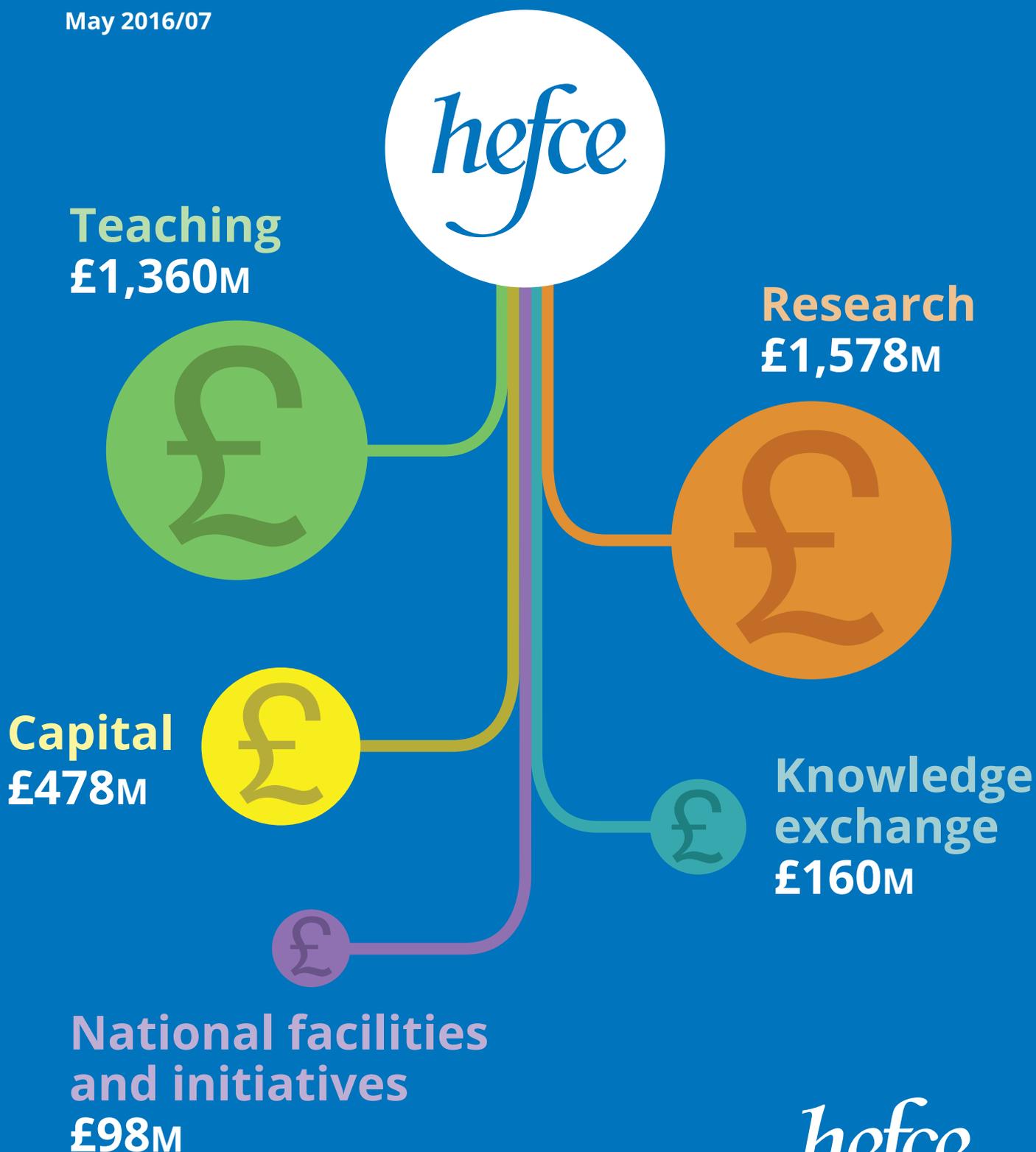


Guide to funding 2016-17

How HEFCE allocates its funds

May 2016/07



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Introduction

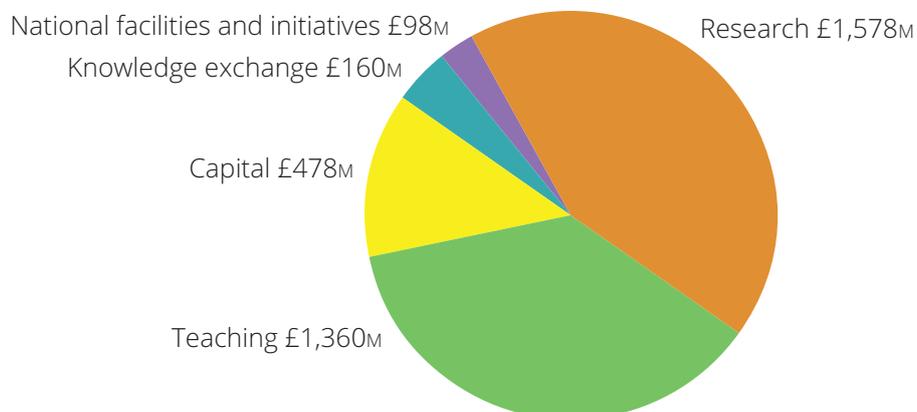
1. HEFCE distributes government funding for higher education. This guide explains how we calculate how much each university or college gets, the principles that underpin those calculations, and the components of an institution's grant.
2. This guide is intended for those working in higher education, 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. **Section 1: Overview** gives a basic summary of how we distribute funding, why we do it this way and how we ensure the money is well spent.
 - b. **Section 2: 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: more information is in the further reading suggested at the end of this guide.
 - c. **Section 3: Conditions of funding** contains more detail about the requirements that institutions must abide by to receive funding from us. This includes the assurance and accountability measures that institutions must comply with to receive funding, along with other funding conditions such as medical and dental intake targets.
4. Some terms are explained in 'jargon busters' throughout the document, and there is an explanation of terms and abbreviations near the end.

Section 1: 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 universities and colleges from HEFCE
 - grants to institutions and bursaries to students from other public bodies, such as the UK Research Councils and the Department of Health.
6. We are responsible for distributing grants to universities and colleges. Periodically, we advise the Secretary of State on the funding needs of higher education in England.
7. Our grants to universities and colleges do not fully meet their costs: we make only a contribution towards their teaching, research, knowledge exchange and related activities. (Knowledge exchange funding supports the range of knowledge-based interactions between higher education and the economy and society that create external impact.) The proportion of an institution's total income that comes from HEFCE will depend on the fees it charges, its activities and the money it raises 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 academic year 2016-17, the total is £3,674 million. We divide the total into money for teaching, research, knowledge exchange, funding for national facilities and initiatives, and 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. Every spring we notify universities and colleges of how much recurrent funding they will receive for the coming academic year. (These announcements are provisional, and figures are finalised later.) In 2016-17 we are directly funding 131 higher education institutions (HEIs) and 213 further education and sixth form colleges (FECs) that provide higher education courses.
10. The remainder is referred to as 'non-recurrent funding'. 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 overleaf shows the breakdown of total HEFCE grant in 2016-17.
12. Under higher education finance arrangements introduced in September 2012, more public funding is provided directly to students (in the form of upfront tuition fee loans, repayable when the student's income is above a certain level), 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 than in previous years. HEFCE's teaching grant is directed towards areas where tuition fees alone may be insufficient to meet full costs: high-cost subjects;

postgraduate provision; supporting students from disadvantaged backgrounds or who may need additional support to succeed; and specialist institutions with world-leading teaching. HEFCE's research grant is ring-fenced, which means it is protected from these changes.

Figure 1: HEFCE grant 2016-17 (£3,674 million)



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

14. HEFCE operated a transitional period between 2012-13 and 2014-15 as the sector shifted into the new fee and teaching funding arrangements. For the academic year 2015-16 we brought those arrangements to an end. Funding for the academic year 2014-15 is still being provided under the transitional system, and is described in 'Guide to funding and student number controls 2013-14 and 2014-15: How HEFCE allocates its funds and controls student numbers' (HEFCE 2014/06)¹.

15. Our aim, as described in 'Business plan 2015-2020: Creating and sustaining the conditions for a world-leading higher education system' (HEFCE 2015/01), is to create and sustain the conditions for a world-leading system of higher education which transforms lives, strengthens the economy, and enriches society². We will achieve this by:

- funding excellence in research wherever it is found, and the collaborative processes and infrastructure which support an efficient, world-leading research environment
- funding innovation and excellence in knowledge exchange
- incentivising excellence in teaching and learning (education)
- evaluating, promoting and funding practices in the sector which best address the issues of social mobility, participation, retention, achievement and progression
- having a deep 'real-time' understanding of the opportunities and risks facing the full range of higher education providers
- collecting, analysing and benchmarking data, and synthesising evidence, to provide a unique authoritative voice on higher education

¹ See www.hefce.ac.uk/pubs/year/2014/201406/.

² See www.hefce.ac.uk/about/plan/.

- informing, developing, and implementing government policy to benefit the sector and students
- being an intelligent lead regulator of the sector, one which respects the autonomy of higher education providers and protects the interests of students
- working in partnership with others to influence and lever the investment in, and thereby to maximise the success of, English higher education.

16. We allocate funds to institutions to support teaching and, for HEIs only, to support research, knowledge exchange and related activities. 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 are attached to funding and are specified in institutions' funding agreements with us.

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).

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 other activities alongside those for which they receive HEFCE funds.

How is teaching funding calculated?

20. Recurrent funding for teaching comprises a main element to support **high-cost subject funding**, informed by student numbers in different subject areas, plus a number of other targeted allocations. These allocations reflect particular additional costs affecting certain types of student or provision, and include allocations to support:

- widening access for people from disadvantaged backgrounds
- improving retention
- improving provision for disabled students
- students attending courses in London
- students who started their studies before the higher education finance arrangements were introduced in September 2012
- students on exchange programmes with institutions abroad
- very high-cost science, technology, engineering and mathematics (STEM) subjects
- part-time undergraduate study
- intensive postgraduate and accelerated undergraduate provision
- specialist institutions
- some elements reflecting the costs of staff in medicine or dentistry.

21. The main high-cost subject funding is split into two elements:
- a subject-based allocation
 - a supplement for postgraduate taught students.
22. These high-cost subject allocations are 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 sums we have available.
23. 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
 - computing, archaeology, art and design, and media studies
 - other intermediate-cost subjects with a laboratory, studio or fieldwork element
 - classroom-based subjects.
24. Calculations for allocations take account of students in different modes of study (full-time, 'sandwich year out' and part-time) and levels of study (undergraduate and taught postgraduate).
25. When the fee arrangements changed in 2012, a differentiation was made between:
- a. 'Old-regime' students – those who commenced their studies before 1 September 2012, when the higher regulated tuition fee arrangements were introduced.
 - b. 'New-regime' students – those who started on or after 1 September 2012.
26. As the number of old-regime students still studying at institutions has significantly decreased, we now treat all students as if they were new-regime. However, we are providing a separate transitional allocation to institutions, to reflect both the remaining numbers of old-regime students we expect them to have and the difference in grant rates that they have received compared with new-regime students. We expect to provide this up to and including the 2017-18 academic year.

How is research funding calculated?

27. We aim to target funding where research quality is highest. Our main research funding method allocates '**mainstream quality-related research (QR)**' funding. This distributes grant money based on the quality, volume and relative cost of research in different subject areas, with separate calculations to reflect research outputs, environment and impact.
28. 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)
 - the quality of research.

Quality has been measured in the 2014 Research Excellence Framework, which informs research funding for 2016-17³.

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

- a. **QR research degree programme supervision.** This allocation reflects postgraduate research student numbers, the relative costs of the subjects they are studying and a measure of relative quality at institutions.
- b. **QR charity support fund.** 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.
- c. **QR business research element.** 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. **QR 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?

30. We aim to target knowledge exchange funding where the greatest positive impact on the economy and society can be achieved, based on higher education knowledge and skills. We use data on the income received by an institution from its users – businesses, public and third sector services, the community and wider public – as a proxy measure for the impact of its knowledge exchange performance.

31. We calculate allocations for individual institutions by adding together their main knowledge exchange income indicators. This data is collected through the Higher Education – Business and Community Interaction survey and other data submitted to the Higher Education Statistics Agency. Only HEIs with evidence of performance above a certain level gain funding. There is also a cap on allocations. Funding is used to create and sustain a range of knowledge exchange activities in response to demand across the economy and society.

32. From time to time we ask institutions to submit a strategy covering all their knowledge exchange activities, including use of our knowledge exchange funding. Strategies are assessed and published to spread good practice and provide assurance of effective use of public funding.

³ See www.ref.ac.uk/.

Section 2: HEFCE's funding

2A Background

HEFCE's funding powers and responsibilities

33. HEFCE was established by the Further and Higher Education Act 1992, which sets out our powers. In broad terms, we are empowered to fund teaching, research and related activities of higher education institutions (HEIs), and prescribed courses of higher education at further education and sixth form colleges (FECs)⁴. 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 other organisations on the basis of expenditure that they incur.

34. Our 'Business plan for 2015 2020' (HEFCE 2015/01) sets out our high-level aim to create and sustain the conditions for a world-leading system of higher education which transforms lives, strengthens the economy, and enriches society.

35. We do not directly fund students – we fund the activities of institutions. However, we do count students in our funding methods, as a proxy measure for the level of teaching and research activities taking place at institutions. This is an important distinction, and we discuss it further in paragraphs 49 to 52.

36. 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.

37. Although we still have wide funding powers, a number of public bodies other than HEFCE have responsibilities to fund certain aspects of higher education, as outlined below:

- a. **Research.** The Research Councils distribute public funds for research to HEIs, to support specific research projects and some postgraduate students (HEFCE's research funding, on the other hand, supports the continued maintenance of research capacity and infrastructure in institutions). Research Councils are funded by the Department for Business, Innovation and Skills (BIS) and other government departments⁵.

⁴ 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, or two years part-time, and which lead, on successful completion, to the award of certain higher education qualifications by certain awarding bodies. For more information see paragraph 37.d and 'Higher education in further education colleges: HEFCE's funding powers – prescribed courses of higher education' (HEFCE Circular letter 22/2008), available online at http://webarchive.nationalarchives.gov.uk/20120118164921/http://www.hefce.ac.uk/pubs/circlets/2008/cl22_08/.

⁵ See <https://www.gov.uk/government/organisations/department-for-business-innovation-skills>.

- b. **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.
- 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 initial teacher training (ITT) courses leading to qualified teacher status, and In-Service Education and Training courses for those who hold this status. HEFCE has responsibility for other teacher education and training provision outside the schools sector, although finance is largely provided through students' tuition fees.
- d. **Higher education in further education and sixth form colleges.** As explained in paragraph 33, in FECs we are only empowered to fund 'prescribed' courses of higher education. These include HNCs, HNDs, foundation degrees, bachelors degrees, postgraduate degrees and certain teacher training qualifications. The awarding bodies for such courses include institutions with degree-awarding powers and (for HNCs and HNDs only) Pearson Education Limited. Prescribed courses do not include other higher education courses at FECs, 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's income is above a certain level.
- f. **Knowledge exchange and innovation.** This is funded from a variety of sources:
 - i. The Research Councils support a range of schemes for knowledge exchange to further the impact of their funded research.
 - ii. Innovate UK is the UK's main funder of business and user innovation, and supports higher education knowledge exchange within business collaborations.
 - iii. Universities and colleges play a significant role in local growth partnerships and can receive funding to support their knowledge exchange and skills activities, such as via European Structural and Investment Funds.
 - iv. Funding from the beneficiaries of knowledge exchange in the economy and society provides a significant source of support to many institutions.

38. 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 primarily provide 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

39. The Government sets public expenditure across all departments, by carrying out periodic spending reviews that set expenditure levels for certain years. The most recent spending review in 2015 set public expenditure up to the financial year 2019-20. To inform these spending reviews, we provide confidential advice to the Secretary of State about the financial needs of higher education.

40. Every year in a grant letter to HEFCE the Secretary of State confirms the funding available for the following financial year, and provisional funding for any remaining years of the spending review period, along with policy priorities⁶. We then determine the grants to individual institutions, which we generally allocate on an academic year basis.

41. The money we allocate for teaching, research and knowledge exchange is referred to as 'recurrent funding' and is by far the majority of what we distribute. Institutions may spend this recurrent funding 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.

42. HEFCE's funding for teaching is prioritised towards areas where tuition fees alone may be insufficient to meet institutions' full costs: high-cost subjects; postgraduate provision; supporting students from disadvantaged backgrounds or who may need additional support to succeed; and specialist institutions with world-leading teaching. It is important that institutions are able to demonstrate effective and efficient use of our teaching grant to support these priority areas in their internal resource allocations.

43. Other HEFCE funding is 'non-recurrent'. It comprises grants for capital projects, and funding for 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?

44. We have identified a number of principles which guide our approach. We will:

- promote and protect the collective student interest
- endeavour to minimise administrative burden for institutions, including where complex policy objectives have been set
- support government funding priorities (including high-cost subjects, widening participation and specialist institutions)
- be fair across the higher education system, transparent in our methods and accountable for our funding

Jargon buster

Knowledge exchange:

Knowledge-based interactions between higher education and the economy and society. Universities have considerable knowledge, expertise and assets that are put to use through engaging with businesses, public services, charities and communities. Examples include: setting up businesses to develop new technologies grounded in university research; enabling small businesses to use specialist equipment and other facilities; delivery of professional training, consultancy and services; supporting graduates to set up their own business; and contributing to social innovation.

Recurrent funding:

Yearly allocations aimed at ongoing core activities rather than shorter-term projects.

Funding for national facilities and initiatives, and capital funding:

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

⁶ See www.hefce.ac.uk/funding/govletter/.

- 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.

45. We want to make the best use of taxpayers' money – prioritising funding where we can get the best value and 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 enabling institutions to attract and retain students from non-traditional backgrounds and disabled students, and to support postgraduate provision.
- For **research**, our 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 focused in high-performing institutions and aims to achieve maximum impact on the economy and society.
- Funding for national facilities and initiatives** is (along with capital funding) broadly intended to support the development of the national infrastructure. Funding for national facilities and initiatives supports facilities such as Jisc (which funds development and champions the use of digital technologies in UK education and research). Another example of how this funding is used is to support innovation and dynamism in the higher education sector through the Catalyst Fund.
- Capital funding** helps universities and colleges invest in their physical infrastructure so it remains fit for purpose. It includes:
 - Funding to support sustainability commitments and investment plans relating to teaching and research, provided under HEFCE's Capital Investment Framework. This is for institutions that manage their physical infrastructure in an environmentally sustainable way as an integral part of planning.
 - The UK Research Partnership Investment Fund, which supports investment in higher education research facilities, to stimulate additional investment in higher education research and strengthen its contribution to economic growth.

Jargon buster

Catalyst Fund: Funding to promote and enhance innovative activities that address the Government's key policy priorities.

Capital Investment Framework (CIF): A method of assessing HEIs' 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 allocation from HEFCE without the need to apply: the grants are paid directly in instalments.

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?

46. Each year we divide the total funds between teaching, research and other funding, following any guidance from the Secretary of State. The breakdown of HEFCE funding available for 2016-17 is shown in Table 1. There are rounding differences within the table.

Table 1: Breakdown of HEFCE funding for 2016-17

Element of grant	2016-17
Research	£1,578 million
Teaching	£1,360 million
Knowledge exchange	£160 million
Sub-total: Recurrent grant	£3,098 million
Funding for national facilities and initiatives	£98 million
Capital funding	£478 million
Total	£3,674 million

Formula funding

47. Our recurrent grants to institutions are almost entirely allocated by formula, which means that each institution receives a proportion of funding based on the measures outlined below. This ensures we are fair, transparent and efficient in how we distribute grants to institutions.

48. 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 providing a physics course differ from that of geography or business studies?)
- In some instances, a consideration of particular policy priorities. (For example, is there a national need to prioritise some activities above others? Should we take account of the relative quality of activity in prioritising funds?)

The first two components are discussed in detail in paragraphs 49 to 56. Our policy priorities are described in paragraphs 44 to 45 above.

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

49. In calculating recurrent grant for each institution, 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.

50. 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.

51. We therefore choose our volume measures to reflect factors that are important in higher education, and to take into account the following 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 volume measure will 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.

52. These issues are considered further in sections 2B and 2C, where we describe how we fund the separate elements within teaching and research.

Measures of cost

53. Periodically, we review information about the relative costs of different types of activity. These reviews are informed by data provided by HEIs 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.

54. The current subject groupings and weightings in our teaching funding method were informed by a 2012 review of the relative costs of teaching different subjects using data from the Transparent Approach to Costing for Teaching (TRAC(T)). 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 use TRAC(T) 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.

55. Our concerns are not limited 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.

56. 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.

2B Teaching funding

57. Our teaching funding is provided through:

- a main allocation for high-cost subjects that supports the extra costs of teaching particular subjects
- targeted allocations, to help meet additional costs that apply to certain types of student or provision and support areas of strategic importance.

58. 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 on institutions as the need for accountability allows.
- 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.

59. The majority of institutions' income for teaching comes through students' tuition fees, and to a much lesser extent through HEFCE grants. 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 grants from 2012-13 contribute to meeting the cost to Government of providing these loans.

Data sources

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

- a. The **Higher Education Students Early Statistics (HESES) survey**⁷. 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.

⁷ See www.hefce.ac.uk/data/collect/heses/.

- b. The **Higher Education Statistics Agency (HESA) individualised student record**⁸. This is submitted after the end of the academic year. We use it to gain information about student characteristics that is used in some targeted allocations. We may also reconcile it against the HESES data previously provided to us by HEIs, and use it as a basis to review other teaching grant allocations. We receive the HESA data approximately 12 months after the equivalent HESES data.
61. 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 **Skills Funding Agency** and is the equivalent of the HESA individualised student record⁹.

The volume measure for teaching grant

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

Which students do we count?

63. In general terms, we count students from the UK and other EU countries (but not from outside the EU), if:
- They are on a recognised taught course of higher education or, in the case of students at HEIs, they are studying credits at higher education level¹⁰. We do not count postgraduate research students for teaching funding purposes.
 - Funding responsibility does not rest with another EU public source. For example, the NCTL has responsibility for school teacher training, and the NHS for nursing, midwifery and certain other healthcare professions. Funding responsibility for taught Open University students in Scotland, Wales and Northern Ireland rests with the devolved administrations, rather than HEFCE.
 - They are on a course open to any suitably qualified candidate. If, for example, a course was available only to candidates from a particular employer, we would not consider the course to be open.
 - They are not aiming for an equivalent or lower qualification (ELQ), or are exempt from the ELQ policy (see paragraph 64).
 - 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.
64. From 2008-09, students aiming for an ELQ are generally not counted towards our funding allocations unless they are covered by an exemption. Current exemptions, for our funding purposes, include:
- students aiming for foundation degrees
 - those aiming for a qualification in certain public sector professions, such as medicine, nursing, social work or teaching
 - those receiving Disabled Students’ Allowance (DSA¹¹).

⁸ See <https://www.hesa.ac.uk/>.

⁹ See www.hefce.ac.uk/data/collect/HEIFES/ and <https://www.gov.uk/government/organisations/skills-funding-agency>.

¹⁰ Broadly speaking, 'higher education level' means an academic level above A-level standard.

¹¹ The Disabled Students’ Allowance is a government grant to help meet the extra costs students can face as a direct result of a disability or specific learning difficulty.

65. Not all countable students will attract funding for their 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 high-cost funding (because the rate of grant for these students is zero) but may do so through the funding for some targeted allocations.

How do we count these students?

66. In general, students are counted only if they complete their full year of study. 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 nevertheless passes the module, this also constitutes completion. Institutions receive income through tuition fees for students reported as non-completions.

67. Students are counted in terms of full-time equivalents (FTEs). A full-time student counts as one FTE. Students on a 'sandwich year out' 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.

Jargon buster

FTE: Full-time equivalent. FTE is a measure of how much a student studies over a year, compared with someone studying full-time. Someone studying full-time counts as one FTE, whereas a part-time learner doing half that amount of study counts as 0.5 FTE.

Teaching funding streams

Table 2: Elements of teaching grant for 2016-17 (£1,360 million)

Elements of teaching grant	2016-17
Main teaching allocation for students in high-cost subjects	£672 million
Targeted allocations	£687 million
Total	£1,360 million

High-cost subject funding

68. High-cost subject funding for students is a combination of:

- A **subject-based allocation**, which uses sector-wide funding rates that vary by price group.
- A **supplement for postgraduate taught** students, which provides extra funding for most postgraduate students.

69. Both elements are allocated using the following formula:

- **sector-wide funding rates** by price group

multiplied by

- **student FTEs** reported to us by institutions

multiplied by

- a **scaling factor** (to ensure total allocations remain within budget). For 2016-17, this scaling factor has been set at 1.018, providing an uplift of 1.8 per cent. Scaling factors are explained in paragraph 74.

70. Sector-wide funding rates for 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 HEIs 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 of archaeology; design and creative arts; information technology, systems sciences and computer software engineering; and media studies.
 - Price group C2.** Other intermediate-cost subjects with a laboratory, studio or fieldwork element, such as geography, mathematics, languages or psychology. This price group also includes all students on work experience placement years of sandwich courses ('sandwich year out').
 - Price group D.** Classroom-based subjects such as humanities, business or social sciences.
71. The subject-based allocation provides funding for students only in price groups A to C1.
72. The supplement for postgraduate taught students provides funding for those in price groups A to C2, except where students have access to the undergraduate student support regime (this applies to postgraduate ITT students and some studying architecture). In previous years, this was incorporated into high-cost subject funding but was not identified separately.
73. Table 3 shows rates of grant for students for the academic year 2016-17. Funding rates for part-time provision are the same, pro rata, as for full-time provision.

Table 3: Rates of HEFCE funding for price groups per student FTE (before incorporating the scaling factor)

Price group	Subject-based allocation (£)	Supplement for postgraduate taught (£)
A	10,000	1,100
B	1,500	1,100
C1	250	1,100
C2	0	1,100
D	0	0

Scaling factors

74. Scaling factors are multipliers that we apply in the teaching funding method to ensure that our overall allocations match the funding we have available. They are 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 – which are based on the student FTEs reported by institutions, multiplied by the relevant rates of funding – result in a total higher than we can afford, then a 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, a scaling factor can be used to scale up allocations when we can afford to. Scaling factors can be applied differentially to different elements of teaching grant, depending on spending priorities.

Targeted allocations

75. As well as the main element of teaching grant relating to high-cost subjects, we 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 and fee income as well). We review the total amount allocated through each targeted allocation, and the distribution of many of them between individual institutions, each year.

76. Within the targeted allocations we provide funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged backgrounds and students with disabilities, and to help improve retention for students who may be less likely to continue their studies. The funding contributes towards institutions' costs in supporting students to achieve successful outcomes and in addressing the needs of students facing particular hardship.

77. The targeted allocations that apply for 2016-17 are shown in Table 4, and are described further in paragraphs 78 to 111.

Table 4: Targeted allocations for 2016-17

	Total 2016-17 allocation (£ million)	Paragraph reference
Supplement for old-regime students	37	78-79
National collaborative outreach programme	30	80
Widening access for people from disadvantaged backgrounds (full-time and part-time)	54	81-85
Improving retention (full-time and part-time)	279	86-89
Improving provision for disabled students	40	90-92
Part-time undergraduates	8	93-94
Accelerated full-time undergraduate provision	2	95-97
Intensive postgraduate taught provision	35	95-97
Erasmus+ and overseas study programmes	28	98-100
Students attending courses in London	64	101-103
Specialist institutions	64	104-106
Very high-cost STEM subjects	24	107-108
HEIs' costs relating to medical and dental staff (Clinical consultants' pay, senior academic general practitioners' pay, NHS pensions scheme compensation)	23	109-111

Supplement for old-regime students

78. We recognise that our main high-cost subject funding allocation does not in itself provide a sufficient level of grant for any remaining old-regime students, whose tuition fees are generally lower than those of new-regime students. We are therefore providing a transitional supplement to recognise that there will still be old-regime students at some institutions. This is based on estimates of the old-regime numbers that we expect institutions to have, informed by historical data. It is also based on the difference between the rates of grant they have historically received, and those provided through the main allocation for high-cost subjects and the targeted allocations for students attending courses in London and for part-time undergraduates.

79. This allocation will be phased out over time. Although we have calculated indicative allocations for 2017-18, based on forecast numbers, it should be noted that this allocation, like all recurrent funding allocations, is conditional on the annual grant we receive from the Government. The total allocation for 2016-17 is £37 million.

National collaborative outreach programme

80. This is a new stream of funding for a geographically focused, national outreach programme that will target those places where students have the educational attainment or potential to succeed in higher education but where there is evidence that entry rates are below expectations¹². The funding for this is £30 million for 2016-17, rising to £60 million from 2017-18. We have invited proposals from consortia of institutions and others working together to widen access in areas that we have identified. This approach is designed to enable rapid progress towards meeting the Prime Minister's goal of doubling the proportion of young people from disadvantaged backgrounds entering higher education by 2020 compared with 2009, and increasing the number of students from black and minority ethnic communities studying in higher education by 20 per cent by 2020.

Widening access for people from disadvantaged backgrounds

81. 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.

82. Institutions' allocations are calculated in proportion to the previous year's student FTEs, weighted to reflect the broad institutional mix of students from different census wards and the London weighting.

83. 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 Skills Funding Agency to map each undergraduate new entrant to a 2001 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), in each census ward. 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.

¹² See 'student access and success' at www.hefce.ac.uk/sas/.

84. Funding for widening access to higher education is for those who wish to enter for the first time. Therefore, 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 whose entry qualifications are unknown, are given a weighting of zero irrespective of their census ward. The overall institutional weightings reflect the numbers 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.

85. The total funding for widening access for people from disadvantaged backgrounds in 2016-17 is £37 million for full-time undergraduates and £17 million for part-time undergraduates.

Improving retention

86. Some students need more support than others to see their courses through to completion, because of factors to do with their background or circumstances. Like the allocation for widening access (paragraphs 81 to 85), funding for improving institutions' retention of their full-time undergraduates is allocated in proportion to weighted student FTEs. 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, and mature students are less likely to continue than young entrants. Institutions face additional costs in supporting such students to continue. We therefore weight students according to these two factors and determine an overall average weighting for the institution as a whole.

87. In total there are 12 student weighting categories, reflecting age (young (up to age 21) and 'mature', defined as aged 21 or over on entry), qualification aim (those aiming for a first degree and those aiming for another undergraduate qualification) and risk associated with entry qualifications (low, medium and high). We also apply London weighting where appropriate.

88. The funding to improve retention of part-time students is allocated in proportion to part-time student FTEs, incorporating any relevant London weighting.

89. The total funding for improving retention in 2016-17 is £215 million for full-time undergraduates and £63 million for part-time undergraduates.

Improving provision for disabled students

90. Funding for improving provision for disabled students reflects institutions' success in recruiting and retaining disabled students.

91. For 2016-17, allocations are calculated in proportion to the previous year's student FTEs, weighted to reflect the proportion of an institution's undergraduate and postgraduate students who receive DSA, determined from HESA and ILR data. The calculations include London weighting where appropriate. The method has changed since 2015-16 to reflect more directly the proportion of disabled students at each institution instead of assigning institutions to one of four weighting bands.

92. The total funding is £40 million for 2016-17, an increase of £20 million compared with 2015-16. This increase is to support institutions to meet the rapid rise in the number of students reporting mental health problems and to transition towards an inclusive social model of support for disabled students.

Part-time undergraduates

93. 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, are likely to be higher than for one full-time student. The targeted allocation for part-time undergraduates recognises these additional costs. It is allocated in proportion to part-time undergraduate FTEs in price groups A to C1.

94. The allocation totals £8 million for 2016-17.

Accelerated full-time undergraduate and intensive postgraduate taught provision

95. 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 allocation for students studying high-cost subjects. This does not apply to courses in price group A, where the intensity of study has already been taken into account in the high-cost funding rate, or to postgraduate taught provision in price group D, because tuition fees are generally expected to meet costs.

96. The rates of funding we are providing per FTE for 2016-17 are as follows.

Price group	Accelerated undergraduate	Intensive postgraduate taught
A	£0	£0
B	£1,439	£1,439
C1, C2	£1,100	£1,100
D	£846	£0

97. We are allocating the following funds in 2016-17:

- a. £2 million to support full-time accelerated provision for undergraduates. This is not provided for part-time undergraduates, as it is intended to support accelerated degrees such as two-year honours degrees.
- b. £35 million to support intensive postgraduate taught provision.

Erasmus+ and overseas study programmes

98. Erasmus+ is the EU's framework programme for education, training, youth and sport. Part of the programme provides opportunities for higher education students to take study or work placements abroad, but institutions may also establish exchange programmes for their students with overseas institutions outside the Erasmus+ programme. New arrangements to support institutions' participation in such programmes were introduced from 2014-15, designed to strike a balance between the needs of students and those of institutions participating in them.

99. The allocation for 2016-17 is informed by student numbers reported as spending a whole year abroad in 2015-16. These numbers are counted as a proxy measure for the activity of institutions in exchange programmes. Further information is provided in 'Finance arrangements for Erasmus and other student mobility years abroad from 2013-14' (HEFCE Circular letter 14/2013)¹³.

¹³ See www.hefce.ac.uk/pubs/year/2013/cl.142013/.

100. This allocation totals £28 million, and is based on providing £2,250 per student taking a study year abroad (either under the Erasmus+ scheme or otherwise), or a work placement (sandwich) year abroad under the Erasmus+ scheme.

Students attending courses in London

101. We provide a separate allocation relating to students attending courses in London, to contribute to meeting the additional costs for institutions of operating in London. This applies to all students in all price groups, with rates differing between price groups.

102. The rates for 2016-17 for institutions whose activities are wholly within inner or outer London are as follows.

Price group	Inner London rate	Outer London rate
A	£1,094	£684
B	£465	£291
C1 and C2	£356	£223
D	£274	£172

103. Where institutions have activities that span boundaries between inner, outer and outside London, rates are varied to reflect the proportion of activity in each area. The allocation totals £64 million for 2016-17.

Specialist institutions

104. The targeted allocation for specialist institutions 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. This allocation supports those with world-leading teaching identified through a review in 2015-16¹⁴.

105. For 2016-17 we are making formula-based allocations to those institutions that demonstrated that they met the criteria for funding. The allocation is based on an institution's average student FTEs over three years (2012-13 to 2014-15) multiplied by a rate that is linked to their average total income over the same three years. Institutions with lower total incomes receive a higher rate of grant per FTE. To ensure that institutions do not receive a disproportionate share of any funding simply due to having very large student numbers, allocations are provided for a capped number (500) of student FTEs. There is a minimum allocation of £500,000.

106. Within the total allocations of £64 million for 2016-17 we are also providing transitional funding to:

- a. Institutions whose formula allocation for 2016-17 is less than their allocation for 2015-16.
- b. Institutions that received an institution-specific targeted allocation for 2015-16 which accounted for at least 10 per cent of their HEFCE recurrent grant, but which have a zero formula allocation for 2016-17.

Very high-cost STEM subjects

107. Since 2007 HEFCE has provided funding to help secure the provision of four very high-cost STEM subjects. These are chemistry; physics; chemical engineering; and mineral, metallurgy and materials engineering.

¹⁴ See www.hefce.ac.uk/lt/howfund/institution/.

108. We are therefore providing a targeted allocation, totalling £24 million in 2016-17, to recognise the high delivery costs of these subjects. This allocation supplements the standard HEFCE funding for price group B subjects in the main allocation for high-cost subjects. It is based on 2013-14 undergraduate and postgraduate student numbers in all years of study.

Clinical academic consultants' pay

109. We are providing a targeted allocation totalling £17 million for 2016-17 to recognise the additional costs that arise from applying the Consultant Contract (England) 2003 to clinical academics.

Senior academic general practitioners' pay

110. Since April 2005, we have allocated funding to enable senior academic general practitioners to be paid in line with their hospital-based colleagues. This allocation totals £1 million for 2016-17.

NHS pensions scheme compensation

111. Employers' contributions to the NHS pension scheme increased from April 2004. Since then, we have provided a targeted allocation to compensate institutions for this increased cost. This allocation totals £5 million for 2016-17.

2C Research funding

112. Public research funds are provided to HEIs 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 or 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 provide funding for research studentships.

113. 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.

114. Since 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. Quality is measured in a periodic Research Excellence Framework (REF) which is a system for assessing research in HEIs. This UK-wide peer-review exercise produces quality ratings for research groups that institutions choose to submit for assessment in their respective subject areas. Information about the REF is available at www.ref.ac.uk. The latest exercise was completed in December 2014, and its assessments of quality in HEIs informed research funding from 2015-16.

115. FECs are not eligible for our research funding, because we are only empowered to fund them for prescribed courses of higher education (see paragraphs 33 and 37.d).

116. Our recurrent funding for research in 2016-17 is £1,578 million.

How recurrent research funding is calculated

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

118. **Mainstream QR funding** is first separated into three 'pots' according to the contribution that the three elements of research assessed in the REF make to overall quality profiles. These pots are then further divided by subject, and finally distributed to institutions. The distribution between subjects and institutions is informed by:

- the **volume of research** (based on numbers of submitted research-active staff)
- the **subject cost weights** (reflecting, for example, the fact that laboratory-based research is more expensive than library-based research)
- the **quality of research** as measured in the REF.

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

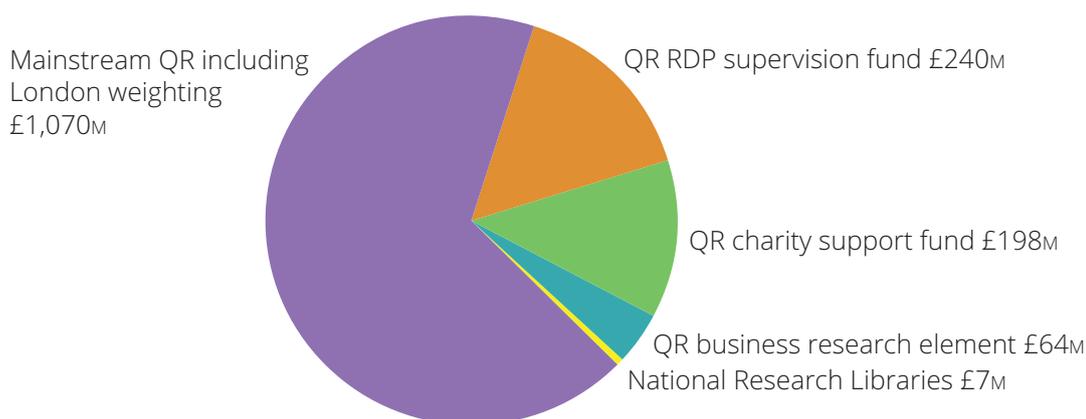
- a. **QR research degree programme (RDP) supervision fund.** This allocation reflects postgraduate research student numbers in departments that attract mainstream QR funding, the relative costs of the subjects they are studying, quality and London weighting.
- b. **QR charity support fund.** Many charities 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. **QR business research element.** 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. **QR funding for National Research Libraries.** This is additional support for five research libraries which we designated as being of national importance on the basis of a review in 2007.

120. Budgets for the separate components of QR funding are shown in Figure 2.

Jargon buster

Research Excellence Framework (REF): A periodic, peer-review exercise that provides a profile of research quality in UK HEIs and the numbers of research-active staff they have submitted for assessment across 36 different subject areas. For each submission by an HEI to a subject area, quality is assessed for three separate elements covering research outputs, impact and environment, which are combined into an overall quality profile for the submission.

**Figure 2: Elements of recurrent research funding for 2016-17:
total £1,578 million**



Note: Amounts do not add up, because of rounding differences.

Mainstream QR funding

121. A number of different components are used in our mainstream QR funding method. These are:

- a volume measure
- quality profiles for each institution
- subject cost weights
- London weighting.

The volume measure

122. The volume measure in our research funding method is the number of research-active staff employed by the institution and submitted to the REF (counted in FTE terms), multiplied by the proportion of research that meets a quality threshold in the REF. This threshold is explained below.

123. The quality ratings and staff volume were determined from REF 2014. As 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).

Quality profiles

124. REF 2014 reviewed research in all disciplines, divided into 36 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. Each UOA was assessed in one of 36 sub-panels, with four main panels (A to D) co-ordinating and advising on the work of the sub-panels in related disciplines. It was for institutions to decide which (if any) academic staff to submit for assessment in these UOAs.

125. 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.

126. Each overall quality profile is composed from sub-profiles reflecting the three elements assessed in each submission. Each element is given a different weighting towards the overall profile. These elements are:

- the quality of research **outputs** – predominantly publications (65 per cent)
- the social, economic and cultural **impact** of research (20 per cent)
- the research **environment** – the resources and infrastructure that support research (15 per cent).

127. The following is an example of an institutional quality profile identified from the REF.

Table 5: Example institutional quality profile from REF 2014 for UOA3

UOA 3 – Allied Health Professions, Dentistry, Nursing and Pharmacy	Percentage of research activity in the submission judged to meet the standard for:					FTE staff submitted: 52.70
	4*	3*	2*	1*	U/C	
Overall	49%	44%	5%	1%	1%	
Outputs	40.5%	52.3%	5.3%	1.0%	0.9%	
Impact	58.2%	36.8%	5.0%	0%	0%	
Environment	70.3%	20.7%	4.1%	4.9%	0%	

Subject cost weights

128. 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

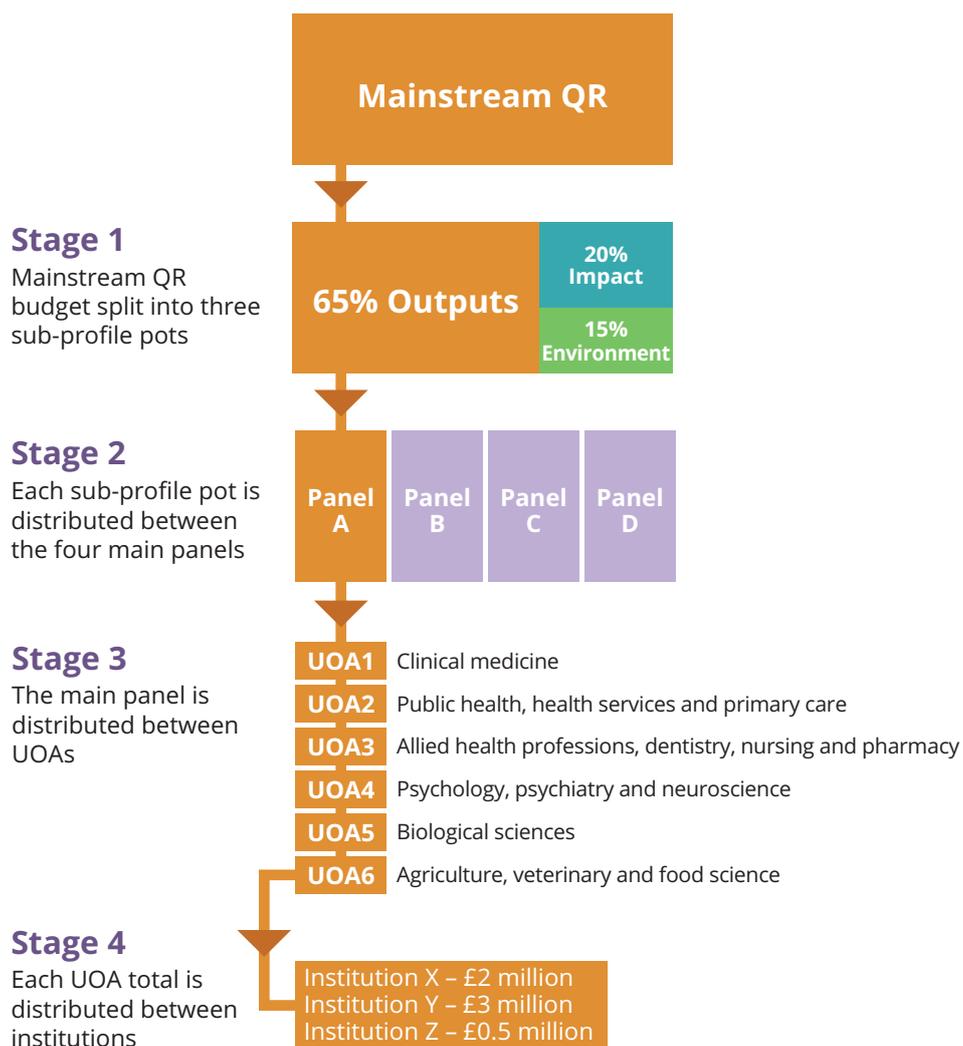
129. This is 12 per cent for institutions in inner London and 8 per cent for institutions in outer London.

Calculating mainstream QR funding

130. There are four stages to the allocation of mainstream QR funds (summarised in Figure 3):

- **Stage 1** – separating the mainstream QR total into three pots, reflecting the weight given to each sub-profile element in determining the overall quality profile
- **Stage 2** – distributing the three pots between the four REF main panel disciplines
- **Stage 3** – distributing the main panel totals between the 36 UOAs
- **Stage 4** – distributing the totals for each UOA between institutions.

Figure 3: Allocation of mainstream QR funding



Note: Sizes of allocations are for illustrative purposes only.

Stages 1 and 2: Determining the amount provided for the four main REF panel disciplines

131. The total mainstream QR allocation is separated into funding pots for each sub-profile element. This reflects the weighting given to the elements submitted to the REF in determining the overall quality profile:

- outputs – 65 per cent
- impact – 20 per cent
- environment – 15 per cent.

132. The next stage is to decide the amounts that will be allocated from these separate pots to the main subject panels. The total in each pot is divided in proportion to the volume of research in each panel that met or exceeded the 3* quality level in the REF, weighted to reflect the relative costs of research in different subjects.

Stages 3 and 4: Distributing the main panel totals between UOAs and then institutions

133. The final stages distribute the totals for each main panel, firstly between its constituent UOAs, and finally between institutions. The shares for each UOA, and within them for each institution, are in proportion to their volume of activity reaching the 3* and 4* quality levels in the REF, multiplied by quality and cost weights.

134. In stages 3 and 4, we apply weightings to the volume of research attributable to each quality rating, as shown in Table 6. This ensures that our funding of research is highly selective.

Table 6: Research funding quality weightings

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

135. The cost weights used in the funding method for mainstream QR (shown in paragraph 128) are unchanged from previous years.

136. Two UOAs span subject areas of varying costs:

- a. UOA 4 (Psychology, Psychiatry and Neuroscience) is in the higher cost band, but includes some elements of psychology that are lower cost.
- b. UOA 17 (Geography, Environmental Studies and Archaeology) is in the middle cost band, but includes some elements that are higher cost.

To account for the varying costs in these UOAs, we are funding them using the rates of funding per submitted staff FTE used for 2014-15, uplifted to reflect the increase in mainstream QR and London weighting between 2015-16 and 2016-17.

London weighting on mainstream QR

137. We provide London weighting as a percentage of an institution's funding for mainstream QR (see paragraph 129). This is calculated separately after Stage 4.

QR RDP supervision fund

138. Funding for RDP supervision is provided on the basis of postgraduate research (PGR) student FTEs in all departments that receive mainstream QR funding for research¹⁵. These are derived from institutions' HESA data for previous years. 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 REF overall quality profile. For each eligible department, PGR student FTEs are subject to London weighting (using the percentages given in paragraph 129), the cost weightings given in paragraph 128 and the quality score. We then distribute the total available funding in proportion to these weighted FTEs.

QR charity support fund

139. The QR charity support fund is provided to institutions in proportion to the amount of eligible research income from charities reported in their two most recent HESA Finance Statistics Returns (FSRs), subject to London weighting (see paragraph 129). There is no minimum quality threshold for eligibility for this funding.

¹⁵ 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.

QR business research element

140. The QR business research element supports HEIs undertaking research with business and industry. The allocation is provided in proportion to the amount of research income institutions receive from industry, commerce and public corporations, using data reported by institutions on the HESA FSR for the two most recent years available. There is no minimum quality threshold for eligibility for this funding.

2D Knowledge exchange funding

141. Our knowledge exchange funding provides incentives for and supports HEIs to work with business, public and third-sector partners, with a view to exchanging knowledge and thereby increasing economic and social benefit.

142. We provide recurrent funding of £160 million for knowledge exchange, of which £113 million is from ring-fenced science and research funding, and £47 million from the overall HEFCE budget. These funds are allocated by formula to all eligible HEIs, subject to acceptance by HEFCE of an institutional strategy for knowledge exchange and a plan for use of the HEFCE component. Of the £160 million total, we distribute £150 million as a main allocation and £10 million as a supplement for those institutions whose main allocation is capped, to enable their existing knowledge exchange strategies to be enhanced where there is evidence that the cap on funding is a constraint on their support of economic growth.

143. The key features of our main allocation method for knowledge exchange 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 aims to achieve the greatest impact from public funding of knowledge exchange. We take account of income over a three-year period, 2012-13 to 2014-15, weighted 1:2:7 respectively. Income from small and medium-sized enterprises is given a double weighting within this component, to signal the importance of working with such businesses and to recognise the higher costs involved.
- b. There is an allocation threshold for all HEIs. Institutions that do not achieve an allocation of at least £250,000 per year through the formula get no allocation at all. This is intended to ensure that our funding for knowledge exchange is efficient, through being targeted at institutions with significant knowledge exchange performance and partnerships.
- c. There is a cap of £2.85 million on individual allocations.
- d. Year-on-year changes to allocations are moderated so that, subject to meeting the £250,000 threshold, no institution has a change of more than ± 50 per cent compared to the previous round of funding.

144. The £10 million supplement is split between the highest-performing HEIs, based on their shares of qualifying income (calculated according to the main knowledge exchange allocation method).

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

¹⁶ See www.hefce.ac.uk/pubs/year/2011/201116/.

2E Funding for national facilities and initiatives and capital funding

146. Funding for national facilities and initiatives and capital funding is used to secure change or fund activities that cannot be addressed through our recurrent formula funding to institutions.

147. We aim to provide as much as possible of our funding for learning and teaching, research, and knowledge exchange through recurrent grants. We continually review the level of funding for national facilities and initiatives to ensure that it is justified, and that the amount of funding that comes from the recurrent baseline is limited.

148. For 2016-17, we are allocating £98 million in funding for national facilities and initiatives, and a further £478 million for capital grants.

Funding for national facilities and initiatives

149. We allocate a small proportion of our total funding to support special programmes, promote specific policies and contribute towards additional costs that are not recognised through our recurrent funding methods.

150. This funding includes the Museum, Galleries and Collections Fund which supports museums and galleries in the HE sector that have research significance beyond their home institution. Funding for national facilities and initiatives also supports work commissioned from some sector bodies, such as Jisc.

151. This funding also includes support for the Catalyst Fund, which provides exceptional funding to support key objectives that address the Government's policy priorities. Funds are awarded following a formal assessment and approval of proposals from institutions. For 2016-17 we have £20 million to allocate through the Catalyst Fund for non-capital projects and £28 million for capital (as explained in paragraph 157).

Capital funding

152. Capital funding is additional funding provided by the Government to support sustainable investment in higher education. It totals £478 million for 2016-17. Table 7 shows the breakdown of this total between different capital funding streams.

153. UKRPIF 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.

154. The Capital Investment Framework (CIF) aims to assess the way HEIs approach capital investment by asking them to demonstrate that they are:

- managing their physical infrastructure as an integral part of their strategic and operational planning
- ensuring that their plans in this area are environmentally sustainable.

155. HEIs that meet the requirements of the CIF receive funds directly on a grant profile in two elements, RCIF and TCIF, allocations for which are made by formula. HEIs and FECs that receive recurrent teaching funding are eligible for a TCIF allocation and HEIs that receive recurrent research funding are eligible for an RCIF allocation. We are not providing allocations under either programme for 2016-17 if an institution's share would fall beneath a threshold of £10,000.

Table 7: 2016-17 Capital funding allocations

Strategic aim	Funding (£ million)
Teaching Capital Investment Fund (TCIF)	126
Research Capital Investment Fund (RCIF)	189
UK Research Partnership Investment Fund (UKRPIF)	135
Jisc	20
Catalyst Fund	28
Gross total	498
Recoverable grants returned by institutions and underspends*	(20)
Net total	478*

* We are expecting institutions to return recoverable grants to HEFCE, mainly through funding provided under the Strategic Development Fund, the predecessor to the Catalyst Fund. In addition we are expecting some underspends on Revolving Green Fund budgets. We are proposing to use this funding towards financing the capital budget for the Catalyst Fund in 2016-17.

156. Of the total £126 million for TCIF, £116 million is allocated in proportion to teaching resource (HEFCE recurrent teaching grant plus an assumption of tuition fee income) for each institution, and a further £10 million is allocated in proportion to teaching resource solely for price group B provision. Of the total £189 million for RCIF, £87 million is allocated in proportion to institutions' research income from Research Councils UK and £102 million is allocated in proportion to institutions' total QR funding plus research income from UK and EU charities, government bodies and industry, and other EU sources.

157. In addition to the above sums, we are providing £28 million in 2016-17 for the capital projects supported through the Catalyst Fund (see paragraph 151). This is financed in part through the reinvestment of capital funding provided previously as recoverable grants that have now been repaid.

Section 3: Conditions of funding

Accountability for funding

158. 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 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 159 to 164.
- 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 the Higher Education Statistics Agency, the National Student Survey and the data provided on the website www.unistats.com (where a Key Information Set (KIS) for each relevant course is published).

159. 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.

160. Our formal relationship with higher education institutions (HEIs) is governed by a memorandum of assurance and accountability¹⁷. It reflects our responsibility to provide assurances to Parliament that:

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

¹⁷ See 'Memorandum of assurance and accountability between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions' (HEFCE 2014/12), available online at www.hefce.ac.uk/pubs/year/2014/201412/.

161. The memorandum of assurance and accountability 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 each HEI. It includes details of the recurrent grant that we are providing and of the requirements that HEIs are expected to meet in return for their grant. For further information on the funding agreement see paragraphs 165 to 167.

162. We do not have a memorandum of assurance and accountability with further education and sixth form colleges (FECs) because further education colleges are accountable to the Skills Funding Agency and sixth form colleges to the Education 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 memorandum of assurance and accountability with HEIs that are relevant to FECs.

163. 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.

164. Just as we have a memorandum of assurance and accountability with HEIs, so the Department for Business, Innovation and Skills 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 website at www.hefce.ac.uk/about/unicoll/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

165. The funding agreement sets out the amount of recurrent funding that we will provide to an institution for the academic year, and the other terms and conditions of grant that apply. Institutions have discretion as to 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 (for HEIs, teaching, research and related activities; for FECs, prescribed courses of higher education). 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 KIS
- 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 Quality Assurance Agency (QAA) UK Quality Code for Higher Education as it relates to postgraduate research programmes¹⁸.

¹⁸ Chapter B11 of the QAA UK Quality Code for Higher Education on postgraduate research programmes is available at www.qaa.ac.uk/publications/information-and-guidance/publication?PubID=2901.

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

- 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 HEIs' recruitment against intake targets for undergraduate medicine and dentistry (see paragraph 167).

Medical and dental intake targets

167. 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 reduce grant if they do so in two successive years. We also do not count students recruited in excess of the medical or dental intake targets towards our funding of high-cost subjects.

Summary explanation of terms and abbreviations

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 that public money is properly accounted for.

BIS

Department for Business, Innovation and Skills¹⁹. 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.

Capital funding

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

Catalyst Fund

Non-formula recurrent and capital funding to promote and enhance innovative activities that address the Government's key policy priorities.

CIF

Capital Investment Framework. A methodology for assessing higher education institutions' approaches to investing their capital funding. 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 the CIF requirements need to meet specific application conditions.

DSA

Disabled Students' Allowance. Grants to help meet the extra 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.

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.

Erasmus+

The European Union's framework programme for education, training, youth and sport.

EU

European Union

FECs

Further education and sixth form colleges.

¹⁹ See <https://www.gov.uk/government/organisations/department-for-business-innovation-skills>

FSR

HESA Finance Statistics Return. This is an annual return completed by HEIs.

FTE

Full-time equivalent. FTE is a measure of how much a student studies over a year, compared with someone studying full-time. Someone studying full time counts as one FTE, whereas a part-time learner doing half that amount of study counts as 0.5 FTE. For research funding purposes, the FTE of research-active staff submitted to the REF is used.

Funding for national facilities and initiatives

Allocations used to secure change or fund activities that cannot be addressed through recurrent teaching or research funding, including support for national facilities, such as museums and galleries and Jisc.

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 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 HEFCE-funded university or college of higher education.

HEIFES

Higher Education in Further Education: Students survey²⁰. The annual aggregate student number survey completed by FECs, which informs our funding for teaching.

HESA

Higher Education Statistics Agency²¹. 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 some targeted allocations, and to reconcile with the HESES return. We also use data from HESA's FSR 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 survey²². The annual aggregate student number survey completed by HEIs, which informs our funding for teaching.

²⁰ See www.hefce.ac.uk/data/collect/HEIFES/.

²¹ See <https://www.hesa.ac.uk/>.

²² See www.hefce.ac.uk/data/collect/heses/.

ILR

Individualised learner record. This is collected from FECs by the Skills Funding Agency 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. A targeted allocation is provided to assist with improving retention.

Institution

An HEI or an FEC that offers higher education courses.

ITT

Initial teacher training.

Jisc

Formerly known as the Joint Information Systems Committee, Jisc funds development and champions the use of digital technologies in UK education and research²³.

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 can be undergraduate, postgraduate taught or postgraduate research.

Mode

Mode of study can be full-time, part-time or 'sandwich year out'.

NCTL

National College for Teaching and 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.

Non-recurrent funding

Funding for national facilities and initiatives and capital funding. It is used to secure change or fund activities that cannot be secured through core teaching or research 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.

PGR

Postgraduate research.

Price group

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

²³ See www.jisc.ac.uk/.

QR funding

Quality-related research funding, encompassing all our recurrent research funding.

RCIF

Research Capital Investment Fund, part of our formula capital funding.

RDP

Research Degree Programme.

Recurrent funding

Yearly allocations aimed at ongoing core activities.

REF

Research Excellence Framework²⁴. A periodic, peer-review exercise that provides a profile of research quality in UK HEIs and the numbers of research-active staff they have submitted for assessment across 36 different subject areas. For each submission by an HEI to a subject area, quality is assessed for three separate elements covering research outputs, impact and environment, which are combined into an overall quality profile for the submission. The first REF was completed in 2014 and is used to inform research funding from 2015-16.

Research Councils

The seven UK Research Councils are funded by Government to support research in their fields of interest, both within their own establishments and in HEIs.

Sandwich course

A full-time course of study which includes periods of work experience in organisations outside the university or college. 'Sandwich year out' means a year spent away from the institution on a work experience placement in business or industry.

STEM

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

TCIF

Teaching Capital Investment Fund, part of our formula capital funding.

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 students entering from academic year 2012-13, 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.

TRAC(T)

A national framework for costing teaching in different subjects, based on Transparent Approach to Costing (TRAC) principles.

UKRPIF

UK Research Partnership Investment Fund. A fund to support investment in UK higher education research facilities.

UOA

Unit of assessment. Used in the REF to define broad subject areas.

²⁴ See www.ref.ac.uk/.

Further reading

HEFCE publications (all available at www.hefce.ac.uk/pubs)

'Recurrent grants for 2015-16' (HEFCE 2015/05)

'HESES15: Higher Education Students Early Statistics survey 2015-16' (HEFCE 2015/19)

'HEIFES15: Higher Education in Further Education: Students survey 2015-16' (HEFCE 2015/20)

'Memorandum of assurance and accountability between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions' (HEFCE 2014/12)

'Institution-specific funding: Circular letter outcomes and invitation to make a submission' (HEFCE 2015/10)

'Formula capital allocations for teaching and research 2016-17' (HEFCE Circular letter 04/2016)

'Business plan 2015-2020: Creating and sustaining the conditions for a world-leading higher education system' (HEFCE 2015/01)

Information on REF 2014 (available at www.ref.ac.uk under Publications)

'REF2014: Panel criteria and working methods' (REF 01.2012)

REF 2014: The results (REF 01.2014)

Other HEFCE pages

'Annual funding allocations' at www.hefce.ac.uk/funding/annallocns/

'How we fund research' at www.hefce.ac.uk/rsrch/funding/

'Funding for knowledge exchange – Higher Education Innovation Funding (HEIF)' at www.hefce.ac.uk/kess/heif/