

Higher Education Funding Council for England

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| Title | Funding for universities and colleges for 2013-14 to 2015-16: Board decisions |
| To | Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges |
| Of interest to those responsible for | Finance, planning |
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| Enquiries to | HEFCE institutional teams – for contact details, visit www.hefce.ac.uk/contact/contactsforinstitutions/ |

Dear Vice-Chancellor or Principal

Funding for universities and colleges for 2013-14 to 2015-16: Board decisions

1. This circular letter sets out decisions taken at the HEFCE Board meeting on 2 February 2015 on funding for 2015-16. It also confirms that there are no changes either to overall budgets or scaling factors required at this point as a result of the recalculation of recurrent teaching grants for 2013-14 and 2014-15 (though changes for institutions will arise from using their updated student data for those years). Finally, it notifies institutions of a slightly earlier timetable than previously planned for our announcements of recurrent and formula capital grant for 2015-16, and of revised allocations of recurrent teaching grants for 2013-14 and 2014-15.

Budget decisions for 2015-16

2. The grant letter to HEFCE of 29 January 2015 from the Department for Business Innovation and Skills (BIS) (www.hefce.ac.uk/news/newsarchive/2015/name,100591,en.html) confirmed the funding available for the 2014-15 and 2015-16 financial years (April to March) and the policies and priorities that continue to underpin our approach to recurrent grant. The letter did not provide any figures on funding that might be available for the 2016-17 financial year, but advised that we would need to make prudent assumptions about this, recognising the four-month overlap between the 2016-17 financial year and the 2015-16 academic year.

3. In the light of the grant letter, the Board has agreed 2015-16 academic year budgets, as shown in Table 1, for recurrent grant, one-off transitional funding and funding for national facilities and initiatives. Further detail about these allocations is provided below. In making these decisions, the Board has assumed that the funding available for the 2016-17 financial year will be the same in cash terms as for the 2015-16 financial year. There is, however, particular uncertainty about the funding that may be available after the spending review that is expected to follow the forthcoming general election. This means that any subsequent changes to the funding available to us from Government for financial year 2015-16, or assumed for financial year 2016-17, are likely to affect the funding we are able to distribute to institutions in the 2015-16 academic year, and this may include revising allocations after they have already been announced. Institutions should prudently plan their budgets with this in mind.

Table 1 Recurrent and transitional grants and funding for national facilities and initiatives for the 2015-16 academic year

| Element of grant | Academic year budgets (£M) | |
|--|----------------------------|--------------|
| | 2014-15 | 2015-16 |
| Recurrent research | 1,558 | 1,558 |
| Recurrent teaching | 1,582 | 1,418 |
| Recurrent knowledge exchange | 160 | 160 |
| Sub-total recurrent grant | 3,330 | 3,137 |
| Non-consolidated transitional funding for research | Not applicable | 52 |
| Funding for national facilities and initiatives | 143 | 130 |
| Total non-capital grants | 3,473 | 3,318 |

2015-16 Recurrent funding for research

4. The results of the 2014 Research Excellence Framework (REF) demonstrated the world-leading quality of research conducted in UK universities. It also highlighted the wide-ranging and significant benefits that UK research brings to the economy and society. The REF provides a robust and thorough assessment of the quality of universities' research in all disciplines. The results of REF 2014 are not directly comparable to those of the previous Research Assessment Exercise (RAE) in 2008 because, for example, of the new assessment of research impact rather than of esteem, and changes to units of assessment (UOAs). While comparable numbers of staff were submitted to each exercise, the volumes associated with the highest quality ratings of 4 star (4*, world-leading research) and 3 star (3*, internationally excellent research) have increased by 70 per cent and 24 per cent respectively, and the two combined by 39 per cent. However, the funding for research identified in the BIS grant letter has been maintained in cash terms at the same level as for 2014-15.

5. To maintain the underlying policy intent, while recognising the results of REF 2014, the Board has reviewed the parameters of the research funding method. These measures respond appropriately to the guidance in the BIS grant letter that we should 'continue selectively to fund world-leading and internationally excellent research **wherever it is found**, to provide selective support for the next generation of researchers, and to recognise research funding leveraged from external sources such as the charitable and business sectors'. The Board has therefore made the following decisions:

- a. Total recurrent research funding for the 2015-16 academic year is maintained at £1,558 million, with the same disaggregation between the main funding streams within it as in previous years.
- b. Following the agreement between Government and the UK higher education funding bodies that the appropriate weighting of REF elements was 65 per cent for outputs, 20 per cent for impact and 15 per cent for environment, and honouring sector feedback on these weightings, the REF outcomes will be used in a way which ensures that the funding

allocated follows the agreed percentage weightings. Funding for mainstream quality-related research (QR) will therefore be disaggregated according to how the sub-profiles in REF 2014 contribute to the overall quality profile (that is, 65 per cent for outputs, 20 per cent for impact and 15 per cent for environment), with calculations of funding undertaken separately for each sub-profile area.

c. We will determine the amounts of mainstream QR funding to be allocated for each UOA according to the same principles as previously – that is, distributed between the four main panels on the basis of cost-weighted volume associated with 4* and 3* activity, and then distributed between UOAs within each main panel on the basis of quality-weighted and cost-weighted volume. The cost weights used in the funding method for mainstream QR and research degree programme (RDP) supervision remain unchanged. However, given the changes since RAE 2008, we need to map the new UOA structure in REF 2014 to those cost weights. UOA 4 (Psychology, Psychiatry and Neuroscience) is in the higher cost band, but includes some elements of psychology that are lower cost; UOA 17 (Geography, Environmental Studies and Archaeology) is in the middle cost band, but includes some elements that are higher cost. Therefore, in order to ensure that these disciplines are not unduly advantaged or disadvantaged by the revised cost-weight mapping, we will fund them using the rates of funding per submitted staff used for 2014-15.

d. The RAE 2008 results showed a reduced share of research activity in science (including medicine), technology, engineering and mathematics (STEM) subjects. The Board therefore adjusted mainstream QR to ensure that the proportion distributed to each main panel in STEM was not less than in the previous year informed by the RAE 2001. The Board made this adjustment by reducing the QR funding to be distributed to arts, humanities and social sciences. Given the increase in STEM activity in REF 2014, it is no longer necessary to protect the funding for STEM research at the expense of funding for social sciences, arts and humanities, in order for STEM subjects collectively to maintain the share of the total mainstream QR funding they had before the RAE 2008. However, the removal of STEM protection affects institutions differentially. To mitigate the institutional impact of this change, for 2015-16 only we will provide a transitional allocation of £28 million (not included in the recurrent research total of £1,558 million) to ensure no institution experiences a reduction in funding directly because of this change.

e. We will increase the relative quality weighting between 4* and 3* activity in the mainstream QR method from 3:1 to 4:1. We wish to continue to recognise, as far as possible, world-leading 4* performance and also celebrate the success of institutions that have increased their volume of internationally excellent work. Given the increased funded volume, but fixed overall budget, this moderate enhancement to the value of 4* strikes an appropriate balance in ameliorating the reduced rate of funding for the very highest quality research, while still allocating funding for 3* at an adequate rate.

f. The funding method for RDP supervision is unchanged, except that we will remove the cap on the rates of grant that was introduced when we first applied quality weightings in the method (announced in 'Recurrent grants and student number controls for 2012-13', HEFCE 2012/08). This cap is no longer necessary in the light of the REF 2014 results. In addition, we will provide a one-off transitional allocation of £24 million (not included in the recurrent research total of £1,558 million) as a supplement to mitigate the real-terms

decline in the rate of funding for RDP supervision in recent years and to emphasise the importance of investment in the next generation of researchers.

g. Funding for National Research Libraries will be increased by 1.4 per cent for inflation.

6. These decisions on research funding are for 2015-16 only and without prejudice to how the funding method may develop for academic year 2016-17. We intend to consult institutions later this year on our approach to research funding from 2016-17 following the anticipated election and spending review.

2015-16 Recurrent funding for teaching

7. Recurrent funding for teaching for 2015-16 shows a reduction compared to 2014-15 as a result of the continuing transition from the old fee and funding regime (when HEFCE grant rates per student were higher) to the new regime. The reduction is markedly less than for previous years, because the bulk of the transition, relating to students on three-year full-time undergraduate courses, is already complete. There are two notable changes to teaching funding and student number allocations for 2015-16, that have previously been announced:

a. The student number control has been removed for all HEFCE-funded institutions from 2015-16 (first announced in the Government's Autumn Statement in December 2013).

b. We have brought to an end the three-stage recalculation process affecting the main elements of teaching grant, which was used between 2012-13 and 2014-15 to ensure funding reflected the changing balance within each institution of old- and new-regime students in each year. This was confirmed in 'Recurrent teaching grant from 2015-16: Confirmation of arrangements' (Circular letter 29/2014).

8. Most elements of recurrent teaching funding for 2014-15 were subject to a pro rata reduction of 5.85 per cent, although we were able to moderate this for certain priority areas, including avoiding any reduction to the rate of funding new-regime students in high-cost subjects. The budgets or funding rates for 2014-15 are the starting point for our teaching allocations for 2015-16. Within the total 2015-16 recurrent teaching total of £1,418 million, the Board has agreed to provide additional funding as follows:

a. £15 million to provide a 1.4 per cent uplift for inflation to:

i. Funding for new-regime students in high-cost subjects.

ii. The targeted allocation for very high-cost STEM subjects.

iii. Funding for student opportunity.

iv. The targeted allocation for institutions with high-cost distinctive provision.

b. £5 million to increase student opportunity funding for disabled students. This recognises that changes to the Disabled Students Allowance that are being phased in from 2015-16 will leave more costs of supporting disabled students to institutions.

c. £35 million to be set aside for allocation within the year on the basis of growth in student numbers. This may supplement both the main subject-based allocation of grant and relevant targeted allocations, such as for student opportunity. We intend to allocate it once we have in-year student data for 2015-16.

Other elements of grant for 2015-16

9. Funding for knowledge exchange, allocated as Higher Education Innovation Funding, comprises a recurrent element of £150 million and an extension for a further year of a £10 million supplement that has been provided for 2013-14 and 2014-15. These allocations will be calculated afresh including use of the latest data from the 2013-14 Higher Education - Business and Community Interaction (HE-BCI) survey and reflecting the guidance in our BIS grant letter.
10. Funding for national facilities and initiatives includes support for sector bodies such as Jisc, the Quality Assurance Agency for Higher Education, and the Higher Education Academy, as well as for initiatives such as the Catalyst Fund. We continue to reduce the overall amount that is provided outside our formula funding to institutions.

Capital grants for 2015-16

11. The BIS grant letter confirmed total capital grants for 2015-16 of £603 million. Within this total, £200 million is provided for STEM capital and £100 million for the UK Research Partnership Investment Fund. The Board has decided that the remainder should be allocated as £90 million for the Teaching Capital Investment Fund (TCIF), £194 million for the Research Capital Investment Fund (RCIF) and £19 million for Jisc capital projects.
12. Allocations through TCIF and RCIF will be updated to reflect the latest data from institutions. RCIF allocations will be informed by elements of 2015-16 QR funding and research income data for 2011-12 to 2013-14. TCIF allocations will reflect 2014-15 student data and adopt a single method to cover both higher education institutions and further education colleges. Institutions will not receive an allocation through either fund, if their share would be less than £10,000.

Re-calculations of recurrent teaching grant for 2013-14 and 2014-15

13. Some elements of our recurrent teaching grant for 2013-14 and 2014-15 are subject to recalculation as we get updated information on student numbers for the year. This includes the main subject-based allocations for old- and new-regime students and for new-regime students attending courses in London. The latest student data from institutions for each year mean total allocations remain close to budgets, and therefore we will not change scaling factors for them at this point. Nevertheless, these could still be reviewed in future in the light of any further changes to the underlying data from institutions, or to the funding available to us from Government.

Revised timetable for the announcement of recurrent and formula capital grant

14. We previously notified institutions that we intended to send them details on 27 March 2015 of their recurrent grants for 2015-16 and of updated recurrent teaching allocations for 2013-14 and 2014-15, under embargo. The embargo would be lifted when we published details of allocations for all institutions on 31 March. We now intend to bring this announcement forward slightly, so that institutions will be notified on 25 March, under embargo, of their recurrent allocations for teaching and research, with full details published and the embargo lifted on 26 March. We will also announce the distribution of capital funding for TCIF and RCIF in the same way and to the same timetable. We will notify institutions separately of their 2015-16 allocations of knowledge exchange funding, as soon as we can.
15. Any questions about this letter should be addressed to HEFCE institutional teams.

Yours sincerely

Professor Madeleine Atkins
Chief Executive