

Annex A Funding of Higher Education

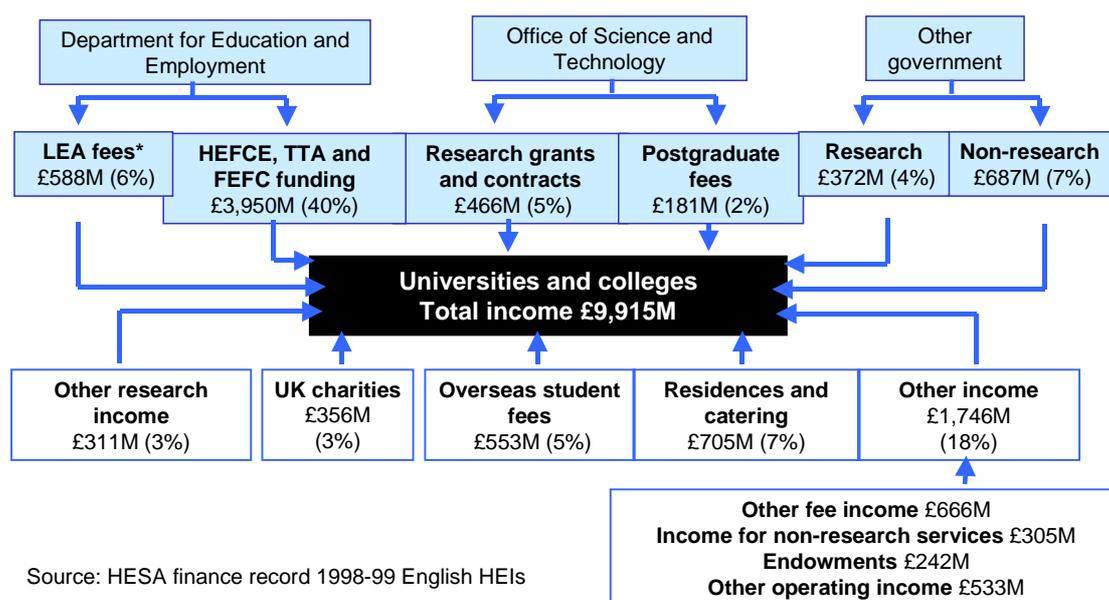
Institutional Funding

A.1 Higher education institutions attract income from a variety of sources. The relative proportions of income provided by these sources reflect the diversity of institutions' missions and the markets they serve. A diagrammatic representation of the major sources of funding in 1998-99 for universities and higher education colleges funded by the Higher Education Funding Council for England (HEFCE) is shown below. The sources of funding for institutions in Wales and Northern Ireland would be broadly similar.

A.2 As will be seen from the diagram, the total income from these sources in 1998-99 was £9,915 million, of which £3,950 million (or 40 per cent) was provided by the HEFCE, the Further Education Funding Council and the Teacher Training Agency.

A.3 Further information about the main sources of funding is given below.

Sources of funding for HEIs in England (1998-99)



Source: HESA finance record 1998-99 English HEIs

Tuition Fees

A.4 The current system of tuition fees was introduced from 1998-99, when an annual flat-rate fee of £1,000 was introduced for full-time home and EU undergraduate students. In 2000-01 the fee was set at £1,050. Students who started their courses in or after 1998-99 are personally liable for the fee. However, it is means-tested, and many students are wholly or partially exempt: their fee is paid in full or in part by Local Education Authorities (LEAs).

A.5 The governing body approves the level of fees for home and EU postgraduates and part-time students. Some of these students are self-financing, others are funded by their employers or other organisations. In the case of postgraduates, some students are funded by central Government, primarily through studentships from the Research Councils and the Arts and Humanities Research Board. The Secretary of State indicates annually the maximum reimbursement of tuition fees for full-time home postgraduate students which will be met from central government funds.

A.6 The position of full-time home students on the Postgraduate Certificate in Education is different. These students are funded on the same basis as full-time undergraduate students, but the £1,050 flat-rate fee is paid in full by LEAs in all cases. Such students also qualify for bursaries.

A.7 Overseas (ie non-EU) students are charged higher fees because, since 1980, the Government has required that their fees should cover the full economic cost of their tuition. Institutions are free to decide what level of fee they charge to overseas students. Where applicable they can submit an application for an award for the brightest research students to the Overseas Research Students Awards Scheme (ORSAS). This will pay the difference between the home fee and the overseas fee for each student who receives an award. The ORSAS scheme is funded by the UK Funding Councils and has an annual budget for distribution of about £13 million. Further information can be found on the HEFCE web-site.

Funding Council Grants

A.8 The grant from the Funding Councils falls into three main categories:

- funding for teaching
- funding for research
- special funding (or non-formula funding in Wales).

However, funding for teaching and research and some special funding, although allocated under these headings, are all part of a block grant. In other words, the institution may distribute the funds internally at its own discretion, as long as it is used for teaching, research and related activities. The following paragraphs summarise the funding methods: for more detail on England, see *Guide to funding: how the HEFCE allocates its funds* (HEFCE 01/14).

Funding for Teaching

A.9 The Funding Councils have an annual funding agreement with each institution which sets out the student numbers which institutions are required to deliver in return for funds for teaching. Student numbers are initially monitored through the Councils' annual Higher Education Students Early Statistics (HESES) survey. In England, these numbers are verifiable against data subsequently collected by the Higher Education Statistics Agency. In Wales, the Funding Council conducts a second survey at the end of each academic year. Where institutions fail to recruit their contract student numbers, the Councils will hold back a proportion of the funding for teaching.

A.10 In 1998-99, the HEFCE and the then DENI (now DHFETE) introduced a new teaching funding method for institutions in England and Northern Ireland. The method is based on the following principles: similar activities should be funded at similar rates; any variations should be based only on previously-determined factors, such as mode of study and type of student or certain institutional characteristics; and additional funded student numbers should be allocated against a published set of criteria in open competition.

A.11 All academic subjects are allocated to one of four price groups, and a standard price for full-time students is calculated for each group. A series of funding premiums is applied to recognise that different institutions have different costs. Some are student-related, such as the premiums for part-time and mature students, and for students from lower socio-economic groups (identified through geodemographic postcode analysis). Others relate to the institution, such as the premium for universities and colleges with historic buildings, and premiums for small and specialist institutions providing high cost courses in, for example, music, dance and art and design. An institution's total standard resource for teaching is calculated by weighting the full-time equivalent (FTE) student numbers in each price group by any applicable special factors, multiplying the weighted FTEs by the standard price for the group, and summing the totals for the four groups.

A.12 These calculations produce a standard rate of funding per student for each institution. So that institutions can manage their own student numbers, the actual rate of funding can be as much as 5 per cent above or below the standard. If the variation from the standard is greater than this, the Funding Councils adjust funding or student numbers for the institution so as to bring actual funding into closer alignment with the standard. Adjustments are made over a period, so that the institution can manage the change.

A.13 The Higher Education Funding Council for Wales (HEFCW) implemented its new teaching funding method for 2000-01.

Funding for Research

A.14 The Funding Councils' policy is to allocate research funding selectively to those institutions that have demonstrated research quality.

A.15 Research quality is assessed by the Funding Councils every four or five years in a Research Assessment Exercise (RAE). Institutions may submit research outputs in up to 69 subject areas (known as units of assessment). Outputs can be publications, products or even artistic performances, which are assessed through peer review by panels of experts in the subject. Assessment is based largely on the quality of these outputs, but also takes into

account, as subsidiary indicators, the number of postgraduate research students, funded research studentships, external research income and statements of research plans.

A.16 In the 1996 Research Assessment Exercise (RAE) subjects were ranked on an ascending scale of 1-5* (five star), with point 3 on the scale sub-divided into 3a and 3b and point 5 divided into 5 and 5*. The rating of 5* denotes submissions in which the majority of the work was of international excellence, while a rating of 1 denotes a submission which contained no, or virtually no, work attaining the level of national excellence.

A.17 The main component of the Funding Councils' funding formula for research is quality-related (QR) funding. The amount of money allocated to an institution for this component depends directly on performance in the most recent RAE. Units of assessment rated 1 or 2 are not eligible for any QR funding. In addition to the RAE quality rating, the research funding method also takes account of the volume of research activity, measured primarily as the number of research active staff submitted to the RAE.

A.18 The Councils' funding formula also includes generic research (GR) funding, to encourage institutions to enter into collaborative arrangements for commercial research activities.

A.19 In England, former PCFC institutions with units of assessment rated 2 or 3b in the 1996 RAE also receive an element of funding intended to promote collaborative research in these subjects with other departments or institutions. In Wales, funding to promote research in 2-rated departments is provided on a selective basis through targeted initiatives. In Northern Ireland, universities receive a developmental element of research funding to improve quality across departments and encourage collaboration with industry and others.

A.20 The funding provided by the Funding Councils represents one part of the government's dual support arrangements for research in higher education: the other part comes from the Research Councils which provide grants for specific projects.

A.21 In 1999-2000 the HEFCE undertook a fundamental review of research policy and funding. The results were published in HEFCE 00/37. The review concluded that research funding should continue to be allocated through periodic research assessment exercises.

Special Funding

A.22 A number of activities cannot be funded through the funding formula for research and teaching and are instead supported through special funding. The main elements of special funding currently provided by the HEFCE cover the following areas:

- widening participation: funding for each institution based on postcode data, funding for collaborative projects and funding for students with disabilities
- raising the quality of learning and teaching: funding for institutions, subject centres and individual staff

- funding to support HE institutions working with business and the community and contributing to wealth creation
- reimbursement of inherited liabilities
- support for specialist museums, galleries, collections and libraries which are available to all researchers within the sector
- funding to ensure that certain minority subjects with low student demand are maintained in higher education.

A.23 In Wales, special funding is made available for Welsh language provision and for Initial Teacher Training initiatives. Special funding also supports joint activities by all the UK Funding Councils, such as the work of the Joint Information Systems Committee.

Capital Funding

A.24 The main sources of capital funding are:

- the Joint Infrastructure Fund, which supports investment in research facilities. This is being replaced as from 2001 by the Scientific Research Investment Fund, administered jointly by the HEFCE and OST
- the HEFCE Poor Estates programme, which supports the upgrading of inadequate buildings and estates, particularly in the post-1992 universities
- project capital allocations from the HEFCE for both teaching and research allocated on the basis of a formula linked to total teaching and research grant.

A.25 Institutions also fund capital projects out of mainstream recurrent funding, commercial loans, bonds and other borrowing, and from earned endowment income.

Research Grants and Contracts

A.26 In addition to Funding Council support for research, institutions also obtain research funding through: grants and contracts from Research Councils; contracts from industrial and commercial firms and government departments; and grants from charities and the EU. Where a contract, as opposed to a grant, is provided, an organisation is normally looking for a specific return on its investment.

A.27 The Funding Councils expect that, in determining the price to be charged for research contracts, institutions should be aware of the full costs involved (including indirect costs or overheads). Indirect costs should be calculated on a full costing basis according to the circumstances of each individual institution, using guidance provided by Universities UK (formerly the CVCP) and the Funding Councils. Research Council grants are now intended to cover direct costs and some of the related indirect costs. The amount contributed to an institution's indirect costs is currently calculated as 46 per cent of the gross salary costs met

through each grant (the balance of the indirect costs being met from the research element of the Funding Councils' grants under the 'dual support' principle).

A.28 There are six Research Councils as follows:

- Biotechnology and Biological Sciences Research Council
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Medical Research Council
- Natural Environment Research Council
- Particle Physics and Astronomy Research Council.

A.29 There is currently no research council for the humanities, although the Arts and Humanities Research Board (AHRB) fulfils a comparable role. The AHRB was established as a result of a recommendation in the report of the National Committee of Inquiry into Higher Education (Dearing Committee).

A.30 The Office of Science and Technology within the Department of Trade and Industry is responsible for the Science budget, including allocating funding to the Research Councils.

The Transparency Review

A.31 In 1998 the Government, through OST, established a Transparency and Accountability Review of all activities in higher education institutions to improve the accountability for the use of public funds. The framework for the review was set out in the *Transparency Review Report*, published in June 1999 by the Joint Costing and Pricing Steering Group (JCPSG). The review adopted an activity-based costing approach that could be applied across all institutions. The approach covers all activities, including teaching and research and activities funded from both public and non-public sources. Guidance on the methodology and on implementation issues was published by the JCPSG in July 2000, under the title *Transparent approach to costing*. All higher education institutions are required to report annually to their respective Funding Councils from 1999-2000 onwards, in accordance with the costing standards laid down in the *Transparency Review Report*.

Funding from the Department of Health

A.32 The Department of Health, through the National Health Service, provides substantial core support both directly and indirectly for teaching and research in medicine, dentistry and other health care subjects. Many clinical medical and dental academic staff employed by universities are funded by the NHS. Indirect support for clinical teaching and research is provided by the NHS to teaching hospitals that are associated with universities, to enable them to sustain the facilities and service infrastructure for medical and dental education and research.

A.33 The NHS has transferred colleges of health and schools of nursing to the higher education sector, and commissions all non-medical education and training for health care professionals from universities and colleges on a contract basis. From 1998 onwards, the NHS assumed responsibility for funding all courses in nursing and midwifery and in certain health-related professions. Previously, this funding was provided in some cases by the NHS, and in others by the Funding Councils.

Teacher Training Agency

A.34 In England, institutions which offer Initial Teacher Training and In-Service Training for Teachers receive their funding for this provision from the Teacher Training Agency. In Wales, this provision is funded by HEFCW.

Consultancies and Other Services

A.35 Institutions are increasingly undertaking consultancies for, and providing other services to, external bodies on a commercial basis. The scope of such consultancies and services is wide, ranging from advice on business development to the testing of products and goods, and the letting of university accommodation. Many universities and colleges have established separate companies to market their services with profits covenanted back to the institution. The HEFCE has published guidance for institutions on working with such companies and joint ventures, *Related companies: good practice guidelines* (HEFCE 00/58), which is available on its web-site. The HEFCE Higher Education Reach Out to Business and the Community programme (HEROBC) is designed to help HEIs develop an infrastructure for working with businesses and the wider community.

Endowments, Donations and Other Sources of Income

A.36 Universities and colleges have several other sources of income, including:

- income from endowments and from 'foundations' (trusts to raise money for the institution, especially through alumni)
- donations
- sponsorship of posts (in particular professorial chairs, which are often in areas of immediate interest to the sponsoring company and sometimes for a fixed term)
- interest earned on cash balances and investments
- income from exploiting the results of research or inventions which have commercial applications
- teaching contracts for specific customers (nursing, other professions allied to medicine, further education, continuing professional development, initial teacher training)
- fee income from short courses

- income from halls of residence fees and vacation lettings.

A.37 The importance of these other income streams varies from institution to institution: income from invested endowments, for example, tends to be more significant in the older universities, and donations tend to be focused on universities with medical schools.

Undergraduate Student Support

Student Maintenance Grants and Loans

A.38 In 1997, the Government announced that maintenance grants would be phased out and from 1998-99 these were replaced with a system of income-contingent student loans. These loans are repayable once the student has left higher education and achieved earnings which exceed a specified minimum threshold.

Access Funds

A.39 Institutions receive an earmarked grant of Access Funds through the Funding Councils to assist home students who face particular financial difficulties. The criteria for allocating this funding are determined by the Department for Education and Employment in conjunction with the Funding Councils, and individual institutions are responsible for deciding which students will benefit from the funding available.