

# Guide to funding and student number control 2013-14

How HEFCE allocates its funds and controls student numbers

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October 2013/25

This guide describes the principles and methods behind HEFCE's funding and student number control allocations to universities and colleges in academic year 2013-14.

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# Introduction

1. HEFCE distributes government funding for higher education. This guide explains how we calculate how much each university or college gets, the principles that underpin those calculations, and the components of an institution's grant. It also explains how we set controls for the number of students that institutions may enrol, to reduce the risk that over-recruitment could create excess costs to Government in providing student support. (Student support includes loans to meet tuition fees, and 'maintenance' grants and loans to support students' living costs.)
2. This guide is intended for those working in higher education, and others who wish to understand our funding methods. It gives an introduction to those methods, but does not provide the full technical definitions and specifications used in our allocation and monitoring processes.
3. It is our practice to be open about our allocation methods and policies, and this guide is intended to explain them. It is divided into three main sections.
  - a. **'Overview'** gives a very basic summary of how we distribute funding, why we do it this way and how we ensure the money is well spent. It also gives a short introduction to how we operate our student number control.
  - b. **'Full guide to HEFCE's funding methods'** contains more detail about each funding stream, our methods and the principles behind them. However, it does not include comprehensive technical details: our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), provides more information, including the further reading suggested at the end of this guide.
  - c. **'Student number control and other conditions of funding'** contains more detail about the reasons for the control we set, the populations it covers, and the method that we use for setting limits. It includes details of other funding conditions such as medical and dental targets.
4. A summary explanation of terms is included at the end of this guide for ease of reference.

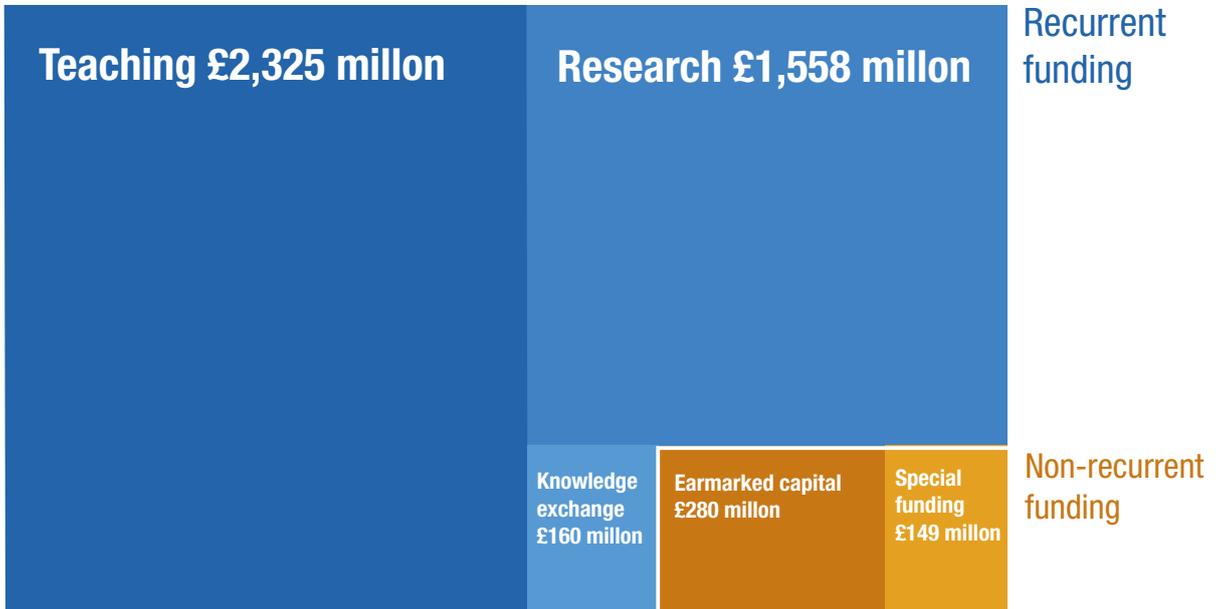
# Overview

5. The total public funding for higher education in England is decided annually by the Government. This is provided through a variety of sources:
  - tuition fee loans and maintenance grants and loans to students
  - grants to institutions from HEFCE
  - grants to institutions and bursaries to students from other public bodies, such as Research Councils and the Department of Health.
6. We are responsible for distributing the money made available to us, and for implementing controls on the number of students that each university and college may enrol, within broad policy guidelines provided by the Secretary of State for Business, Innovation and Skills. Periodically, we advise the Secretary of State on the funding needs of higher education in England.
7. Our grants do not, therefore, fully meet institutions' costs: we make only a contribution towards their teaching, research, knowledge exchange and related activities. The proportion of an institution's total income that comes from HEFCE will depend on the fees it charges, its activities and money raised from other sources.
8. Each academic year (which runs from 1 August to 31 July), we distribute billions of pounds to English universities and colleges. For 2013-14, the total is £4.5 billion. We divide the total into money for teaching, research, knowledge exchange, special funding and earmarked capital grants.
9. Money for teaching, research and knowledge exchange is referred to as 'recurrent funding' and is by far the majority of what we distribute. Knowledge exchange, supporting the range of knowledge-based interactions between higher education and the economy and society that creates external impact, is funded through Higher Education Innovation Funding (HEIF). Every March we notify universities and colleges of how much recurrent funding we expect that they will receive for the coming academic year. In 2013-14 we are directly funding 129 higher education institutions (HEIs) and 202 further education colleges (FECs) that provide higher education courses.
10. The remainder is referred to as 'non-recurrent funding', and it comprises grants for capital projects and other development initiatives, and to support national facilities. These grants include funds designed to provide incentives for institutions, such as the Catalyst Fund, which supports projects that help us deliver our strategic aims for higher education. These grants are announced as they are allocated, which may be at any time of the year.
11. Figure 1 shows the breakdown of total HEFCE grant in 2013-14.
12. The Government's Higher Education White Paper set out its intention to change the ways in which teaching is funded and student numbers are managed<sup>1</sup>. The aim was to increase student choice and support greater diversity in higher education. Under the new arrangements, introduced in September 2012, more public funding is provided directly to students (in the form of up-front tuition fee loans, repayable when

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<sup>1</sup> 'Higher education: Students at the heart of the system', available at <https://www.gov.uk/government/publications/higher-education-students-at-the-heart-of-the-system--2>

Figure 1 HEFCE grant 2013-14: total £4,472 million



the student begins earning above a stipulated income threshold), and less funding is provided to institutions through HEFCE teaching grants. This means that a high proportion of public funding for teaching is channelled through the Student Loans Company, and HEFCE has substantially less funding available to support teaching. HEFCE's teaching grant is increasingly prioritised towards areas where tuition fees alone may be insufficient to meet full costs: high-cost subjects, postgraduate provision, supporting student opportunity for those from disadvantaged backgrounds or who may need additional support to succeed, and recognising high-cost distinctive provision at (often specialist) institutions. HEFCE's research grant is ring-fenced, which means it is protected from these changes.

13. Fees for most students are subject to regulation, with limits on what institutions may charge. This applies to most UK and EU undergraduates, and to other students on teacher training courses. Fees for most postgraduate students are not regulated.

14. HEFCE and the higher education sector are currently in a transitional period as we shift to the new fee and funding arrangements. This guide is intended to replace the publication 'Guide to funding: How HEFCE allocates its funds' (HEFCE 2010/24), and describes our approach to funding in the academic year 2013-14.

15. We allocate funds to institutions to support teaching, and also (for HEIs only) to support research, knowledge exchange and related activities. In doing so, we aim to:

- increase the opportunities for students from all types of background to benefit from higher education
- enhance student choice by promoting competition, where appropriate, in the higher education sector
- maintain and enhance the quality of teaching and research

- encourage institutions to create external impact through working with businesses, public and third sector services, the community and the wider public
- support diversity
- encourage efficiency in the use of public funding.

16. We use formulae to divide the majority of the money between institutions. These formulae take into account certain factors for each institution, including the number and type of students, the subjects taught and the amount and quality of research undertaken.

17. Institutions receive most of their teaching, research and knowledge exchange funding as a grant that they are free to spend according to their own priorities, within our broad guidelines. We do not expect them, as autonomous bodies that set their own strategic priorities, to model their internal allocations on our calculations. However, certain conditions including the student number control are attached to funding, and are specified in institutions' funding agreements.

18. In addition to funding teaching, research and knowledge exchange activity, HEFCE has always worked to protect the interests of students (past, present, and future). Since the Higher Education White Paper set out a role for HEFCE as 'the student champion', our work in this role has been more explicit.

19. Institutions are accountable to HEFCE, and ultimately to Parliament, for the way they use funds received from us. As independent bodies, they receive funding from many other public and private sources. This gives them scope to pursue activities alongside those for which they receive HEFCE funds.

## How is teaching funding calculated?

20. Recurrent funding for teaching comprises a main element informed by student numbers in different subject areas, plus a number of other allocations that reflect particular additional costs affecting certain types of provision. The main subject-based element is calculated by multiplying together:

- **student numbers** in different subject groupings, known as price groups
- various **rates of grant** that apply to those student numbers
- **a scaling factor**, which ensures that the total allocated matches the sum we have available.

21. These calculations are carried out for a number of different student categories. Firstly, because we are in a period of transition to new finance arrangements, separate calculations are carried out for:

- **'old-regime'** students – that is, students who commenced their studies before 1 September 2012, when the higher regulated tuition fee arrangements were introduced
- **'new-regime'** students – those who started on or after 1 September 2012.

22. There are price groups (listed in order of reducing cost) for:

- the clinical years of medicine, dentistry and veterinary science courses
- laboratory-based science, engineering and technology

- intermediate cost subjects with a laboratory, studio or fieldwork element
- classroom-based subjects.

23. Calculations are also performed separately for students in different modes of study (full-time, sandwich year out and part-time) and levels of study (undergraduate and taught postgraduate).

24. Different rates of grant apply to each of these student categories. For old-regime students, the rates of grant vary by institution, reflecting our previous approach to funding that applied in 2011-12. The rates of grant for new-regime students do not vary by institution. However, much lower rates are provided for new-regime undergraduates, because more income for such students is expected to come through their tuition fees. For postgraduate taught students, we have broadly maintained our rates of funding at their previous levels.

25. Other teaching grant allocations target funding to areas of strategic importance where institutions face higher costs. They include, for example, funding to support student opportunity (widening access to higher education, improving student retention and supporting disabled students), the additional costs incurred by institutions operating in London, additional support for part-time undergraduates and funding to support years spent abroad under exchange programmes.

## How is research funding calculated?

26. We aim to target funding where research quality is highest. Our main research funding method distributes grant based on the quality, volume and relative cost of research in different subject areas.

27. First we determine how much funding to provide for research in different subjects, and then we divide the total for each subject between institutions. These decisions take into account the volume of research (based on numbers of research-active staff), the relative costs (reflecting, for example, the fact that laboratory-based research is more expensive than library-based research), government policy priorities for particular subjects and the quality of research. Quality was last measured in the Research Assessment Exercise carried out in 2008. A new assessment of quality will be made through the Research Excellence Framework in 2014, and will inform research funding from 2015-16.

28. In addition to mainstream quality-related research funding, other allocations contribute towards research-related costs. These are as follows.

- Funding for research degree programme supervision.** This allocation reflects postgraduate research numbers and the relative costs of the subjects they are studying.
- Charity support funding.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs of research. We therefore provide additional funding to institutions in proportion to the income they receive from charities for research.
- Business-related funding.** We also provide funding to support institutions undertaking research with business and industry. This is allocated in proportion to the income they receive from business for research.

- d. **Funding for national research libraries.** This is allocated to five research libraries on the basis of a review carried out during 2007.

## How is knowledge exchange funding calculated?

29. We aim to target knowledge exchange funding through HEIF where the greatest impact on the economy and society is achieved, based on higher education knowledge and skills. We use income from users – businesses, the public and third sectors and the community and wider public – as a proxy for impact and hence measure of knowledge exchange performance.

30. We calculate allocations for individual institutions by adding together their main knowledge exchange income indicators collected through the Higher Education Business and Community Interaction survey and other Higher Education Statistics Agency (HESA) data. There is a threshold for formula allocations so that only HEIs with evidence of significant performance gain funding. There is also a cap on allocations so funding is used to create a range of knowledge exchange activities relevant to a range of users.

31. We ask institutions to submit a strategy covering all their knowledge exchange activities, including use of our funding through HEIF, from time to time. Strategies are assessed and published to spread good practice and provide assurance on effective and efficient use of funding.

## How does HEFCE control student numbers?

32. To control expenditure on student support and avoid unplanned costs, the Government wishes to limit the overall number of students that can be recruited. We therefore allocate a **student number control** (SNC) to each institution, specifying how many students it can recruit and who may be a call on student support. Some flexibility is permitted, but if an institution exceeds its SNC by more than a specified amount we reduce the grant we pay it, to reflect the additional student support costs associated with the excess numbers.

33. In 2013-14 the control applies in general to certain categories of student who may count towards HEFCE funding allocations, and who are **starting** full-time undergraduate study or a postgraduate initial teacher training (ITT) qualification. Some students starting such courses are exempted from the SNC, however. This may be on the basis of the high grades they achieved in their entry qualifications, or for some other reason. There are no restrictions on how many exempt students institutions may recruit.

34. The exemption categories apply only for the purpose of the SNC system: they are not appropriate for use for other purposes, for example as criteria for admitting students or for institutions' bursary or fee waiver schemes. Institutions are able to provide fair access to students who do not fall under one of the exemption categories by using the places available in their SNC allocation.

35. The SNC arrangements do not apply to other categories of students, such as those studying part-time, most postgraduate students or those continuing full-time study from the previous year.

# Section 1: Full guide to HEFCE's funding methods

## 1A Background

### HEFCE's funding powers and responsibilities

36. HEFCE was established by the Further and Higher Education Act 1992, and this sets out our powers. In broad terms, we are empowered to fund teaching, research and related activities of higher education institutions, and prescribed courses of higher education at further education colleges<sup>2</sup>. We are also empowered to fund other organisations that carry out work for the benefit of the higher education sector as a whole. We can pay grants, whether recoverable or non-recoverable, to these bodies on the basis of expenditure that they incur.

37. HEFCE's July 2011 strategy statement, 'Opportunity, choice and excellence in higher education' (HEFCE 2011/22) sets out our high-level aims and approach to implementing the Government's reforms of higher education financing.

38. We do not fund students – we fund the activities of institutions. However, we do count students in our funding methods as a proxy measure for the teaching and research activities of institutions. This is an important distinction, and we discuss it further in paragraphs 52 to 54.

39. There are also distinctions between:

- what we are empowered to fund (arising from the 1992 Act)
- what we are responsible for funding (which is a policy decision of Government)
- what we choose to count for funding purposes.

40. Although we still have wide funding powers, a number of other public bodies, rather than HEFCE, have responsibilities to fund certain aspects of higher education.

- Research:** The Research Councils distribute public funds for research to universities and colleges, to support specific research projects and some postgraduate students (HEFCE's research funding, on the other hand, supports the maintenance of research capacity and infrastructure in institutions on an ongoing basis). Research Councils are funded by the Department for Business, Innovation and Skills and other government departments.
- Medical and dental education and research:** Government funding for medical and dental education and research is distributed through a partnership between HEFCE and the NHS. HEFCE-allocated funds underpin teaching and research in university medical schools, while NHS funds support the clinical facilities needed to carry out teaching and research in hospitals and other parts of the health service. Funding for health-related subjects such as nursing and midwifery generally comes from the NHS.

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<sup>2</sup> Prescribed courses of higher education are defined in separate legislation, but broadly relate to courses of at least one year's duration when studied full-time and which lead, on successful completion, to the award of certain higher education qualifications by certain awarding bodies. See paragraph 40d and 'Higher education in further education colleges: HEFCE's funding powers – prescribed courses of higher education' (HEFCE Circular letter 22/2008) for more information.

- c. **Teacher education and training:** The National College for Teaching and Leadership (NCTL) is responsible for supporting education and training courses aimed at school teachers, including ITT courses leading to qualified teacher status, and In-Service Education and Training courses for those who hold qualified teacher status. HEFCE has responsibility for other teacher education and training provision outside the schools sector, although funding is largely provided through students' tuition fees.
- d. **Higher education in further education colleges:** As explained in paragraph 36, we are only empowered to fund 'prescribed' courses of higher education in further education colleges. These include HNCs, HNDs, foundation degrees, bachelors degrees, postgraduate degrees and certain teacher training qualifications; the awarding bodies include institutions with degree-awarding powers and Pearson Edexcel. Prescribed courses do not include other higher education courses at further education colleges, such as some professional courses or modules taught to students who may be taking parts of a prescribed course but have not declared an intention to complete the whole qualification. These other higher education courses are the funding responsibility of the further education funding body, the Skills Funding Agency.
- e. **Loans for tuition fees:** Publicly funded loans to students to meet the costs of tuition fees, as well as grants and loans to support living costs, are administered by the Student Loans Company, which is government-funded and non-profit making. Student loans are repayable only once the student begins earning above an income threshold.
- f. **Knowledge exchange and innovation:** The Research Councils support a range of schemes for knowledge exchange to further the impact of their funded research. The Technology Strategy Board is the main funder of business and user innovation, and may support higher education knowledge exchange within business collaborations. Universities and colleges play a significant role in local growth partnerships which may support their knowledge exchange and skills activities, through use of funds such as the European Structural and Investment Funds. Funding from the beneficiaries of knowledge exchange in the economy and society should also be a significant source of support.

41. Similarly, while we retain the funding responsibility for a wide range of activities, changes to the finance arrangements for higher education and the limitations of our budget mean that only a subset of what is potentially fundable actually attracts grant through our funding method. For example, within teaching we are increasingly providing funding only in relation to activities where costs exceed the level that tuition fees could generally be expected to cover, and within research we continue to prioritise funding towards activity that meets a high quality threshold.

## HEFCE recurrent funding

42. The Government operates a process to set public expenditure across all departments, involving periodic spending reviews that set expenditure levels for certain years. The spending review in 2010 set public expenditure for the financial

years 2011-12 to 2014-15; the 2013 spending review sets out spending plans for financial year 2015-16. The financial year runs from 1 April to 31 March. To inform these spending reviews we provide confidential advice to the Secretary of State about the financial needs of higher education.

43. Every year the Secretary of State confirms in a grant letter the funding available to HEFCE for the following financial year, and provisional funding for the remaining years of the spending review period, along with policy priorities. We then determine the grants to individual institutions, which we generally allocate on an academic-year basis.

44. Money we allocate for teaching and research, and to knowledge exchange through HEIF, is referred to as 'recurrent funding' and is by far the majority of what we distribute. We provide our recurrent funding as a grant that institutions may spend largely as they choose; they are not expected to mirror our calculations in their own internal spending. This allows institutions to target spending towards their own priorities, as long as these relate to the activities that we are empowered to fund: teaching, research and related activities. The grant allows institutions to be autonomous and does not impose the burden of accounting in detail for expenditure.

45. However, HEFCE's teaching grant is increasingly prioritised towards areas where tuition fees alone may be insufficient to meet full costs: high-cost subjects, postgraduate provision, supporting student opportunity for those from disadvantaged backgrounds or who may need additional support to succeed, and recognising high-cost distinctive provision (often at specialist institutions). It is important that institutions are able to make effective and efficient use of our teaching grant to support these priority areas in their internal resource allocations.

46. The remainder of this funding is referred to as 'non-recurrent funding', and it comprises grants for capital projects and other development initiatives, and to support national facilities. These grants are announced as they are allocated, which may be at any time of the year.

## What are we trying to achieve?

47. For 2013-14 onwards we have identified a number of principles which will guide our approach. We will:

- promote and protect the collective student interest
- support a well-managed transition to the new funding and regulation arrangements
- endeavour to minimise administrative burden for providers, including where complex policy objectives have been set
- support government funding priorities (high-cost subjects, strategically important and vulnerable subjects, widening participation, specialist institutions and postgraduate provision)
- be fair across the higher education system, transparent in our methods and accountable for our funding

### JARGON BUSTER

**Knowledge exchange:**

Knowledge-based interactions where learning, ideas and experiences are shared between universities or colleges and the wider world to achieve impact.

**Higher Education**

**Innovation Funding:** The Government's original programme through which our knowledge exchange funding to higher education is provided.

**Recurrent funding:** Yearly allocations aimed at ongoing core activities rather than shorter-term projects.

**Non-recurrent funding (special funding and earmarked capital for building projects):**

Allocations used to secure change or fund activities that cannot be addressed through core teaching or research funding.

- reflect our duty to promote competition, and consider the need to take competition into account in allocating funding
- make funding interventions only where there is a strong case that competition will not produce outcomes that are either to the public's benefit, or in the collective student interest.

48. We want to make the best use of taxpayers' money – prioritising funding where we can get the best value, ensuring that we deliver the Government's policy aims and that institutions are accountable for the money they get, but without creating an excessive burden on them. The different elements of our budget have different purposes.

- For **teaching**, we invest in the interests of students and for wider public benefit. We want to ensure the availability of high-quality, cost-effective higher education across the country, so we invest in high-cost subjects at undergraduate and postgraduate levels including (but not limited to) medicine, science, engineering and agriculture. We support subjects which are strategically important and vulnerable, as well as high-cost specialist institutions such as arts institutions. We target funding towards teaching for students who are new to higher education, rather than for those studying for qualifications that are equivalent to, or lower than, ones they already have (though some qualifications are exempt from this policy). We are committed to attracting and retaining students from non-traditional backgrounds, and disabled students, and to supporting postgraduate provision.
- For **research**, the funding method is designed to target funds where research quality is highest – we do not have sufficient money to support all the research that institutions do.
- Knowledge exchange funding** is focussed on high performance to achieve maximum external impact.
- Non-recurrent funding** (special funding and earmarked capital grants) is intended broadly to support the development of the national infrastructure. Special funding supports national facilities such as Jisc (formerly the Joint Information Systems Committee), or strategic changes. Earmarked capital is funding to help universities and colleges invest in their physical infrastructure so it remains fit for purpose. We support innovation and dynamism in the higher education sector through the Catalyst Fund. Funding to support sustainability commitments and investment plans is provided under HEFCE's Capital Investment Framework for institutions that manage their physical infrastructure in an environmentally sustainable way as an integral part of planning. The UK Research Partnership Investment Fund supports investment in higher education research facilities, to stimulate additional investment in higher education research and strengthen its contribution to economic growth. Funding is also provided for specific national programmes, such as to support world-class computer networking and to reduce carbon emissions.

#### JARGON BUSTER

**Catalyst Fund:** Special funding, of up to £50 million for 2013-14, to manage transition to the new finance arrangements in higher education, and to promote and enhance innovative activities that address the Government's key policy priorities.

**Capital Investment Framework (CIF):** A method of assessing higher education institutions' approaches to investing their capital. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF receive their capital without the need to apply: the grants are paid directly in four quarterly payments. Institutions still working towards meeting the CIF requirements need to follow a specific application process.

**UK Research Partnership Investment Fund:** A fund to support investment in higher education research facilities. The fund was set up in 2012 and awards are made through a competitive bidding process.

## How do we do it?

49. Each year we divide the total funds between teaching, research and other funding according to guidance from the Secretary of State. The breakdown of HEFCE funding available for 2013-14 is shown in Table 1.

Table 1 **Breakdown of HEFCE funding available for allocation for 2013-14**

Teaching*	£2,325 million
Research	£1,558 million
Knowledge exchange (HEIF)	£160 million
Special funding	£149 million
Earmarked capital funding	£280 million
<b>Total</b>	<b>£4,472 million</b>

\* The figure for teaching includes funds for student opportunity and other targeted allocations.

## Formula funding

50. Our recurrent grants to institutions are almost entirely allocated by formula. This ensures we are fair, transparent and efficient in how we distribute grants to institutions.

51. Any funding formula will generally require:

- a measure of volume (for example, how many students or research-active staff does an institution have?)
- a measure of cost (for example, how does the cost of physics differ from that of geography or business studies?)
- perhaps, some account of particular policy priorities (for example, is there a national need to give more priority to some activities than others? Should we take account of the relative quality of activity in prioritising funds?).

The first two components are discussed in detail in paragraphs 52 to 59. Our policy priorities are described in paragraphs 47 to 48 above.

## Measures of volume: the distinction between what we fund and what we count for funding purposes

52. In calculating recurrent grant, we adopt certain measures of volume. In general, these measures act as proxies for all the teaching, research and related activities that we are funding, but they do not in themselves define what we fund (or what our funding should be used for). For example, our volume measures are generally defined in terms of the activities of academic departments – how many students or research-active staff they have in a particular subject – but the funding may support the activity of institutions more generally, not just within those academic departments. We generally categorise our volume measures in terms of subject groupings, but these could be considered proxies for the different ways in which institutions undertake their teaching and research activities – for example, reflecting how some activity needs to take place in laboratories, some on field trips, some at the computer and some in lecture theatres.

53. In deciding what we count it is important to remember that we have a fixed budget provided to us by Government and that we are funding institutions, not individual students. Our budget does not change just because we choose one measure of activity rather than another. Our concern, therefore, is to ensure that institutions receive an appropriate, fair share of that fixed budget, in a way that supports accountability, but avoids an excessive burden or unwelcome effects such as pressure on academic standards.

54. We therefore choose our volume measures to reflect factors that are important in higher education, and to take into account some important considerations:

- the extent to which a particular factor can be measured and audited reliably
- the accountability burden on institutions in providing the data
- the extent to which a particular volume measure may or may not influence the distribution of grant
- the messages and incentives that any particular volume measure may give to institutions and the behaviours (desirable or undesirable) it might therefore encourage.

55. These issues are considered further in sections 1B and 1C as we describe how we fund the separate elements of teaching and research.

### **Measures of cost**

56. Periodically, we review information about the relative costs of different types of activity. These reviews are informed by data provided by higher education institutions on their expenditure in academic departments, or on the full economic costs of their teaching. We may also commission separate costing studies of particular aspects of provision, such as the additional costs for institutions of their activities to widen participation. The main variation in costs relates to subject: we need to recognise, for example, that it costs more to teach medicine than chemistry, which in turn costs more than geography, which in turn costs more than history.

57. The relative costs of teaching different subjects were last reviewed in 2012 using data from the Transparent Approach to Costing for Teaching (TRAC(T)) for the years 2007-08 to 2009-10 – the most recent years available. The Transparent Approach to Costing is an activity-based costing system which derives the costs of teaching, research and other activity from HEIs' finance information, and TRAC(T) is the national framework for costing teaching in different subjects. We have used these data to review the assignment of different subject areas (known as 'academic cost centres') to broad price groups, and whether and how those price groups should attract HEFCE grant. Our review is then the subject of consultation with the sector. The 2012 review of teaching costs has informed rates of grant from 2013-14 onwards.

58. However, our concerns are not limited solely to how much things cost: we also need to take account of how those costs are met – recognising in particular that students' tuition fees are expected to meet most teaching costs. We therefore determine rates of grant for teaching by identifying where costs for different subjects exceed the average level that we assume will be met through fee income (though we do not take account of variations in the fees charged by individual institutions). This approach ensures that we are able to prioritise our funding in those areas where it is

most needed, without either disadvantaging those institutions that are able to charge higher fees than the sector average, or subsidising those that might seek a competitive advantage by charging lower fees.

59. Subject fields where the relative costs of research are higher attract a higher rate of HEFCE research funding: for example, laboratory-based research is more expensive than library-based research.

## 1B Teaching funding

60. Our funding method for teaching is designed to have the following five features.

- a. **Transparency:** The funding method should be clear and public. The data on which allocations are based should be auditable and, wherever possible, public.
- b. **Predictability:** The method and its parameters should be predictable, so that an institution knows how decisions it might take, and changes in its circumstances, may affect its funding.
- c. **Fairness:** Differences in funding between institutions should be for justifiable reasons.
- d. **Efficiency:** The funding method should impose as small an administrative burden as possible on institutions.
- e. **Flexibility:** The method should be flexible enough to respond in a strategic manner to external policy changes, and particularly to developments in HEFCE's own policies.

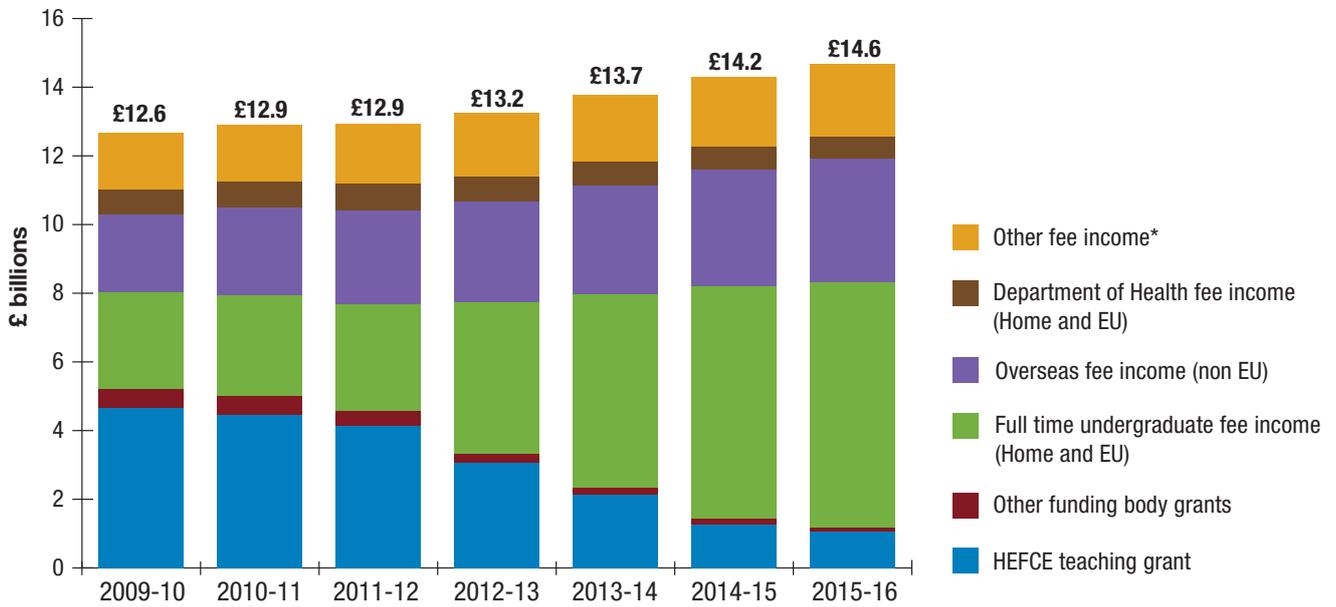
61. Government reforms of higher education financing mean that institutions' income for teaching increasingly comes through students' tuition fees and to a much lesser extent through HEFCE grant. The affordability to students of tuition fees is met (for most undergraduates) through the availability of enhanced loans, which are generally repayable after the student has finished their studies. The reductions to HEFCE grant contribute to meeting the cost to Government of providing these loans. This gradual shift from grants to tuition fees is illustrated in Figure 2, which shows the cumulative changes in real terms to income for teaching from different sources (actual and projected) over the period 2009-10 to 2015 16.

### Teaching funding streams

62. Up to and including 2011-12, HEFCE's mainstream teaching grant was historically based, as the allocation for one year became the baseline for the next. However, the method also had features to ensure that allocations remained consistent with the student numbers at each institution. Our calculations reflected the main variations in costs between broad categories of subject ('price groups'), and in how those costs were to be met from the combination of HEFCE grant and tuition fees (reflecting the regulated fee regime for full-time undergraduates and the unregulated fees for postgraduates and part-time undergraduates).

63. At the same time, we provided a separate stream of funding to support provision co-funded with employers. The funding arrangements for this had similar features to the mainstream teaching grant, but it was calculated and monitored separately, because rates of HEFCE grant were lower to reflect the contribution that employers made towards tuition costs.

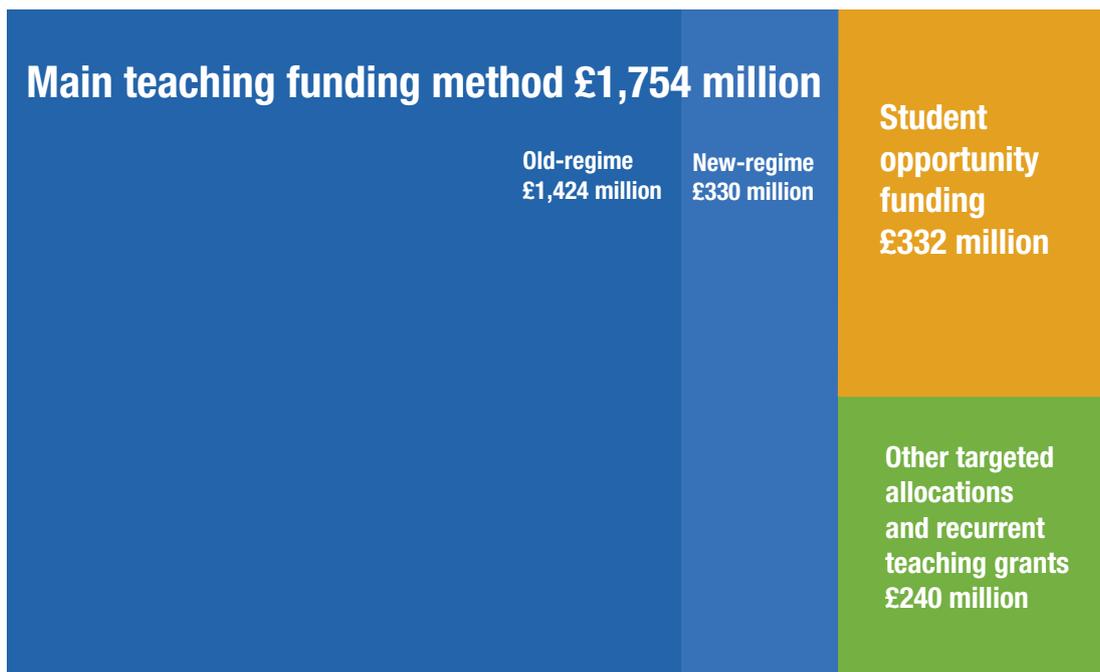
Figure 2 Breakdown of teaching funds from 2009-10 to 2015-16



Source: Data based on institutional financial forecasts, including actual income for the period up to and including 2011-12, and forecast income for 2012-13 to 2015-16.

\* Other fee income includes part-time fee income, full-time postgraduate fees and other fees.

Figure 3 Elements of teaching grant, 2013-14: total £2,383 million



64. From 2012-13, there are two distinct groups of students in higher education in England.

- a. **'Old-regime' students:** Those who entered before 1 September 2012 and are therefore subject to the pre-2012-13 fee and funding regime. They include those whose fees are limited by law (mostly full-time undergraduates in 2011-12) and those whose fees are not limited in this way (such as most postgraduates and part-time undergraduates).
- b. **'New-regime' students:** Those entering on or after 1 September 2012 who are therefore subject to the new fee and funding regime. Again they include those whose fees are limited by law (applying to most undergraduates, whether studying full-time or part-time) and those, such as most postgraduates, whose fees are not limited in this way.

65. In 2012-13, we began a process of phasing out the mainstream teaching grant that institutions received in 2011-12, as successive cohorts of old-regime students complete their studies. We also began to provide grant for new-regime students in high-cost subjects. This is increasing as successive cohorts are recruited and continue.

66. In addition to these main allocations of funding for old-regime and new-regime students, we are providing various targeted allocations and other recurrent teaching grants. Most of these are based on both old-regime and new-regime student numbers, or are not informed by student numbers.

### Data sources

67. For HEIs, there are two main data returns that we use to inform our teaching grant and SNC allocations. These are as follows.

- a. **The Higher Education Students Early Statistics (HESES) survey.** This is a return submitted directly to us that provides aggregate information on numbers of students. It is submitted by institutions each year in December and reports on the student numbers in the current academic year. This ensures our funding decisions are based on the most up-to-date information available. However, because it is provided in-year, it includes elements of forecasting relating to students' activity up until the end of the academic year. It also includes an early forecast of student numbers for the following academic year.
- b. **The Higher Education Statistics Agency individualised student record.** This is submitted at the end of the academic year. We use it to gain information about student characteristics that is used, for example, in our funding allocations for student opportunity. We also use it to review and finalise the main teaching funding allocations so that these are ultimately based on the final actual student numbers in the year. We may also reconcile it against the HESES data previously provided to us by HEIs and use it as a basis also to review other teaching grant allocations. We receive the HESA data approximately 12 months after the equivalent HESES data. Information about the HESA individualised student record is available at [www.hesa.ac.uk/index.php?option=com\\_studrec&Itemid=232&menu=12051](http://www.hesa.ac.uk/index.php?option=com_studrec&Itemid=232&menu=12051)

68. FECs make equivalent data returns. These are the Higher Education in Further Education: Students (HEIFES) survey (the equivalent of HESES) and the individualised learner record (ILR), which is submitted to the Data Service and is the equivalent of the HESA individualised student record.

### The three-stage process to finalise teaching grants

69. The changes to the finance arrangements for higher education require significant reductions to HEFCE's teaching grant. These are being phased in as successive cohorts of old-regime students complete their studies and are replaced by successive cohorts of new-regime students. Each year's HEFCE grant needs to reflect the changing balance of student numbers between those recruited before the fee regime changed (in respect of whom we pay higher rates of grant) and those recruited afterwards (where grant rates are much lower). However, we also need to pay grant from the beginning of the academic year, before we have any certainty about the student numbers involved. This requires an iterative process of refining allocations as we become more certain of the student numbers.

70. We have therefore adopted, from 2012-13, a three-stage process to calculate and review the grant we pay to institutions for each academic year as we get more up-to-date student data. This balances the need to pay grant from August, before student numbers for the year are known, with the need to ensure, in the interests of fairness and accountability, that allocations finally reflect actual student numbers in the year. Initial allocations are based on forecast student numbers, and are adjusted over the following two years as finalised student numbers become available. This three-stage process applies to our main teaching grant allocations for old-regime and new-regime students. Most targeted allocations are not subject to the three-stage process, except for one allocation for new-regime students attending courses in London (see paragraphs 109-110).

71. The allocations we announce in March for the following academic year are therefore highly provisional, and will only be confirmed once we have received the final student data for that year.

72. For 2013-14, this three-stage process comprises the following.

- a. **Stage 1:** An initial allocation in March 2013, using forecast 2013-14 full-time equivalent student numbers (FTEs) submitted in the 2012 HESES and HEIFES surveys, completed respectively by HEIs and FECs.
- b. **Stage 2:** An adjusted allocation in March 2014, using in-year 2013-14 student FTEs submitted by institutions in the 2013 HESES and HEIFES surveys.
- c. **Stage 3:** A final allocation in 2015, using final student numbers from 2013-14 HESA and ILR data.

73. A similar iterative approach will apply for our funding for 2014-15. This means that each March, we announce allocations simultaneously for separate years' funding, each at different stages of this process – for example, in March 2014 we will announce initial allocations for 2014-15, adjusted allocations for 2013-14, and final allocations for 2012-13 (see figure 4). We will look to simplify this approach when the year-on-year funding changes are reduced in scale, in light of student number policies in operation at that time.

Figure 4 The three-stage process for 2013-14

Funding year	Announcement date		
	March 2013	March 2014	March 2015
Funding for academic year 2012-13	Adjusted allocations for 2012-13	Final allocations for 2012-13	
Funding for academic year 2013-14	Initial allocations for 2013-14	Adjusted allocations for 2013-14	Final allocations for 2013-14
Funding for academic year 2014-15		Initial allocations for 2014-15	Adjusted allocations for 2014-15
Funding for academic year 2015-16			Initial allocations for 2015-16

### Funding for new-regime students

74. Subject-based funding for new-regime students is allocated using the following formula:

- sector-wide funding rates by price group and level

#### multiplied by

- 2013-14 new-regime FTEs reported to us by institutions

#### multiplied by

- a scaling factor (to ensure total allocations remain within budget). For 2013-14, this scaling factor has initially been set at 1.01.

75. Sector-wide funding rates for new-regime students are informed by the assignment of subject areas (known as 'academic cost centres') to five price groups.

- Price group A:** The clinical years of study for medicine, dentistry and veterinary science. This price group applies only to higher education institutions that provide training for students seeking a first registrable qualification as a doctor, dentist or veterinary surgeon or who are already qualified in those professions.
- Price group B:** Laboratory-based science, engineering and technology subjects.
- Price group C1:** Intermediate-cost subjects where average costs across the sector exceed £7,500. This group comprises archaeology, design and creative arts, information technology and systems sciences, software engineering, and media studies.
- Price group C2:** Intermediate-cost subjects with a laboratory, studio or fieldwork element, such as geography, art and design, languages or computing. This price group also includes all students on placement for a sandwich year out.
- Price group D:** Classroom-based subjects such as humanities, business or social sciences.

76. As a result of HEFCE's reduced grant, and following consultation with the sector<sup>3</sup>, our teaching funding is targeted generally towards meeting some of the additional costs of teaching new-regime students high-cost subjects.

77. We fund undergraduate provision through the main allocation for new-regime students only in subjects where data show that average costs for providers exceed £7,500 – that is, price groups A to C1. Funding for postgraduate taught provision generally reflects all subjects in price groups A to C2. We provide higher rates of grant for postgraduate taught provision than for undergraduate provision. This is because postgraduates do not generally have access to publicly funded loans to meet their tuition fees, so there is likely to be less scope for providers to set their fees at as high a level as for undergraduates. The rates of grant for postgraduate taught students reflect:

- the same rates of grant provided for undergraduate provision

**plus**

- additional funding for all subjects in price groups A to C, except where students have access to the undergraduate student support regime (postgraduate Initial Teacher Training students and some studying architecture).

78. Table 2 shows initial rates of grant for new-regime students for the academic years 2013-14 and 2014-15. Funding rates for part-time provision are the same, pro rata, as for full-time provision.

79. The scaling factor is a multiplier that we apply in the teaching funding method to ensure our overall allocations match the funding we have available. It is necessary because we have a fixed budget provided by Government, which we use to support provision for a variable number and mix of students. If our calculations, based on the student FTEs reported by providers multiplied by the relevant rates of funding, result in a total higher than we can afford, then the scaling factor will be used to reduce the total allocation to the sum available. This might arise, for example, if there were a large increase in student numbers or in the proportions reported in the highest cost price groups. Equally, the scaling factor can be used to scale up allocations when this is affordable.

80. A scaling factor is not a new feature of our funding method: similar elements have been used in the past to provide an uplift towards inflation, or a pro rata reduction or saving. A scaling factor of 1 means we can maintain grant rates or budgets at previous levels; a factor greater than 1 equates to some increase to those rates and budgets to allow for inflation, while a factor less than 1 equates to a pro rata cash reduction. Scaling factors can be applied differentially to different elements of teaching grant, depending on spending priorities, but for 2013-14, we have applied the same scaling factor of 1.01 to almost all elements. This represents a 1 per cent uplift (in cash rather than in real terms).

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<sup>3</sup> See 'Student number controls and teaching funding: Consultation on arrangements for 2013-14 and beyond' (HEFCE 2012/04), available online at [www.hefce.ac.uk/pubs/year/2012/201204/](http://www.hefce.ac.uk/pubs/year/2012/201204/)

Table 2 Rates of HEFCE funding for price groups per new-regime FTE from 2013-14 onward (before incorporating the scaling factor)

Price group	Subjects	Undergraduates and postgraduates on courses eligible for undergraduate student support (£)	Postgraduate taught students on courses not eligible for undergraduate student support (£)
A	Clinical years of study in medicine, dentistry and veterinary science	10,000	11,100
B	Laboratory-based science, engineering and technology Agriculture and forestry	1,500	2,600
C1: Subjects in price group C with average costs greater than £7,500	Archaeology Design and creative arts Information technology and systems sciences, software engineering Media studies	250	1,350
C2: Subjects in price group C with average costs no more than £7,500	Other intermediate cost subjects with a laboratory, studio or fieldwork element. This includes all students on placements for sandwich years out	0	1,100
D	Classroom-based subjects	0	0

### Funding for old-regime students

81. We provide separate allocations for students previously funded through our 'mainstream' teaching grant up to 2011-12, and those who were employer co-funded (attracting lower grant rates).

82. For old-regime students, we allocate funding using the following formula:

- 2011-12 institutional funding rates (by price group, mode and level)

#### multiplied by

- 2013-14 old-regime student FTEs reported to us by institutions

#### multiplied by

- a scaling factor to ensure total allocations remain within budget. In our allocations announced in March 2013, this scaling factor has been set at 1.01.

83. The funding rates are not standard sector-wide ones across modes or levels. Instead they are individual rates for each institution, and depend on its student population in 2011-12 and the HEFCE grant associated with it for that year. This approach ensures that the phasing out of funding reflects historic funding rates, and thereby minimises instability.

84. Old-regime funding rates for a particular category of students may vary between institutions for a number of reasons.

- a. **The 'tolerance band' position of the institution in 2011-12.** The previous funding method provided similar levels of resource (HEFCE grant and assumed

fee income) for similar activity, but modest variation (generally of up to  $\pm 5$  per cent) compared with standard resource levels was possible for institutions. Different institutional positions in this  $\pm 5$  per cent tolerance band in 2011-12 therefore result in slightly higher or lower than standard grant rates for individual institutions.

- b. **The mix of students in particular categories.** Under our previous funding method, rates of HEFCE grant could vary with the mix of students subject to different sector-wide fee assumptions. For example, although we generally assumed a uniform level of fees for full-time undergraduate students, lower fee assumptions applied to students on a year's study placement overseas. Depending on the numbers of such students at an institution, this could increase the calculated rate of HEFCE grant for a particular category of students, so that overall resource rates remained appropriate.
- c. **London weighting.** This varied depending on where students attended: in general, in the resource calculations of our previous funding method, institutions in inner London received a weighting of 8 per cent, those in outer London 5 per cent and others nil. However, variations to this applied for individual institutions to reflect the mix of their activity that took place across the inner, outer or outside London regions.
- d. **The partial completion weighting.** This was a weighting in our previous funding method to reflect the activity of students who did not complete a full year of study. This weighting factor varied by institution.
- e. **Variable funding rates for employer co-funded provision.** The separate allocations of funding for employer co-funded provision up to 2011-12 provided different rates of grant for different institutions, depending on employers' expected contributions towards costs.

85. HEFCE 2010/24 provides further background on how grant was calculated historically, and the rationale behind the formula formerly used to calculate institutions' mainstream teaching funding, on which funding rates for old-regime students are based.

86. For old-regime students there are only four price groups, consistent with their funding up to 2011-12. For them, price group C is not split between C1 and C2, and the academic cost centres for media studies and sports science are assigned to price groups B, C and/or D depending on the outcomes of previous institutional reviews. All price groups are eligible for funding, at the varying rates.

87. The use of a scaling factor applies equally in our funding for old-regime students as it does for new-regime students (see paragraphs 79 and 80).

### **Targeted allocations**

88. As well as the main elements of teaching grant relating to old-regime and new-regime students, we also provide targeted allocations which support important or vulnerable features of higher education in accordance with key policy initiatives (although many of the activities involved are likely to be supported by the main teaching grant as well). We review the total amount allocated through each targeted allocation, and the distribution of many of them between individual institutions, each year.

89. The largest targeted allocation is for student opportunity, which includes elements of funding for widening access to higher education for people from disadvantaged backgrounds, improving provision for disabled students, and improving student retention and success. Other targeted teaching allocations recognise the additional costs of, for example, part-time students or of specialist institutions.

90. Targeted allocations can be either variable or fixed. Variable allocations recognise costs that vary according to the volume of learning and teaching activity. Fixed allocations recognise largely fixed costs. The targeted allocations that apply for 2013-14 are shown in Table 3, and are described further in paragraphs 91 to 113.

### Student opportunity

91. We allocate funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged backgrounds and students with disabilities, and improving retention for students who may be less likely to continue their studies. The allocations for student opportunity are not a form of individual student support, but allocations to institutions that reflect the additional costs they may face because of the mix of students that they recruit.

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**Student opportunity:** This refers to activities designed to ensure that everyone with the potential to benefit from higher education has the opportunity to do so.

**Improving retention:** Some people need more support than others to complete their studies because of their background or circumstances. The 'improving retention' element of student opportunity funding helps institutions provide this support.

Table 3 Targeted allocations

	Total 2013-14 allocation (£ million)	Qualifying institutions	Paragraph reference
<b>Variable</b>			
<b>Student opportunity funding</b>			
Widening access for people from disadvantaged backgrounds (full-time and part-time)	90	HEIs and FECs	93-96
Improving retention (full-time and part-time)	228	HEIs and FECs	97-99
Widening access and improving provision for disabled students	15	HEIs and FECs	100-101
<b>Student opportunity total</b>	<b>332</b>	<b>HEIs and FECs</b>	
Part-time undergraduates	26	HEIs and FECs	102
Accelerated full-time undergraduate provision	3	HEIs and FECs	103-104
Intensive postgraduate taught provision	36	HEIs and FECs	103-104
Erasmus fee compensation	14	HEIs and FECs	105-107
New-regime students attending courses in London	44	HEIs and FECs	109-110
<b>Fixed</b>			
Institution-specific high-cost distinctive provision	66	HEIs only	111
Very high-cost STEM subjects	23	HEIs only	112-113

Note: 'STEM' = 'Science, technology, engineering and mathematics'.

92. The formulae that we use for these allocations are designed to target funding towards those institutions that do more to widen participation or that recruit students who are likely to need more support. We calculate the elements of student opportunity funding on a pro rata basis, based on weighted FTE student numbers. For each element of funding we use an institutional weighting factor that reflects the broad characteristics of an institution's students (old- and new-regime) giving rise to additional costs.

### ***Widening access for people from disadvantaged backgrounds***

93. The element of student opportunity funding for widening access recognises the extra costs associated with recruiting and supporting undergraduate students from disadvantaged backgrounds who are currently under-represented in higher education.

94. Institutions' allocations are calculated pro rata based on 2012-13 weighted student FTEs, where the weightings reflect the broad institutional mix of students from different census wards and the London weighting.

95. To calculate the institutional weightings (separately for full-time and part-time undergraduates), we use postcode information from the individualised student records provided by HEIs to HESA and by FECs to the Data Service to map each undergraduate new entrant to a census ward. We weight these students according to the young higher education participation rate (for young full-time undergraduates), or the proportion of adults with a higher education qualification (for part-time and mature full-time undergraduates), within 2001 census wards. Students from wards with the lowest rates of higher education participation or qualification receive the highest weightings, while other students may receive a weighting of zero.

96. Because the funding is for widening access to higher education for those who wish to enter for the first time, those part-time and mature students who already hold a higher education qualification at the same level as or higher than their current qualification aim, or who have unknown entry qualifications, are given a weighting of zero irrespective of their ward. The overall institutional weightings reflect the number of full-time or part-time undergraduate new entrants weighted by ward, divided by the unweighted full-time or part-time undergraduate new entrants. Only students who complete their year of study are included in these calculations.

### ***Improving retention***

97. Like the element for widening access, funding for improving institutions' retention of their full-time undergraduates is allocated pro rata based on weighted FTE student numbers. We use institutional weighting factors that reflect those broad characteristics of their students which give rise to additional costs. We have found that the main factors affecting the likelihood of a student continuing their studies are entry qualifications and age. In general terms, those with lower entry qualifications are less likely to continue than those with, say, high A-level grades; similarly, mature students are less likely to continue than young entrants. Institutions are likely to face additional costs in supporting such students to continue. We therefore weight students according to these two factors and determine an overall average weight for the institution as a whole. In total there are six student weighting categories: two age categories (young and mature, where 'mature' means aged 21 or over on entry), multiplied by three risk categories associated with entry qualifications (low, medium and high). We also apply London weighting where appropriate.

98. The funding allocated to improve retention of part-time students is allocated pro rata based on part-time FTE student numbers, incorporating the relevant London weighting.

99. The total funding allocated for improving retention in 2013-14 is £174 million for full-time undergraduates and £54 million for part-time undergraduates.

***Widening access and improving provision for disabled students.***

100. The element of student opportunity funding for widening access and improving provision for disabled students reflects institutions' success in recruiting and retaining disabled students.

101. For 2013-14, the £15 million allocation is made pro rata on the basis of weighted student FTEs from 2012-13. We assign each institution to one of four weighting bands according to the proportion of its undergraduate and postgraduate students (old- and new-regime) who receive the Disabled Students Allowance<sup>4</sup>, determined from HESA and Data Service individualised student data. The calculations include London weighting where appropriate.

***Part-time undergraduates***

102. There are extra costs associated with part-time students. For example, an institution's administration costs for two part-time students, each with an FTE of 0.5, will be higher than for one full-time student. The targeted allocation for part-time undergraduates recognises these additional costs. It is allocated pro rata on the basis of part-time undergraduate FTEs in price groups A to C1 for new-regime students, and price groups A to D for old-regime students.

***Flexible, accelerated or intensive provision***

103. Some courses are taught over longer periods within the year than others, and so cost more. Students studying on courses that last for 45 weeks or more within one academic year attract a targeted allocation, on top of any teaching grant provided through the main allocations for old- and new-regime students. This does not apply to courses in price group A, where the intensity of study has already been taken into account in the cost weighting, or to taught postgraduate provision in price group D, which generally also attracts no funding through the main teaching grant. For 2013 14, we are allocating the following funds.

- a. £3 million to support full-time accelerated provision for undergraduates. This is no longer provided for part-time undergraduates, as it is intended to support accelerated degrees such as two-year honours degrees.
- b. £36 million to support intensive taught postgraduate provision.

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<sup>4</sup> The Disabled Students Allowance is an allowance to assist students who can show that they have a disability or medical condition that affects their ability to study.

104. The rates of funding we are providing per FTE are:

Price group	Accelerated undergraduate	Intensive postgraduate taught
A	£0	£0
B	£1,543	£1,543
C	£1,180	£1,180
D	£908	£0

### ***Erasmus years abroad***

105. For many years, we have been providing compensation to institutions within their mainstream teaching grant so that they do not need to charge a tuition fee to students spending a whole year abroad as part of the EU's Erasmus scheme<sup>5</sup>. These are commonly, but not exclusively, modern language students.

106. If this funding were treated in the same way as other elements of mainstream teaching grant, it would start to be phased out from 2012-13. However, students usually take their language years abroad in year three of a four-year full-time course. This means that, by and large, those taking an Erasmus year abroad in 2012-13 and 2013-14 will be old-regime students. We therefore wish to avoid phasing out this funding during these years.

107. We are therefore providing £14 million as a targeted allocation for Erasmus fee compensation in 2013-14, to support students taking a whole Erasmus year abroad. The allocations are based on 2012-13 Erasmus student numbers, but two different grant rates apply.

- a. We provide £4,500 for the small proportion of students who take a whole Erasmus year abroad in their second year of study, reflecting that in 2013-14, such students will be studying under the new regime.
- b. We provide £1,725 for other Erasmus year-abroad students, who will still be subject to the previous fee regime.

108. New arrangements to support institutions' participation in exchange programmes overseas are being introduced from 2014-15. Further information is provided in 'Finance arrangements for Erasmus and other student mobility years abroad from 2013-14' (HEFCE Circular letter 14/2013)<sup>6</sup>.

### ***New-regime students attending courses in London***

109. We provide a separate allocation relating to new-regime students attending courses in London, to contribute to meeting the additional costs of operating in London. This applies to all new-regime students in all price groups, with rates differing between price groups and between inner and outer London. This allocation is made only for new-regime students, as the rates of funding in our main allocation

<sup>5</sup> Erasmus is the European Union's Action Scheme for the Mobility of University Students, part of the EU's Lifelong Learning Programme. Students taking a whole year abroad under the scheme are subject to a zero tuition fee, with HEFCE providing compensation to their home institution for the 'half fee' that would otherwise be chargeable.

<sup>6</sup> Available online at [www.hefce.ac.uk/pubs/year/2013/cl142013/](http://www.hefce.ac.uk/pubs/year/2013/cl142013/)

for old-regime students already incorporate London weightings, as described in paragraph 84c. For 2013-14 the rates are:

Price group	Inner London rate	Outer London rate
A	£1,186	£756
B	£504	£321
C1 and C2	£386	£245
D	£297	£189

110. The allocation is based on 2013-14 student numbers, to ensure consistency with the London weighting provided in the main allocation for old-regime students. For the initial 2013-14 allocations, these numbers are those forecast in the 2012 HESES and HEIFES surveys. For this reason, this is the only 2013-14 targeted allocation that is subject to our three-stage process of recalculation as updated student numbers are received.

#### ***Institution-specific high-cost distinctive provision***

111. The targeted allocation for institution-specific high-cost distinctive provision recognises that, due to the nature of their provision and their institutional circumstances and characteristics, certain institutions face higher costs, which cannot be met by the new fee regime. We reviewed this funding in 2012, to determine the extent to which the higher costs incurred by these institutions should be supported by additional HEFCE funds. We are making a fixed target allocation of £66 million as a result.

#### ***Very high-cost science, technology, engineering and mathematics subjects***

112. Since 2007 HEFCE has provided funding to help secure the provision of four very high-cost science, technology, engineering and mathematics (STEM) subjects. These are chemistry, physics, chemical engineering, and mineral, metallurgy and materials engineering.

113. We are therefore providing a targeted allocation, totalling £23 million, for these subjects to recognise their high delivery costs. This allocation supplements the standard HEFCE funding for price group B subjects in the main allocations for old- and new-regime students. It is based on undergraduate and postgraduate student numbers in all years of study.

#### **Other recurrent teaching grants**

114. There are a small number of other recurrent grants that support teaching but are not part of the main teaching allocation. They comprise:

- clinical academic consultants' pay (£18 million)
- senior academic general practitioners' pay (£1 million)
- additional costs of NHS pensions (£5 million)
- transitional funding for students aiming for qualifications equivalent to or lower than ones which they already hold (ELQs) (£3 million).

115. From 2008-09, students aiming for an ELQ are generally not counted towards our funding allocations unless they are covered by an exemption. Since then, we have been phasing out funding as students who were studying for an ELQ prior to 2008-09 complete their studies. 2013-14 is the final year in which this transitional funding is being provided.

## The volume measure for teaching grant

116. The volume measure for our teaching funding method is based on the number of students at the institution.

### Which students do we count?

117. In general terms, we count students from the UK and other EU countries (but not from outside the EU), if:

- a. They are on a recognised taught course of higher education or, in the case of HEIs, if they are studying credits that are at higher education level<sup>7</sup>. We do not count postgraduate research students for teaching funding purposes, because research is funded through our research funding method.
- b. Funding responsibility for the student's place does not rest with another EU public source. If, for example, their teaching is funded by the NCTL or the NHS, it should not also be funded by HEFCE. Funding responsibility for taught Open University students in Scotland, Wales and Northern Ireland rests with the devolved administrations, rather than HEFCE.
- c. They are on a course open to any suitably qualified candidate. If, for example, a course was open only to candidates from a particular employer, we would not consider the course to be open.
- d. They are not aiming for an ELQ; or, if they are, they are exempt from the ELQ policy (see paragraphs 114-115). Those who are exempt include: students aiming for a foundation degree; those aiming for a qualification in certain public sector professions, such as medicine, nursing, social work or teaching; and those who are in receipt of the Disabled Students' Allowance.
- e. They are studying at least 3 per cent of a full-time year of study – equivalent to about one week's study in the year.

118. Not all countable students will attract funding for the institution through every element of HEFCE teaching grant. For example, an undergraduate in price group D or C2 will not attract funding through the main allocation for new-regime students (because the rate of grant for them is zero), but may do so through the funding for student opportunity.

### How do we count these students?

119. In general, students are only fully counted if they complete their full year of study. In order to count as completing for funding purposes, a student must normally undergo the final assessment for each module that they intended to complete, within 13 months from the start of that year. If the student misses the final assessment, but

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<sup>7</sup> Broadly speaking, 'higher education level' means study of an academic level above A-level standard.

nevertheless passes the module, this also constitutes completion. Institutions receive income through tuition fees for students reported as non-completions: the first instalment of tuition fees paid on behalf of full-time undergraduate students by the Student Loans Company covers 25 per cent of the annual cost and is paid early in the academic year, with further instalments paid as students continue their studies during the year.

120. Students are counted in terms of FTEs. Full-time students count as one FTE. Students on a sandwich year-out (a work experience placement in business or industry) are counted as 0.5 FTE. The FTE of part-time students depends on the intensity of their study by comparison with an equivalent full-time student, based either on how long it takes them to complete their qualifications, or on how many credit points they study in the year.

## 1C Funds for research

121. Public research funds are provided under a system known as 'dual support'.

- a. HEFCE provides funding to ensure that the research base has the capacity to undertake high-quality innovative research and to contribute to supporting the research infrastructure. Our funds are not allocated to any specific activity – they may go towards the costs of salaries for permanent academic staff, premises, libraries and central computing, among other things. They support fundamental and 'blue skies' research in institutions and contribute to the cost of training new researchers. This research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.
- b. The Research Councils provide funding for specific programmes and projects. This is calculated as a proportion of the full economic cost of the work to be done. They also support research studentships.

122. We aim to target funding where research quality is highest. Our main research funding method distributes grant based on the quality, volume and relative cost of research in different areas.

123. We are committed to promoting excellent research. HEFCE research funds are distributed selectively to HEIs that have demonstrated the quality of their research with reference to national and international standards. Since 1986, quality has been measured in a periodic Research Assessment Exercise (RAE). This is a UK-wide peer-review exercise that has produced quality ratings for those research groups that institutions chose to submit for assessment in their respective subject areas. The research funding allocations for the period from 2009-10 to 2014-15 are informed by the outcomes of the last RAE in 2008. More information on RAE 2008 is available at [www.rae.ac.uk](http://www.rae.ac.uk).

124. The RAE is being replaced by the Research Excellence Framework (REF), which has been developed in consultation with the sector as the system for assessing research in higher education institutions. Information about the REF is available at [www.ref.ac.uk](http://www.ref.ac.uk). The REF will be completed in 2014 and its outcomes will be used to allocate research funding from 2015-16.

125. FECs are not eligible for our research funding, because we are only empowered to fund them for prescribed courses of higher education (see paragraphs 36 and 40d).

126. Our recurrent funding for research in 2013-14 is £1,558 million.

## Research funding streams

127. Our recurrent research funding is known as quality-related research (QR) funding. The main research funding method (known as 'mainstream QR') distributes grant money based on the quality, volume and relative cost of research in different areas. It accounts for about two-thirds of the total QR funding we allocate.

128. First we determine how much funding to provide for research in different subjects, then we divide the total for each subject between institutions. These decisions take into account the volume of research (based on numbers of research-active staff), the relative costs (reflecting, for example, the fact that laboratory-based research is more expensive than library-based research), any government policy priorities for particular subjects and the quality of research as measured in the RAE.

129. In addition to mainstream QR, allocations are made to contribute towards other research-related costs. These are as follows.

- a. **Funding for research degree programme (RDP) supervision.** This allocation reflects postgraduate research student numbers in departments that attract mainstream QR funding, the relative costs of the subjects they are studying, quality and London weighting.
- b. **Charity support funding.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs of research. We therefore provide additional funding to institutions in proportion to the (London-weighted) income they receive from charities for research.
- c. **Business-related funding.** We also provide funding to support institutions undertaking research with business and industry. This is allocated in proportion to the income they receive from business for research.
- d. **Funding for national research libraries.** This is additional support for five research libraries which we have designated as being of national importance on the basis of a review in 2007.

130. The separate components of QR funding are shown in Figure 5.

## Mainstream quality-related funding

131. There are a number of different components used in our mainstream QR funding method. These are:

- a volume measure
- a quality profile
- subject cost weights
- London weighting.

### JARGON BUSTER

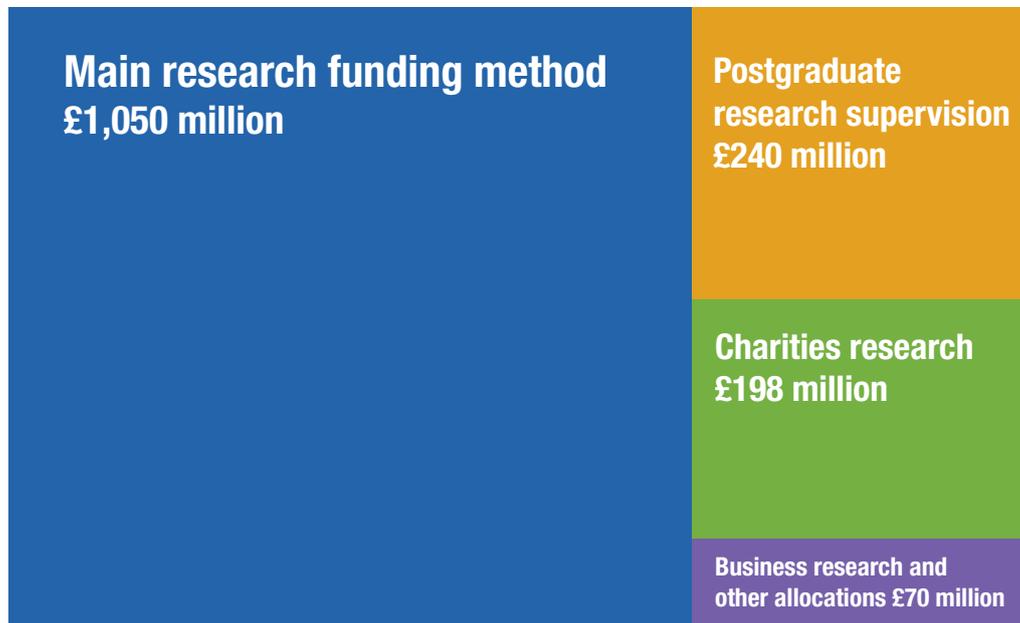
#### Research Assessment

**Exercise:** A periodic, peer-review exercise that rated research quality in UK HEIs and counted numbers of research-active staff. Institutions submitted research groups for assessment in different subject areas and were given quality ratings.

#### Research Excellence

**Framework:** The new system for assessing the quality and impact of research in UK HEIs. It replaces the RAE and will be completed in 2014, and used to inform funding from 2015-16.

Figure 5 Elements of research grant, 2013-14: total £1,558 million



### The volume measure

132. The volume measure in our research funding method is the number of research-active staff employed by the institution (counted in FTE terms), multiplied by the proportion of research that meets a quality threshold in the RAE. The quality threshold is explained in further detail below.

133. These staff numbers are fixed between RAEs to ensure they are consistent with the quality ratings, which were informed by the staff submitted. This means that there is a step-change in volume at each RAE. As is the case with teaching grant, the volume measure for research determines what we count for funding purposes, but does not define what we fund (or what our funding should be used for).

### The quality profile

134. RAE 2008 reviewed research in all disciplines, divided into 67 subject areas, known as units of assessment (UOAs). A two-tier panel structure was used to determine the profile of research quality in each submission, with 15 main panels (A to O) co-ordinating and advising on the work of 67 sub-panels within cognate disciplines. It was for institutions to decide which (if any) research groups to submit for assessment in these UOAs.

135. For each submission made, the panels determined a quality profile, identifying what proportion of the research met certain quality thresholds. This profile was on a five-point scale:

- **four-star (4\*)** – quality that is world-leading
- **three-star (3\*)** – quality that is internationally excellent
- **two-star (2\*)** – quality that is recognised internationally

- **one-star (1\*)** – quality that is recognised nationally
- **unclassified** – quality that falls below the standard of nationally recognised work.

**Example**

136. The following is an example of quality profiles identified from the 2008 RAE:

UOA 13 (Pharmacy)	FTE staff submitted for assessment	Percentage of research activity in the submission judged to meet the standard for:				
		4*	3*	2*	1*	Unclassified
		highest quality ←————→ lowest quality				
University X	50	15%	25%	40%	15%	5%
University Y	20	0%	5%	40%	45%	10%

**Subject cost weights**

137. There are three subject cost weights:

		Weighting
A	High-cost laboratory and clinical subjects	1.6
B	Intermediate-cost subjects	1.3
C	Others	1.0

**London weighting**

138. We provide the London weighting as a percentage of the funding calculated for mainstream QR. This is 12 per cent for institutions in inner London and 8 per cent for institutions in outer London.

**Calculating mainstream QR funding**

139. There are three stages to the allocation of mainstream QR funds:

- **Stage 1** – determining the amount provided for the 15 main RAE panel disciplines
- **Stage 2** – distributing the main panel totals between the 67 UOAs
- **Stage 3** – distributing the totals for each UOA between institutions.

**Stage 1: Determining the amount provided for the 15 main RAE panel disciplines**

140. Our first step in distributing mainstream QR is to decide how much to allocate to different subjects. The total is divided between the subject fields of the 15 RAE main panels in proportion to the volume of research in each field that met or exceeded the 3\* quality level in RAE 2008, weighted to reflect the relative costs of research in different subjects. We adjust the totals for each of the 15 main panels to at least maintain the relative proportion of funding for subjects in science, engineering,

medicine and mathematics (main panels A to G) compared with 2008-09. We also enhance the mainstream QR grant allocated for research in geography and psychology, recognising that around half of the research activity in these disciplines returned to RAE 2008 could reasonably be regarded as analogous to work in science disciplines rather than in the other social sciences.

**Stages 2 and 3: Distributing the main panel totals between UOAs and then institutions**

141. The next steps are to disaggregate the totals for each main panel subject group between its constituent UOAs, and then to disaggregate the totals for each UOA between institutions. For both calculations, this is in proportion to the volume of activity reaching the 3\* and 4\* quality levels in RAE 2008, multiplied by quality weights, and taking cost weights into account where these vary within a main panel group. We apply weightings to the volume of research attributable to each RAE quality rating. These weightings ensure that our funding of research is highly selective, as shown in Table 4.

Table 4 **Research funding weightings**

Quality rating (with abbreviated description)	Funding weighting
4* (world-leading)	3
3* (internationally excellent)	1
2* (recognised internationally)	0
1* (recognised nationally)	0
Unclassified (below the standard of nationally recognised work)	0

**Research degree programme supervision fund**

142. Funding for RDP supervision is provided on the basis of postgraduate research student FTE numbers in all departments that receive mainstream QR funding for research<sup>8</sup>. Our first step in determining RDP supervision fund allocations is to calculate a quality score for each department. This consists of the amount of 3\* and 4\* activity as a proportion of total activity at 2\* quality and above, in its RAE 2008 quality profile. For each eligible department, postgraduate research FTEs are subjected to London weighting (using the percentages given in paragraph 138), the cost weightings given in paragraph 137 and the quality score. We then distribute the total available funding pro rata to these weighted FTEs. These results are then moderated.

143. While we aim to promote the supervision of postgraduate research students in high-quality research environments, we are mindful that this element in our grant is designed explicitly to support the education of all of the students counted in the allocation. We have introduced a cap on the maximum amount of funding per London-weighted FTE to limit the differentials in the rate of funding per student within a cost

<sup>8</sup> The term ‘department’ means a group of staff and their research activity returned in a single submission within one subject UOA, irrespective of whether this forms a single administrative unit within the institution.

band. The results produced by the method described above are therefore moderated to ensure that no institution receives an increase of more than 30 per cent in the rate of grant per London-weighted FTE for any given UOA compared with 2011-12. Final rates of funding are calculated to ensure that the full budget is allocated.

144. We derive postgraduate research student numbers from institutions' HESA data for 2011-12 and earlier years, which HEIs submit in December each year. As a condition of grant, we require all institutions to comply with the stipulations on postgraduate research programmes of Chapter B11 of the Quality Assurance Agency for Higher Education (QAA) UK Quality Code for Higher Education, with regard to those departments that attract RDP supervision funding<sup>9</sup>.

### **Charity support element**

145. Funding for the charity support element is provided in proportion to the amount of eligible research income from charities reported in the two most recent HESA finance statistics returns, subjected to London weighting (see paragraph 138). There is no minimum quality threshold for eligibility for this funding.

### **Business research element**

146. In 2007-08 we established a new business research element within QR funding, to support HEIs undertaking research with business and industry. The allocation is provided in proportion to the amount of research income institutions receive from UK industry, commerce and public corporations, using data reported by institutions on the HESA Finance Statistical Record for the two most recent years available (for the 2013-14 allocations, these will be 2010-11 and 2011-12 data).

## **1D Knowledge exchange funding through HEIF**

147. Our knowledge exchange formula funding provided through Higher Education Innovation Funding (HEIF) is designed to support and develop a broad range of knowledge exchange activities in HEIs and strengthen links with businesses, public services, communities and the wider public in order to increase economic and social benefit. The funding provides incentives for and supports HEIs to work with business, public and third-sector partners, with a view to exchanging knowledge and thereby improving products, goods and services<sup>10</sup>.

148. Funding of £150 million per annum is available for four years, from 2011-12 to 2014-15. Of this funding, £113 million comes from ring-fenced science and research funding, and £37 million from the HEFCE budget, since knowledge exchange is linked with both research and teaching. These funds are allocated by formula to all eligible HEIs, subject to acceptance by HEFCE of an institutional strategy for knowledge exchange funded from all sources and a plan for use of the HEFCE component.

149. The key features of our knowledge exchange formula method are as follows.

- a. All funding is allocated on the basis of performance, using a combination of measures of income as a proxy for impact on the economy and society. This

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<sup>9</sup> The UK Quality Code for Higher Education is available from [www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/quality-code-B11.aspx](http://www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/quality-code-B11.aspx)

<sup>10</sup> 'Third sector' refers to not-for-profit organisations, community organisations and charities.

aims to achieve the greatest impact from public funding of knowledge exchange. Income from small and medium-sized enterprises is given a double weighting within this component, to signal the importance of working with them and to recognise the higher costs involved.

- b. There is a threshold allocation of £250,000 per year for all HEIs. Institutions that do not achieve an allocation of £250,000 through the formula get no allocation at all. This is intended to ensure that our funding for knowledge exchange is efficient through being targeted on institutions with significant knowledge exchange performance and partnerships.
- c. There is a cap of £2.85 million on an individual formula allocation from 2011-12 to 2014-15. This enables our funding to secure a range of knowledge exchange activities across institutions to meet the diverse needs of the economy and society.
- d. There is a maximum increase of 50 per cent between the annual allocations under the previous round of funding for 2008-09 to 2010-11 and those under the current round from 2011-12 to 2014-15.
- e. 'Transition' funding is provided to ensure that, subject to meeting the £250,000 threshold, no HEI's annual allocation will fall below 50 per cent of its award from the previous round of funding.
- f. Allocations in years 2012-13 to 2014-15 repeat the cash allocations for 2011-12.

150. 'Higher Education Innovation Funding 2011-12 to 2014-15: Policy, final allocations and request for institutional strategies' (HEFCE 2011/16) sets out in more detail the policies and processes for allocating formula funding for knowledge exchange<sup>11</sup>.

151. In addition to the annual allocation of £150 million, we are providing a further £10 million in formula funding for 2013-14 and 2014-15, to enable existing knowledge exchange strategies to be enhanced where there is evidence that the current cap on funding is a constraint to institutions' support of economic growth.

## **1E Non-recurrent funding (special funding and earmarked capital grants)**

152. Non-recurrent funding is used to secure change or fund activities that cannot be addressed through recurrent formula funding. We provide special funding and earmarked capital grant to help deliver our strategic aims. The amounts by strategic aim are set out in Table 5.

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<sup>11</sup> Available online at [www.hefce.ac.uk/pubs/year/2011/201116/](http://www.hefce.ac.uk/pubs/year/2011/201116/)

**Table 5 2013-14 Special funding and earmarked capital grant by strategic aim**

<b>Strategic aim</b>	<b>Funding (£ million)</b>
Learning, teaching and student choice	58.3
Research	221.4
Investment	148.4
Partnership	0.8
Information	0.4
<b>Total</b>	<b>429</b>

153. We aim to provide as much as possible of our funding for learning and teaching, student opportunity, research, and knowledge exchange through recurrent grants. We continually review the level of special funding to ensure that it is justified, and that the amount of special funding that comes from the recurrent baseline continues to decline.

154. Within this approach, and to reduce the burden on HEIs, we seek to minimise the total number of national special funding and earmarked capital programmes that we operate. For 2013-14 we are allocating £149 million for special funding, and a further £280 million for earmarked capital grants.

155. Increasingly, non-recurrent funding programmes – particularly for capital projects – have moved away from bidding exercises. Instead we determine allocations and outcomes against which HEIs can set their own priorities. This approach continues to reduce the burden of administration on HEIs.

### **Earmarked capital**

156. Earmarked capital is additional funding provided by the Government to support sustainable investment in higher education.

157. The UK Research Partnership Investment Fund supports large-scale projects to enhance research facilities and strategic partnerships at UK HEIs that can attract substantial co-investment from private sources. It is allocated through a competitive bidding process.

158. Most of our other earmarked capital streams are allocated by formula, the main elements being the Teaching Capital Investment Fund and the Research Capital Investment Fund. For 2013-14, these have been allocated £35 million and £89 million respectively. All HEIs that receive recurrent funding from HEFCE for teaching or research receive an allocation under these programmes. We also provide capital funding to directly funded FECs. Capital funding for indirectly funded FECs is accessed through the HEI through which they are funded.

159. We are providing a further £6 million for the Revolving Green Fund. This provides recoverable grants to help HEIs in England reduce carbon emissions. Institutions repay the funds from the savings they make.

## Special funding

160. We allocate a small proportion of our total funding to support special funding programmes, to promote specific policies or to contribute towards additional costs that are not recognised through our recurrent funding methods. Special funding also supports the work of some sector bodies, such as Jisc (formerly the Joint Information Systems Committee), the QAA and the Higher Education Academy.

161. The Catalyst Fund provides exceptional funding to help institutions manage transition to and through the new finance arrangements in higher education, and to support key objectives addressing the Government's policy priorities. Funds are awarded following a formal assessment and approval of proposals from institutions. For 2013-14 the Catalyst Fund is allocating £50 million.

## Section 2: Conditions of funding and the student number control

### Accountability for funding

162. Institutions need to be accountable for the funding they receive, but should also be able to demonstrate more broadly the value they provide. We seek this accountability, and to influence the behaviour of institutions, in a number of ways. These can apply individually or in combination.

- a. **Through the funding method itself.** The way in which we calculate the funding will influence how institutions respond: all other things being equal, institutions may concentrate their efforts on those activities that will increase their income. This means that we need to think very carefully about how we fund institutions. We need to consider the desirable behaviours we want to encourage, but equally importantly we need to avoid creating unintended incentives that could lead to undesired behaviours. While the funding method is one means of influencing the sector's behaviour, it is not always the best way of achieving a particular outcome.
- b. **Through conditions of grant.** These require institutions to behave in a particular way, or provide something specific, in return for the grant. If they fail to do so, their grant may be reduced. We expand on conditions of grant in paragraphs 163 to 168.
- c. **Through providing information.** Increasing the transparency of what institutions deliver for the funding they receive improves their public accountability but can also encourage improved performance through greater competition. Examples include the performance indicators published by HESA, the National Student Survey and the data provided on the web-site [www.unistats.com](http://www.unistats.com) (where institutions are required to provide the data that will allow a Key Information Set for each relevant course to be published).

163. We allocate substantial amounts of taxpayers' money to institutions every year. It is important, therefore, that institutions are well managed and accountable for the funding they receive, and that we are accountable, ultimately to Parliament, for the funding we allocate.

164. Our formal relationship with HEIs is governed by a Financial Memorandum<sup>12</sup>. It reflects our responsibility to provide assurances to Parliament that:

- our funds are being used for the purposes for which they were given
- risk management, control and governance in the sector are effective
- value for money is being achieved.

165. The Financial Memorandum is in two parts. Part 1 sets out terms and conditions of grant that apply in common to all HEIs. We review this periodically and consult the sector on its contents. Part 2, known as the 'funding agreement', is issued annually and gives conditions specific to the institution. It includes details of the recurrent grant that we are providing and of the requirements, generally relating

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<sup>12</sup> See 'Model Financial Memorandum between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions' (HEFCE 2010/19), available online at [www.hefce.ac.uk/pubs/year/2010/201019/](http://www.hefce.ac.uk/pubs/year/2010/201019/)

to student numbers, that institutions are expected to meet in return for their grant. Further information on the funding agreement is given in paragraphs 169 to 193.

166. We do not have a Financial Memorandum with FECs because they are accountable to the Skills Funding Agency, not to HEFCE. Instead we issue an annual funding agreement to the FECs that we fund directly: this is similar to that for HEIs, but incorporates those sections of Part 1 of our Financial Memorandum with HEIs that are relevant to FECs.

167. We may make certain elements of our grant subject to specific conditions. For example, when we provide capital grants, we expect them to be spent on the capital projects detailed in institutions' investment plans.

168. Just as we have a Financial Memorandum with HEIs, so BIS has a similar formal relationship with us, which is set out in a Framework Document. This places requirements on us as a condition of the funding we receive from Government and can be read on our web-site at [www.hefce.ac.uk/about/intro/wip/ourrelationshippto-government/](http://www.hefce.ac.uk/about/intro/wip/ourrelationshippto-government/). Further policy guidance and requirements may be set out in the annual grant letter we receive from the Secretary of State.

## The funding agreement

169. The funding agreement sets out the amount of recurrent funding that we will provide to the institution for the academic year, its SNC allocation, and other terms and conditions of grant that apply. Institutions have discretion over how they internally distribute the funding we provide, except where funding has been earmarked for a specific purpose, and as long as the funding is used to support the activities that are eligible for our funding (that is, teaching, research and related activities). Terms and conditions set out in the funding agreement include, for example, requirements to:

- make certain data returns, including those that inform our allocations or that are used for public information purposes, such as the Key Information Set
- comply with regulated tuition fee limits and any access agreement with the Office for Fair Access
- provide or update a strategic statement about widening participation and make annual monitoring returns
- comply with the Concordat to Support Research Integrity and with the QAA UK Quality Code for Higher Education as it relates to postgraduate research programmes<sup>13</sup>.

170. The funding agreement also sets out circumstances under which formulaic changes to recurrent grant allocations may be made. These include:

- recalculations of recurrent teaching grant under our three-stage process, so that allocations reflect final student numbers in the year (see paragraphs 69 to 73)

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<sup>13</sup> The Concordat to Support Research Integrity was published by Universities UK in July 2012 and is available at [www.universitiesuk.ac.uk/highereducation/Pages/Theconcordattosupportresearchintegrity.aspx](http://www.universitiesuk.ac.uk/highereducation/Pages/Theconcordattosupportresearchintegrity.aspx). The QAA UK Quality Code for Higher Education on postgraduate research programmes is available at [www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/quality-code-B11.aspx](http://www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/quality-code-B11.aspx)

- other recalculations of recurrent grant to reflect the findings of any audits or reconciliations of the data provided by institutions that inform funding
- adjustments to allocations arising from institutions' recruitment against the SNC (see paragraphs 171 to 192)
- adjustments to allocations arising from HEIs' recruitment against intake targets for undergraduate medicine and dentistry (see paragraph 193).

## The student number control

### Background

171. From 2012-13, the Government expects that the costs of higher education teaching will primarily be funded through tuition fees paid by students. Most students are eligible for up-front loans, financed by Government, to pay these fees, and the Government also provides maintenance grants and loans for full-time undergraduates to support their living costs. In general terms, students taking certain undergraduate qualifications that are of a higher academic level than any they already hold are eligible for a tuition fee loan and, if studying full-time, to a means-tested maintenance grant and/or loan.

172. Government must cover the full cost of providing maintenance grants and also that proportion of the value of tuition fee and maintenance loans that will not be repaid before the loan is written off. This means there are significant costs to Government of providing student support. It seeks to restrict these calls on the public purse to what it can afford, by limiting the overall number of higher education students that can be recruited. It has asked HEFCE to reduce the risk of over-recruitment, which would result in unanticipated student support costs to Government and a transfer of HEFCE funding back to BIS to meet these unplanned costs.

173. In 2010-11, in response to this request from Government, we introduced the student number control, which applies to certain students starting full-time undergraduate study or a postgraduate initial teacher training course. If an institution over-recruits, we reduce the grant we pay it, reflecting the additional student support costs associated with the excess numbers recruited. Although we cannot control all costs, by limiting recruitment of these students at each provider we reduce the risk of unplanned costs to Government arising from over-recruitment.

174. Although a control is necessary to limit costs, the Government wishes to increase competition between providers by freeing up recruitment within the regulated system as much as possible. Its aim is to improve student choice by enabling popular providers to grow and encouraging them to respond to student demand, including in the level of fees they charge. For 2013-14, these aims are being addressed in three ways.

- a. By excluding certain groups of students from counting against the SNC. In general terms, this applies to those with the highest qualifications on entry. Institutions are free to recruit as many of these students as they wish and are able.
- b. By allocating extra places to institutions charging lower average tuition fees.
- c. By providing further flexibility that allows institutions to exceed their SNC by a specified amount without this leading to grant reduction.

175. For 2013-4, the SNC arrangements apply only to provision that is fundable by HEFCE. They do not apply to alternative providers (organisations that are not publicly funded HEIs or FECs) whose provision we are not empowered to fund. However, from 2014-15 the Government is introducing arrangements which will apply SNCs to alternative providers that have a threshold number of students receiving student support. For students at these providers to be eligible to claim student support their courses will need to be designated for student support purposes, which in turn will be conditional on the provider's compliance with the SNC.

### **Who does the student number control cover in 2013-14?**

176. In general terms, students are counted against an institution's SNC allocation for the year if they are starting full-time undergraduate study or a postgraduate ITT course and:

- a. They are 'HEFCE-fundable'. Broadly speaking, this applies to students from the UK or EU, other than:
  - i. Those whose place is expected to be the funding responsibility of other EU bodies (such as the NHS or NCTL).
  - ii. Those aiming for an ELQ, unless they are exempt from the ELQ policy.
  - iii. Those on a course that is not open to any suitably qualified candidate, such as those on courses that are sponsored by, and only open to employees of, particular companies.
- b. They are not exempt from the SNC on the basis of their high-grade entry qualifications, or for some other reason. These exemptions apply only to those starting undergraduate study in the year (rather than a postgraduate ITT course), and are described further in paragraphs 179 and 180.
- c. They do not withdraw from their studies within two weeks of starting.

177. These criteria mean that the arrangements for counting students against the SNC allocation differ from those used in our funding calculations. For example, students who withdraw from their studies during the year may be counted against the SNC if they have completed two weeks of study, but would not be counted towards our funding allocations.

178. For undergraduates, we treat students as 'starting' if they were not studying as HEFCE-fundable full-time undergraduates in either of the preceding two academic years. Because the SNC applies to students starting full-time study, it is generally concerned with the number of entrants in a year, rather than the total number of students across all years of study. However, students counted against the SNC may not all be entrants to an institution: examples include students who switch from part-time to full-time study, and students who were previously not HEFCE-fundable who transfer to a course that allows them to be reported as HEFCE-fundable.

### **Students who do not count towards the student number control allocation**

179. Not all students starting HEFCE-fundable full-time undergraduate study count against the student number control: about a third are excluded because they are exempt. The list of exemptions grows from year to year, although we have agreed to requests from certain specialist institutions in the performing and creative arts that

some exemptions should not apply to them<sup>14</sup>. In broad terms, these are the exemptions for 2013-14.

- a. Students with grades ABB at A-level, or other entry qualifications which are treated solely for SNC purposes as equivalent to or higher than such A-level grades. This increases the opportunity for these students to go to their first-choice provider if that provider wishes to take them. These exemptions do not apply, at their own request, to some specialist institutions in the performing and creative arts that recruit primarily on the basis of audition or portfolio, for whom academic qualifications such as A-levels may not be the primary criterion for admission.
- b. Most students who are topping up from a recently completed full-time foundation degree or a full-time HND to an honours degree. This removes a potential disincentive on institutions to recruit such students, who will generally need only one year to complete their studies, compared with others who may stay with an institution for three years.
- c. Students on undergraduate medical and dental courses leading to first registration as a doctor or dentist. These students are subject to separate intake controls.

180. The exemptions list exists solely for the purpose of operating a workable SNC and we do not expect or encourage institutions to use it for other purposes, such as to inform decisions about the quality of students' qualifications, the admission of individual applicants, or students' eligibility for institutions' own scholarship, bursary or fee waiver schemes. Institutions are and remain solely responsible for their admissions criteria and processes, and in particular for the fair and non-discriminatory operation of their admissions policies.

### **The flexibility range**

181. For 2013-14, we have introduced a 'flexibility range' around the SNC allocation. Institutions are allowed to recruit above their SNC allocation without incurring a reduction in HEFCE grant, provided they remain within the bounds of the additional flexibility specified. For 2013-14, the additional flexibility is calculated as 3 per cent of those numbers recruited in 2012-13 who counted against the SNC allocation for that year, or who were exempt from it on the grounds of their entry qualifications.

182. We have been consulting on how this flexibility should operate in future years<sup>15</sup>. We propose that, in broad terms, institutions whose recruitment falls significantly below their SNC (that is, below the bottom of their flexibility range) should have a reduction to their SNC allocation for the following year. This will facilitate a redistribution of places to those that recruit well – up to the top of their flexibility range. However, the extent to which such a redistribution is possible will depend on overall recruitment across the sector, and guidance from the Government on the total numbers available, in the light of the perceived risk to its student support budget.

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<sup>14</sup> The exemptions list is available from [www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/](http://www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/)

<sup>15</sup> See 'Student number controls: Consultation on arrangements for 2014-15 onwards', HEFCE 2013/10, available at [www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/haveyoursay/](http://www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/haveyoursay/)

## How do we set student number control allocations?

### Method

183. The student number control, in its current form, was introduced in 2010-11 and was calculated for each institution using a baseline taken from 2008-09 HESA and ILR data.

184. The allocation for each subsequent year has been derived using the previous year's allocation as a starting point, subject to various adjustments. These have included:

- adjustments for mergers or transfers between institutions
- the outcomes of successful appeals for changes by institutions
- adjustments arising from data audits or reconciliation exercises
- pro rata adjustments arising from changes to the overall number of places available for distribution
- the distribution of a 'margin' of places, which can be made available by a reduction to the 'core' numbers for each institution.

### Places distributed under the core and margin policy

185. For 2012-13, 20,000 SNC places were redistributed between institutions under the 'core and margin' policy. This involved making pro rata reductions to core SNC allocations for institutions (the numbers excluding students exempt from the control), although we also protected strategically important and vulnerable subjects from this reduction. The margin places released in this way were redistributed through a competitive bidding process to those institutions charging an average annual net tuition fee (after fee waivers) of £7,500 or less and meeting other criteria of quality and demand.

186. For 2013-14, we have distributed a further margin of 5,000 further places, although no reduction was made to core allocations to make these places available. These places were allocated largely by formula to institutions with appropriate fee levels: most to institutions charging an average net tuition fee (after fee waivers) of £7,500 or less, with some places allocated to institutions charging an average regulated fee of between £7,500 and £8250 and to others with fees for franchised-out provision averaging below £7,500. Some places were allocated in response to bids from a small number of FECs who had not previously received direct HEFCE funding. Institutions were also required to meet criteria of quality and demand before receiving margin places.

187. The core and margin process does not apply to those specialist institutions in the performing and creative arts that recruit primarily on the basis of audition or portfolio, and which have opted out of most of the SNC exemptions.

### Student number control monitoring in 2013-14

188. We monitor each institution's compliance with its student number control allocation. For 2013-14 we will do this initially through the HESES and HEIFES surveys. We will undertake further monitoring using HESA and ILR data for 2013-14, and this may result in further, retrospective changes to allocations.

189. Where we find that an institution has exceeded the top of the flexibility range, this will result in a reduction to grant. In addition, we will not count such excess students towards our funding of 'new-regime' students in high-cost subjects: this will apply to all years of study relating to the excess numbers recruited.

190. The rate at which grant will be reduced for each excess student recruited will be subject to guidance from BIS. For 2012-13 the following rates applied.

- a. For institutions that charge average fees after fee waivers of up to £6,000, a rate of £5,000.
- b. For institutions that charge average fees after fee waivers (according to an Access Agreement with the Office for Fair Access) of more than £6,000, a rate of £1,000 less than that average fee.

191. Institutions that have been awarded student places through the core and margin exercise are required to maintain average annual tuition fees (after fee waivers) for full-time new-regime students at a level consistent with the one which informed the allocation. We expect institutions to monitor average fee levels themselves, according to HEFCE guidance, and contact us if they believe that they are at risk of exceeding the relevant average limit, to discuss options for addressing the position.

192. More information about the student number control is available on our website at [www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/](http://www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/)

### **Medical and dental intake targets**

193. For institutions offering undergraduate medical and dental courses, the funding agreement specifies maximum medical and dental intake targets. These intake targets apply to all home, EU and overseas students starting full-time undergraduate (including graduate-entry) programmes that lead on successful completion to first registration as a doctor or dentist. Institutions must not exceed their intake targets: we may take further action against those that continue to do so. We do not count students recruited in excess of the medical or dental intake targets towards our funding of new-regime students in high-cost subjects.

# Summary explanation of terms

## **Accountability burden**

The work that institutions must do to demonstrate that they are spending HEFCE funds appropriately. We strive to achieve a fair balance between minimising this burden and ensuring public money is properly accounted for.

## **BIS**

Department for Business, Innovation and Skills. This is the government department to which HEFCE is accountable, but as a non-departmental public body we operate at arm's length from it.

## **Catalyst Fund**

Special funding to promote and enhance innovative activities that address the Government's key policy priorities, and to manage the transition to and through the new finance arrangements in higher education.

## **CIF**

The Capital Investment Framework. A methodology to assess higher education institutions' approaches to investing their capital. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF will receive their capital funding without the need to apply for the funds; the grants will be paid directly in four quarterly payments. Institutions still working towards meeting the CIF requirements need to follow specific application requirements.

## **Disabled Students Allowance**

Grants to help meet the extra course costs students can face as a direct result of a disability or specific learning difficulty.

## **Dual support**

The system of funding research, partly by HEFCE and partly by the Research Councils.

## **Earmarked capital**

Part of non-recurrent funding to help universities and colleges invest in their physical infrastructure so it remains fit for purpose.

## **ELQ**

Equivalent or lower qualification. Most students who are studying for a qualification equivalent to, or lower than, one they already hold are not counted for HEFCE funding purposes.

## **Employer co-funded provision**

Projects led by institutions to deliver workforce development that is responsive to the needs of, and co-financed by, employers.

## **FEC**

Further education college.

## **FTE**

Full-time equivalent or full-time equivalence, depending on context. Full-time students count as one FTE. Students on their sandwich year out count as 0.5 FTE. The FTE for part-time students is measured by comparing their learning activity with an equivalent full time course.

**HEFCE**

Higher Education Funding Council for England.

**HEFCE-fundable students**

Students who may be counted within HEFCE funding calculations. For teaching funding, this broadly means all higher education students domiciled in the UK or another EU country ('home and EU' students) other than:

- those whose place is expected to be the funding responsibility of another EU public source
- those on a course that is not open to any suitably qualified candidate
- students aiming for an ELQ (with some exceptions)
- postgraduate research students.

The term encompasses some students who may not in fact attract HEFCE funding to their providers, for example where we expect tuition fees to cover the full cost of provision, or where students do not complete their year of study and are therefore not counted in our funding calculations. Further information about this definition is available from our annual HESES and HEIFES publications.

**HEI**

Higher education institution – a university or college of higher education.

**HEIF**

Higher Education Innovation Funding. The government programme through which we provide formula knowledge exchange funding. Funding for knowledge-based interactions between HEIs and economic and social partners, linked with research and teaching, and delivering impact.

**HEIFES**

Higher Education in Further Education: Students survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.

**HESA**

The Higher Education Statistics Agency. HESA collects a number of different data returns from HEIs. The one that is most relevant for our teaching funding is the individualised student record, which we use in calculating funding for widening participation, teaching enhancement and student success, and to reconcile with the HESES return. We also use data from HESA's Finance Statistical Record to inform some of our research funding, and to review the cost weights in our teaching and research funding methods.

**HESES**

Higher Education Students Early Statistics survey. The annual aggregate student recruitment survey completed by HEIs, which informs our funding for teaching.

**ILR**

Individualised learner record. This is collected from FECs by the Data Service and is the equivalent of HESA's individualised student record.

**Improving retention**

Some people need more support than others to complete their studies because of their background or circumstances. An element of our student opportunity funding is provided to assist with improving retention.

**ITT**

Initial teacher training.

**Knowledge exchange**

HEIs increasingly engage with businesses, public and third sector services, the community and wider public, transferring or exchanging knowledge with the aim of delivering external impact, such as improving products, services, profitability and so on. This is linked with research and teaching and includes consultancy and advisory work, the creation of intellectual property, the development of academic and student entrepreneurship and a variety of other activities.

**Level**

Level of study refers to undergraduate, postgraduate taught and postgraduate research study.

**Mode**

Mode of study refers to full-time, part-time or sandwich year out study. For funding purposes, full-time and sandwich year out study are combined.

**NCTL**

National College for Teaching and Leadership (established through the merger of the Teaching Agency, which formerly funded the education of schoolteachers, with the National College of School Leadership).

**New-regime students**

Students who are treated as having started their courses on or after 1 September 2012 and who are subject to the new fee and funding regime. They include those whose fees are limited by law and those, such as most postgraduates, whose fees are not limited in this way.

**NHS**

National Health Service.

**Non-recurrent funding (special funding and earmarked capital)**

Used to secure change or fund activities that cannot be secured through core teaching or research funding. Earmarked capital is additional funding provided by the Government over and above the annual budget it allocates for general higher education funding.

**Old-regime students**

Students who are treated as having started their courses before 1 September 2012 and are subject to the previous fee and funding regime. They include both those whose fees are limited by law (mostly full-time undergraduates in 2011-12) and those whose fees are not limited in this way (such as most postgraduates and, in 2011-12, part-time undergraduates).

**Price group**

A group of subjects that show broadly similar costs, used in our teaching funding method. The price groups attract different cost weights in the method.

**QR funding**

Quality-related research funding. This is allocated according to research quality (as judged by expert review in the RAE), and the amount of research activity at each HEI.

**RAE**

Research Assessment Exercise. A periodic, peer-review exercise that rated research quality in UK HEIs and collected information on the numbers of research-active staff. Institutions submitted research groups for assessment in different subject areas and were given quality ratings. The results are used by the higher education funding bodies for England, Scotland, Wales and Northern Ireland to allocate QR funding. The 2008 RAE is informing research funding from 2009-10 to 2014-15.

**RDP**

Research Degree Programme.

**Recurrent funding**

Yearly allocations aimed at ongoing core activities.

**REF**

Research Excellence Framework. A new system for assessing research, which has been developed to replace the RAE. It will be used to inform research funding from 2015-16.

**Research Councils**

The seven UK Research Councils are government-funded to support research in their fields of interest, both within their own establishments and in higher education institutions.

**Sandwich course**

A full-time course of study which includes periods of work experience in organisations outside the university or college.

**Special funding**

Part of non-recurrent funding.

**Special initiatives**

Special initiatives are funds for specific activities for a limited period that are not linked to formula funding allocations.

**STEM**

Science, technology, engineering and mathematics. In the case of research funding, this also includes clinical subjects such as medicine.

**Strategically important and vulnerable subjects**

We look to support some key subjects where the scale of teaching and research is at risk. Where the future of the subject is at risk and the subject is 'strategically important' we may need to intervene.

**Student number control**

A limit which HEFCE places on the numbers of certain students starting full-time undergraduate study or a postgraduate initial teacher training course.

**Student opportunity**

This refers to activities such as widening access and improving participation, designed to ensure that all those with the potential to benefit from higher education have the opportunity to do so.

### **Three-stage process**

HEFCE's iterative method of calculating and reviewing institutions' main teaching funding allocations for old-regime and new-regime students as part of the transition to the new finance arrangements for higher education.

- a. Initial allocations are based on a forecast of student numbers made during the preceding year.
- b. Adjusted allocations are based on a survey of student numbers during the year.
- c. Final allocations are based on finalised student numbers provided at the end of the year.

This process allows us to start paying grant before precise student numbers for the year are known.

### **Tuition fees**

Fees paid to a university or college for a student to attend a course. Fees for most undergraduates and for postgraduate ITT courses are subject to limits set out in regulations: for the academic year 2013-14, full-time regulated tuition fees can be charged up to a maximum of £9,000 per year of study (though lower limits apply in particular cases, such as for study years abroad and sandwich years out). Part-time regulated tuition fees can be charged up to a maximum of £6,750 per year of study.

### **UK Research Partnership Investment Fund**

A fund to support investment in higher education research facilities.

### **UOA**

Unit of assessment. Used in the RAE and REF to define subject areas (though there are changes to the list of UOAs between RAE 2008 and the REF).

# Further reading

## **HEFCE publications (all available at [www.hefce.ac.uk/pubs/](http://www.hefce.ac.uk/pubs/))**

- 'Recurrent grants and student number controls for 2013-14' (HEFCE 2013/05)
- 'Recurrent grants for 2012-13: Adjusted allocations' (HEFCE 2013/06)
- 'HEIFES12: Higher Education in Further Education Students Survey 2012-13' (HEFCE 2012/24)
- 'HESES12: Higher Education Students Early Statistics Survey 2012-13' (HEFCE 2012/25)
- 'Student number controls and teaching funding: Consultation on arrangements for 2013-14 and beyond' (HEFCE 2012/04)
- 'Student number controls and teaching funding in 2013-14 and beyond: Summary of responses to consultation and decisions made' (HEFCE 2012/19)
- 'Student number controls for 2013-14: Guidance and invitation to bid' (HEFCE 2012/17)
- 'Model Financial Memorandum between HEFCE and institutions' (HEFCE 2010/19)
- 'Higher education in England: Impact of the 2012 reforms' (HEFCE 2013/03)
- 'Institution-specific funding: Consultation outcomes and invitation to make submissions' (HEFCE 2012/16)
- 'Higher Education Innovation Funding 2011-12 to 2014-15: Policy, final allocations and request for institutional strategies' (HEFCE 2011/16)
- 'Capital Investment Fund 2: Capital allocations for learning and teaching 2012-13; Capital allocations for research 2011-12 to 2014-15' (HEFCE 2011/08)
- 'Withdrawal of funding for equivalent or lower qualifications (ELQs): outcomes of consultation' (HEFCE 2008/13)
- 'Research Excellence Framework: Second consultation on the assessment and funding of research' (HEFCE 2009/38)
- 'Guide to funding: How HEFCE allocates its funds' (HEFCE 2010/24)
- 'HEFCE business plan 2011-2015: Principles, priorities and practices' (HEFCE 2011/34)

## **Other HEFCE pages**

- 'Annual funding allocations' at [www.hefce.ac.uk/whatwedo/invest/institns/annallocns/](http://www.hefce.ac.uk/whatwedo/invest/institns/annallocns/)
- 'Student numbers and high grades' at [www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/](http://www.hefce.ac.uk/whatwedo/lt/howfund/studentgrades/)
- 'Widening participation' at [www.hefce.ac.uk/whatwedo/wp/](http://www.hefce.ac.uk/whatwedo/wp/)
- 'How we fund research' at [www.hefce.ac.uk/whatwedo/rsrch/howfundr/](http://www.hefce.ac.uk/whatwedo/rsrch/howfundr/)
- 'Funding for knowledge exchange – Higher Education Innovation Funding (HEIF)' at [www.hefce.ac.uk/whatwedo/kes/heif/](http://www.hefce.ac.uk/whatwedo/kes/heif/)

**Information on RAE 2008 (all available at [www.rae.ac.uk](http://www.rae.ac.uk) under Publications)**

'RAE2008: the outcome' (RAE 01/2008)

'RAE2008: Membership of RAE2008 panels' (RAE 03/2007)

'RAE2008: Panel criteria and working methods' (RAE 01/2006)

'RAE2008: Guidance on submissions' (RAE 03/2005)

**Information on REF 2014 (available at [www.ref.ac.uk](http://www.ref.ac.uk) under Publications)**

'REF2014: Panel criteria and working methods' (REF 01/2012)