage to smooth year on year fluctuations.

Elements in the QR calculation	
Volume	Our proxy measure of research capacity comprises, for departments rated 4 and above: <ul style="list-style-type: none"> • numbers of research active staff (from RAE 2001) • numbers of postgraduate researchers, research assistants and research fellows, weighted and capped (from annual surveys) • income from charity funded research, weighted and capped (from annual surveys).
Cost	Subjects are divided into three cost bands on the basis of the costs of undertaking research in each subject.
Quality	Defined by the ratings awarded to departments in the RAE.

The case for a review now

53. In the context of our aim to achieve transparency and sustainability, we have been considering what principles should inform our allocation of funds for research and how well our current approach reflects these. Moreover, if the recommendations of the review of research assessment are accepted, we will need to re-engineer the research funding model probably from 2008-09. Whatever the precise form of any new assessment regime, we anticipate that we shall continue to allocate block grant for research through an approach that includes the current core elements of quality, volume and relative cost. We therefore consider that the time is right to review our allocation formula; to share with the sector our thoughts on the desirable characteristics of a revised and updated funding method; and to plan for the implementation of any necessary changes.

The main changes that we are considering, in addition to those mentioned above, are:

- simplifying the volume indicators
- changing the basis on which the cost weights are calculated.

54. The effect of these changes could be quite significant for some HEIs. As explained below, our intention would be to introduce them fully only after the outcome of the next RAE. We propose however to make one significant change from 2005; and to act now to ensure

that the grant allocations in the intervening years do not take the system further away from our eventual goals.

Volume measures

55. We use measures of research volume as a proxy for research capacity. Our chosen indicators include some elements to reflect certain forms of research activity that we know our grant will support. These elements relate to specific groups of staff and to indirect costs incurred on work funded from one source (research charities). These indicators are updated annually. The largest element in our calculation – numbers of research active staff as submitted to the RAE – is updated only after each new RAE.

56. While there are sound reasons for managing the process as we do, these are largely historical. We recognise that our basket of indicators is, to this extent, less robust as a proxy measure of volume, and does not fully reflect the range of work supported by our funding. It could be argued too that the annual updating of the minor volume indicators introduces a measure of instability without helping to promote productive dynamism within the sector.

57. We seek an approach to measuring research volume for funding purposes that:

- is transparent and robust
- avoids as far as possible the collection of statistics purely for this purpose
- is neutral between the different activities that our funding supports – we do not intend to steer institutions' decisions on what activities to undertake, and should be vigilant for possible perverse incentives
- nonetheless adequately reflects the nature and pattern of the activity on the ground that our funding supports.

58. In addition to the generic arguments outlined above, there are specific arguments against the retention of the minor volume measures in their present form.

Research students

59. Using numbers of postgraduate research students as a proxy for research volume might reasonably be said to amount to double counting, for two reasons:

- these students do not generally conduct research at the level considered by the RAE, and thus their presence does not significantly increase the research capacity of their departments, already measured by a count of active researchers
- we provide funding for their training through the supervision fund (and are proposing improvements to that arrangement, see paragraphs 42-49 above).

60. Against this background we can see a strong case for abolishing the PGR volume measure from 2005-06, when the new arrangements for supervision fund grant proposed above would come into effect.

Proposal 7

We propose to cease counting numbers of postgraduate research students within the QR volume measure with effect from 2005-06.

Research fellows

61. Equally we see no strong case for continuing to use numbers of research fellows in the volume measure. This was introduced in recognition that we take some responsibility for contributing to their indirect costs; but it is open to HEIs to submit them for the RAE (thus putting them in the research staff volume measure). If they are not submitted, arguably we should not be paying grant related to their presence.

Research assistants

62. If we were to discontinue the use of the volume measures for research students and research fellows, we would be making a decisive move away from a model in which research volume measured for funding purposes could shift between research assessments, in line with selected subsidiary volume indicators, to one in which funding followed only the major indicators of research volume and quality as measured by the RAE. This would be in keeping with our concern to avoid providing incentives to inflate measured volumes. In this context, counting research assistants in the volume measure would appear anachronistic. It would also be hard to justify continuing to collect data annually to apply what would be a very minor aspect of the funding calculation.

Charities income

63. Research income from charitable sources is of considerable significance – notably, though by no means solely, in medical research. Research charities operate in different ways, reflecting their aims and preferred working methods, and adopt varying criteria for distributing their funding. In general, their funding is a valuable supplement to government funding of research. The leading charities have recently moved towards working in partnership with public funding sources rather than as separate clients of HE with their own agenda.

64. The volume measure related to research income from charities was retained from a previous funding model which took into account income from several sources. It serves as a proxy to recognise the public benefits that the work funded by this income produces. It effectively pays a capped, differential subsidy on charity funded projects (the income figures are quality weighted and we limit the proportion of QR funds that the indicator drives).

65. This is arguably irrational, since we do not pay a similar subsidy for research grants from other sources – the Research Councils or EU, for example – and moreover the subsidy is paid at an uneven rate reflecting departments' RAE ratings. It covers only a minority of the indirect costs of the eligible projects and it could provide an incentive to individual institutions to seek and accept charitable funding for additional projects at a level which conflicts with

our drive towards overall sustainability in the funding of research in HE. Since not all charity funding is allocated following peer review, it does not clearly reflect the principle, enunciated in the government policy statement 'Investing in innovation', that research projects supported through QR funding should be of the highest quality. Nor does it adequately reflect the growing range of mechanisms, beside the funding of individual projects, through which HEIs now receive funds from charitable sources.

66. This is not of course to say that our funding should ignore the public benefits flowing from research funded by charities (or by the NHS and certain other agencies). In the context of our commitment to sustainability and of the consultations on reforming the dual support system of research funding⁷, we plan to work with the sector and with partner funding bodies to develop a new funding regime. Key principles of such a regime would be that:

- institutions are able to use QR funding, and any other funds available to them, to support projects, programmes and research support activities to which a contribution has been made from charitable sources, in keeping with their own mission and priorities
- they take this decision on the basis of a clear understanding of the full costs of the project or activity, and of how these are to be met, while keeping their overall costs and income in balance and there are no undue incentives to weigh the funding source above the research content, in deciding what work to take on
- innovative approaches to partnership, including shared funding of activities and collaboration between HEIs and other bodies, are facilitated and encouraged.

67. We propose to discontinue the QR volume measure for charity funding and at the same time to work towards funding arrangements after the next RAE which better reflect the principles set out above. We welcome suggestions for what form such arrangements might take: no reasonable approach is ruled out at this stage.

Transitional arrangements

68. We wish to avoid changes to our research funding arrangements which might have to be reversed after the implementation of the next RAE. The proportion of QR funding driven by charities income is already capped: in the transitional period until the next RAE we propose also to cap the proportion allocated by reference to each of the minor volume indicators, especially after 2005. In each case we intend not to permit significant growth beyond the 2003-04 level.

Proposal 8

We propose to move towards funding arrangements following the next RAE in which all of the minor volume indicators are eliminated, and the treatment of charity funding better reflects our policy aims and the imperative for sustainability. In the meantime we propose to prevent significant growth in the amount of QR funding allocated using each of the indicators as set out above.

⁷ 'The sustainability of university research' published by OST March 2003. Available at www.ost.gov.uk

Setting the subject quanta (subject pots)

69. The current arrangements distribute QR funding in each UOA between the subject pots without reference to the relative assessed quality of work in the subject. However, once quality-weighted volume measures have been applied to allocate the pot between institutions, the grant per active researcher in equally-rated departments can vary significantly, even between closely cognate disciplines. (The higher the *proportion* of all the researchers in a UOA working in 5*-rated departments, the lower the QR grant per researcher in any department in that UOA will be given fixed grade value ratios and a fixed mean value.) This is hard to defend: there is a strong case in principle for ensuring common funding rates by having fewer but larger pots, perhaps one for each of only five or six groups of related subjects.

70. The proposals for the next RAE set out in the recent review report (HEFCE 2003/22) include a suggestion for controlling the proportion of work awarded each rating (one, two or three stars), placing the onus upon panels to demonstrate that a different distribution was appropriate. If implemented, this would ensure that differences in the grade distribution between different subjects reflected genuine and demonstrable differences in quality, and would therefore provide a basis for funding work of the same level in cognate disciplines at a standard rate. There would then be no reason to have more than one pot for each broad group of cognate disciplines.

71. The current arrangements calculate the cost weightings between subjects on the basis of data from the Higher Education Statistics Agency on expenditure and staff numbers. This is judged to be sufficiently robust, especially while there are only three cost bands. However, a new calculation based on a Transparent Approach to Costing (TRAC) approach could probably provide more reliable data, and might answer the question whether three cost bands are really enough. We recognise that the adoption of such an approach would require further detailed discussion with HEIs (and that we have agreement at present only to use the TRAC data at a high level of aggregation), but we see a strong case for looking into this further.

72. We have considered whether the formula should incorporate elements reflecting demonstrable variation in either or both the overall quality and standing of research done in England, and the strategic and policy importance of encouraging high quality research in particular subjects or subject groups. We would hope that any significant variation in overall quality between subjects could be taken into account in the research assessment process, and will bear that in mind in considering the responses to the review of research assessment.

73. The question of a 'policy factor' was considered in previous reviews of our funding for research. We concluded then that there was not convincing evidence to support incorporating into our allocations either peer judgements of relative significance, or the outcome of an objective measurement (using bibliometric indices for example). Nor, at the time, was there strong support from HEIs or other stakeholders for adopting that approach in

principle. We anticipate that it would be difficult in practice to introduce a policy factor unless there was:

- broad agreement that there were serious discipline-related problems, likely to persist in the medium term, that this would help to manage
- a clear agreement on the priorities to be pursued.

We do not see such problems at present but are not ruling this out.

Proposal 9

We propose to review the basis for subject weightings and to calculate new weightings to be used after the next RAE. We welcome views on how this might be done. We do not propose to undertake further work on a possible policy factor to be incorporated in our allocations, unless a significant number of our partners and stakeholders feel that this now merits further investigation.

Volume and cost: summary

74. We therefore envisage moving to arrangements for funding research in which:
- a. Numbers of research students, research assistants and research fellows, and income from charities are no longer used as proxy measures of research volume.
 - b. Institutions are encouraged to work with charities and other research funders in a variety of ways in keeping with their individual missions and our policy for sustainable funding.
 - c. Research degree programmes are supported through a single element within the block grant, taking into account numbers of research postgraduate students and the observed costs of training them.
 - d. The amount of research grant per active researcher is the same in all equally quality-rated departments across cognate disciplines – and thus there are effectively a much smaller number of subject pots.
 - e. The cost weightings for the aggregated subject pots are recalculated.

75. We recognise that these changes, and the complex interactions between them in practice, are likely to cause significant shifts in some institutions' grant allocations; and that such turbulence could be particularly hard to handle following the changes in research income after the 2001 RAE and recent grant settlements. Our preferred approach therefore is to work towards introducing most of the changes outlined above from the year in which the next RAE is first reflected in grant allocations (2008-09 if the review group's advice is accepted). This delay will enable us to manage the changes arising from our proposals and from the next RAE as a single redistribution, rather than two coming a few years apart; and to ensure that there are not unintended consequences for particular subjects, types of research or groups of institutions.

76. We have considered carefully the implications of our proposals for the administrative burden on HEIs and others. We have sought to minimise the impact in administrative terms

of the proposed changes from 2004-05 (paragraphs 14-40). With the exception of the Promising Researcher Fellowship Scheme, none will require wholly new bidding arrangements or the collection of dedicated data, though some monitoring of outcomes will be essential to ensure accountability for public funding. The proposals on postgraduate research students, and allocating the baseline grant for research, taken together would provide a more transparent funding approach, requiring the collection of less data than at present. In particular it should be possible to drop the annual research activity survey required to support our current approach. The data used to drive the research funding model would be derived from the RAE, existing statistical returns and institutions' own costing information.