

Higher Education Funding Council for England

Title	Formula-based capital allocations for teaching and research 2016-17
To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges
Of interest to those responsible for	Senior management, Finance, Estates, Information technology
Reference	Circular letter 04/2016
Publication date	22 March 2016
Enquiries to	Lis Edwards, tel 0117 931 7222, email e.edwards@hefce.ac.uk

Dear Vice-Chancellor or Principal

Formula-based capital allocations for teaching and research 2016-17

1. This letter sets out formula-based teaching and research capital grants under the Capital Investment Framework (CIF) for the financial year 2016-17. It includes allocations to higher education institutions (HEIs) and directly funded further education and sixth form colleges (FECs) for the Teaching Capital Investment Fund (TCIF), and to HEIs for the Research Capital Investment Fund (RCIF).

2. We provide capital grants on a financial-year basis and thus require capital grants for 2016-17 to be spent in full by March 2017; we cannot provide funding in advance of need.

Funding available

3. Following receipt of the annual grant letter from the Department for Business, Innovation and Skills (BIS) on 4 March 2016, the HEFCE Board has agreed that £126 million should be distributed through TCIF (which includes £10 million for science and engineering teaching laboratories) and £189 million should be distributed through RCIF in the financial year 2016-17. RCIF is provided from the Science and Research budget, and is in two elements known as 'Higher Education Research Capital England' and 'Research Capital England'. It comprises:

HE Research Capital England	£87 million
Research Capital England	£102 million
Total	£189 million

4. The allocations to institutions for 2016-17 are listed at Annex A. These funds are available to support capital investment in learning and teaching, and research.

How the 2016-17 allocations were calculated

5. In March the Board also agreed the methodology for allocating this formula teaching and research capital to institutions through CIF2 in financial year 2016-17. While our general approach is to keep changes to the formula method since 2015-16 to a minimum, we are unable to update allocations to reflect 2016-17 recurrent teaching and research allocations, as the distribution of these between institutions has not yet been agreed by the Board because of the late receipt of the grant letter. The main reasons for changes to TCIF and RCIF compared with 2015-16 allocations arise from the use of the most up-to-date data where available, and the overall changes to budgets.

Methodology for allocating teaching capital

6. We have maintained the approach used to allocate TCIF in 2015-16: allocating funding based on teaching resource (HEFCE recurrent teaching grant plus assumed fee income), using the most recent student data where available. When this approach was introduced in 2015-16 we said we would use it for one year only, and then review the methodology. The short timescale means we have been unable to do this.

7. For TCIF in 2016-17, £116 million has been allocated pro rata to the sum of each institution's:

a. Estimated 2015-16 resource for teaching. This comprises HEFCE recurrent teaching grant (including for student opportunity and other targeted allocations), plus an assumed fee income of £6,000 per full-time equivalent student, based on the HEFCE-fundable numbers from the 2015-16 Higher Education Students Early Statistics and Higher Education in Further Education: Students surveys from HEIs and FECs respectively. We have not been able to use HEFCE recurrent teaching grant for 2016-17 because these allocations have not yet been agreed.

b. Estimated resource for non-fundable students on initial teacher training courses leading to Qualified Teacher Status.

8. A further £10 million has been allocated for science and engineering laboratories, pro rata to the estimated teaching resource for price group B activity only. A London targeted allocation has been included in the resource total where applicable.

9. As last year, where the operation of these formulae would result in an overall TCIF allocation of less than £10,000 we have allocated no funding for 2016-17.

Methodology for allocating research capital

10. The Board agreed to continue with the methodology used for RCIF in 2016-17, updating the underlying data where possible. RCIF funding has two elements shown in our grant letter from BIS, 'Higher Education Research Capital' and Research Capital.

a. The Higher Education Research Capital element is distributed to HEIs in proportion to their research income from Research Councils UK¹. For 2016-17 allocations, an average of three years (2012-13 to 2014-15) of research income from the Research Councils was used to calculate this element. This was taken from the Higher Education Statistics Agency (HESA) Finance Statistics Return (FSR)².

b. The Research Capital element is distributed to HEIs in proportion to the sum of 2015-16 HEFCE quality-related research (QR) funding³, and the 2014-15 research income from the following sources:

- UK-based charities⁴
- UK central government bodies and local authorities, health and hospital authorities⁵
- UK industry, commerce and public corporations⁶
- European Union (EU) sources (both EU government bodies and other EU sources)⁷.

As the Board has not yet approved 2016-17 QR funding allocations, we have used the 2015-16 QR allocations as the most recent available data.

11. As with our TCIF allocation, where the operation of these formulae would result in an overall RCIF allocation of less than £10,000 we have allocated no funding for 2016-17.

Allocation methodology for directly funded FECs

12. The TCIF methodology outlined above applies to all institutions, ensuring consistency between HEIs and FECs. The allocations for each college are listed in Annex A: a number of colleges do not meet the £10,000 threshold and will receive no allocation.

Grant payments, conditions and monitoring

13. We will notify institutions separately about the payment profile for these allocations.

14. Further information about the broad aims of TCIF can be found in the 2011 publication 'Capital Investment Fund 2: Capital allocations for learning and teaching 2012-13; Capital allocations for research 2011-12 to 2014-15' (HEFCE 2011/08, available at www.hefce.ac.uk/pubs/year/2011/201108/). Institutions are reminded that capital funding must be used for the purposes intended and that HEFCE is not permitted to make payments to institutions in advance of need. HEFCE funding should not be used for advance payments to contractors, or other financing arrangements (such as bonds) where payments precede production of goods or delivery of services.

15. HEIs will be required to undertake monitoring in 2017 for funding allocated during 2016-17. Further details will be published nearer the time.

16. In April 2017 we will request information from directly funded FECs on how the funds have been used, via a monitoring return. These returns may be subject to audit. If we are not satisfied that the funds have been used for the purposes described in 'Capital funding for directly funded further education colleges: 2014-15' (HEFCE Circular letter 14/2014, available at www.hefce.ac.uk/pubs/year/2014/CL_142014/), we may seek to reclaim some or all of the funding provided.

Complying with state aid

17. HEIs and FECs must ensure compliance with European Union state aid law in their uses of this capital funding. In the case of any breach of state aid law we may be required to recover all or some funding, together with interest. HEFCE may also be required to withhold funding or aspects of funding to any institution which is subject to a state aid enquiry or has an outstanding recovery notice against it. Guidance on state aid is available from <https://www.gov.uk/state-aid>. If in doubt, institutions should seek legal advice.

Action required

18. Most HEIs have been informed whether they have satisfied the requirements of CIF; no further action is required from them. A small number of institutions that have become directly funded HEIs since 2015-16 may still have outstanding requirements relating to their compliance with CIF. We will write separately to these institutions about the associated conditions that we are applying to their allocations.

Yours sincerely

Professor Madeleine Atkins

Chief Executive

¹ Including research income from the Royal Society, the British Academy and the Royal Society of Edinburgh.

² Table 5b Column 1, 'Net research grants and contracts': Head 6 in 2012-13, Head 8 in 2013-14 and 2014-15.

³ Consisting of mainstream QR, London weighting on mainstream QR, the QR charity support fund, the QR business research element and QR research degree programme supervision funds.

⁴ HESA FSR Table 5b Columns 2 and 3, Head 8 'Net research grants and contracts'.

⁵ HESA FSR Table 5b Column 4, Head 8 'Net research grants and contracts'.

⁶ HESA FSR Table 5b Column 6, 'Head 8 'Net research grants and contracts'.

⁷ HESA FSR Table 5b Columns 7, 8, 9 and 10, Head 8 'Net research grants and contracts'.