

January 2007/02

**Core funding/operations  
Consultation**

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Responses should be made online by  
Thursday 5 April 2007

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This is the second consultation on our plans for  
changing the method for allocating HEFCE funds  
for teaching.

# Review of the teaching funding method

## **Second consultation on changes to the method**

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# Review of the teaching funding method

## Second consultation on changes to the method

<b>To</b>	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Other relevant stakeholders
<b>Of interest to those responsible for</b>	Senior management, Finance, Governance
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### Executive summary

#### Purpose

1. This consultation seeks agreement to a number of proposed alterations to our main formula funding method for teaching.

#### Key points

2. Our review of the funding method began in 2005. The proposals in our first consultation were based on our understanding of the emerging funding context facing the HE sector over the current strategic planning period (2006-11) and into the next (2009-14), and on how we believed our funding method should respond to the challenges these periods may bring.

3. We proposed a range of developments to the method to respond to this changing context. Some of these proposals received a clear response and we have made decisions accordingly. Others required further exploration with the sector and are the focus of this consultation document:

- a. Assumptions about income that contributes to the overall resource for teaching (paragraphs 14-21).
- b. Development of a system of targeted allocations (paragraphs 22-57).
- c. Recognising flexible study patterns (paragraphs 59-70).
- d. Further application to teaching of the Transparent Approach to Costing (paragraphs 71-84).

### **Action required**

4. Responses to this consultation should be made by **Thursday 5 April 2007**, using the online form available on the web with this document at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

5. We will be holding events to discuss the issues in this document. These will be half-day events on 7 and 8 March in London and 14 and 15 March in Leeds. Invitations have been sent to the heads of all directly-funded institutions and relevant stakeholders. Places are limited so early booking is advisable.

6. We are aware that many of the issues are complex. We will therefore be publishing answers to frequently asked questions (FAQs) on the web, which will be built on as the consultation progresses. If you have any queries, please contact Chris Taylor on [c.taylor@hefce.ac.uk](mailto:c.taylor@hefce.ac.uk) to help us make this FAQ section as useful as possible.

## Introduction

7. Our review of the funding method for teaching began in 2005. We commissioned consultants SQW Ltd to evaluate the current method and then launched a consultation outlining proposed changes in November 2005 (HEFCE 2005/41). The review was also supported by studies looking at the potential for using academic credits and the Transparent Approach to Costing (TRAC) in the funding method. The outcomes of the consultation were published on the web in February 2006 (HEFCE 2006/12).

8. These documents and details of the current method can be found on our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk) under Learning and teaching/Funding. For ease of reference, Annex A of this document sets out the principles of the current method, and Annex B gives a glossary of funding terminology. We will also publish on the web answers to frequently asked questions (FAQs), exploring some of the issues in greater detail. These will be built on during the consultation period.

9. Firstly we describe the context for the review and the progress we have made in a number of areas previously consulted on, and then set out some further issues for consultation.

## Context and progress

10. The proposals we are making in this review are based on our understanding of the emerging funding context facing the higher education (HE) sector over the current strategic planning period (2006-11) and into the next (2009-14), and on how we believe HEFCE's funding method for teaching should respond to the challenges these periods may bring.

11. A number of key issues guided the development of our proposals, and continue to form the backdrop to our review of the method:

- a. **A more strategic approach to funding.** We believe that a change in the balance of funding that supports HE – from public to private – requires us to take a more strategic approach to funding, to support priorities that might be compromised in a more market-based system.

- b. **A two-cycle approach.** We have committed to a two-cycle approach to our funding and planning. The first cycle reflects the known funding context, emerging from the introduction of variable fees, and the second cycle the funding context after the Government's review of tuition fee regulations in 2009.

- c. **Issues raised in the evaluation.** The evaluation undertaken by SQW Ltd highlighted a number of issues that we are committed to addressing.

12. Given these factors we proposed a range of developments to the funding method in order to respond appropriately to the changing context of funding for HE. Some of these proposals received a clear response and we have made decisions accordingly. These include funding on the basis of data from the Higher Education Statistics Agency (HESA), support for access to part-time study for those least able to afford it, exploring the costs of widening participation (WP), funding based on academic credits, and the application to teaching of the Transparent Approach to Costing – TRAC(T). Details of these decisions were published in HEFCE 2006/12.

13. A number of other proposals required further exploration with the sector and are the focus of this document. This includes setting out our decisions about the assumptions we make about income that contributes to teaching resource, before going on to seek views on the following three areas:

- a. Development of a new system of targeted allocations.
- b. Recognising flexible study patterns.
- c. Further development of TRAC(T).

### Assumptions about income that contributes to teaching resource

14. A key proposal in our first consultation was to increase the assumption made within the method about the income that institutions receive from full-time undergraduate fees. In the light of responses to the initial consultation (see HEFCE 2006/12), the HEFCE Board decided in February 2006 to reflect further on this issue.

15. We have now reviewed our approach. At its November 2006 meeting the Board decided to continue with a two-cycle approach, and to treat the time between now and 2009-10 as a transitional period during which the new fees and funding regime will mature and market responsiveness by higher education institutions (HEIs) will develop. In this transitional period we will therefore maintain all our fee assumptions at their current levels (in real terms)<sup>1</sup>.

### **Preparing for the second cycle**

16. The principles on which we fund are based on our understanding of the political and funding context of HE. As this context changes, so must we consider whether our funding principles remain appropriate.

17. We must now begin considering how best to fund in the 'second cycle', and review the principles underlying the funding method in this period. A move to a more market-driven sector raises some important questions about the appropriateness of our existing funding method, which ensures that the main elements of resource available to support teaching (that is, HEFCE grant plus tuition fees) are broadly proportionate to the cost of that teaching.

18. It is important that we develop our funding principles in partnership with the sector and give due time and consideration to this process. Completing this review by 2009 will allow us to understand more about institutions' responses to the additional income coming into the sector from variable fees. It will also give us the opportunity to examine data from the TRAC(T) programme.

### **Emphasising strategic responsibility**

19. We remain committed to funding through a 'block grant'. This allows institutions maximum room for strategic investment in responding to their particular circumstances. The funding method for teaching determines grant allocations to institutions, broadly following sector expenditure norms for fundable activities. It is not a mechanism for

funding particular subjects or students. We do not expect institutions to replicate our funding method when they allocate resources internally, but rather to make strategic decisions about the best use of funds based on local factors.

20. In HEFCE 2006/12 we expressed concerns about the potential effects if we did not increase our assumption about the income from full-time undergraduate fees in the funding method, and HEIs did replicate our method in their internal allocations. In particular we were concerned that this might create comparative under-resourcing of part-time students and subjects in price group B<sup>2</sup>.

21. Further informal consultation has reassured us that this is not likely to happen. We are encouraged that institutions will continue to take a strategic approach, and we will look for evidence of this over the period that our fee assumptions remain at their existing levels.

## **Areas for consultation**

### **Targeted allocations for diversity**

22. The HE sector is dynamic and diverse, and we believe that recognising this diversity through differential funding is an important function of HEFCE. In the past we have done so through a system of premiums that operated within the 'tolerance band', whereby institutions' funding is kept within plus or minus 5 per cent of standard resource. In our first consultation a majority of respondents agreed with us that we should look to replace these premiums with a system of targeted allocations outside the tolerance band.

23. Targeted allocations are streams of recurrent funding within the block grant but outside the tolerance band, similar in nature to the existing WP allocation. Any such allocations will be reviewed periodically. Because they are outside the tolerance band, they will provide actual additional funds to institutions. (In contrast, the current premiums may or may not result in additional funds, depending on where an institution sits within the tolerance band.)

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<sup>1</sup> The assumption we make about part-time postgraduate students is an exception to this; see the FAQs on the web.

<sup>2</sup> Science, pre-clinical stages of medicine and dentistry, engineering and technology.

Targeted allocations will therefore enable us more effectively to support, promote and protect important features of higher education, in accordance with key policy initiatives. They also provide the facility to protect features that may require long-term support in the future, in a way that minimises the administrative burden for HEIs. We intend to introduce the new targeted allocations in our funding for 2008-09.

24. We set out here a framework for these allocations, how they will function, how they relate to our other streams of funding and how our existing premiums might fit within this framework.

#### **A framework for allocations**

25. Targeted allocations will provide support for features of HE by making a contribution to their additional costs. These 'features' fall into three categories:

- a. **Student-based** (for example, contributing to the additional costs of supporting students from disadvantaged backgrounds).
- b. **Institution-based** (such as contributing to the additional costs of specialist institutions).
- c. **Provision-based** (for example, contributing to the additional costs associated with foundation degrees).

26. We intend to use two methods of allocation in the first instance:

- a. **Variable.** An allocation would be 'variable' where we are contributing to a cost that varies by volume of activity (generally student numbers). A relevant example is the current part-time premium.
- b. **Fixed.** There are many features of HE that might be considered as being in the public interest to maintain, but whose costs are essentially fixed. An allocation would be fixed if it is recognising such a cost, for example for old and historic buildings.

27. All targeted allocations are likely to have set levels of funding at the sector level that will be determined annually by our Board depending on changing priorities. The unit of resource within

variable allocations may therefore alter slightly from year to year, depending on overall changes in student numbers. Targeted allocations could also be informed by relevant data from TRAC(T) as they become available.

#### **A public interest test**

28. Targeted allocations are a system by which we can recognise particular differential costs in the sector that are in the public interest to support. In HEFCE 2005/21 we set out the aims of the funding method. These represent the characteristics of HE that we believe it is in the public interest for the funding method to help protect and support. In essence they are our articulation of how the funding method relates to the public interest in HE.

29. These aims and their interpretation by the Board will serve as the 'public interest test' that will determine whether or not any new targeted allocation is created. Key aims likely to be addressed by a system of allocations are:

- a. To enable learning and teaching in HE to respond to the diverse needs and demands of students, business and wider society.
- b. To enable the HE sector to provide innovative learning and teaching opportunities.
- c. To enable the sector to make higher education accessible to all those who could benefit from it.

30. As we prepare for the second cycle we will need to consider whether these aims remain appropriate. This is particularly relevant to any changes to the wider HE funding context that may arise from the Government's review of tuition fees in 2009. If students make a significantly greater contribution in fees, we will need to consider whether it is still appropriate for some of our current priorities to be supported by the public funds for HE.

31. As we develop TRAC(T) to explore the costs of non-subject related activities (which have a broad correlation with our allocations), we will look to use the data to inform the development of our targeted allocations.

## From premiums to targeted allocations

32. Since our first consultation we have been considering how our existing system of premiums should be taken forward into our system of allocations. This section addresses each premium in turn, and seeks views on any proposals for substantive change.

33. We have provided indicative modelling of these proposals with this document on the web. The modelling is based on the most recent data, which are our funding allocations for 2006-07. Exact outcomes are therefore subject to changes in institutions' student profiles, funding settlements, and Board decisions, between now and implementation of the allocations in 2008-09. Therefore this modelling should not be relied upon for financial planning<sup>3</sup>.

34. These changes will alter the position of some institutions in the tolerance band. For institutions that move below, or further below, -5 per cent we will provide migration funding to move them back to their original position or -5 per cent. For those that move above, or further above, +5 per cent we will discuss with institutions what action should be taken to return them to the tolerance band. This could mean the recruitment of additional students or reductions in grant.

## Student-based features

### Widening participation

35. Widening participation in HE remains one of our core strategic aims. We intend to continue to help meeting the costs for HEIs in recruiting and supporting students from under-represented groups, through the WP allocation. The total funds delivered to the sector through the WP allocation for 2006-07 are £344 million; this represents an increase of 21 per cent on the previous year.

36. Responses to the first consultation indicated that we should investigate recognising the

additional costs that may be incurred by institutions that have a significantly greater proportion than others of students from under-represented groups. This was with the proviso that funding to recognise any such additional costs should be new money and not a redistribution of existing resource. However, we are aware that, for many institutions, establishing the cost of WP is notoriously difficult, particularly where WP is a central element of their missions. Therefore, we aim to secure better cost data for WP activity through the TRAC(T) process. This will help us and institutions better to understand what factors lead to additional costs, as well as how such costs vary.

37. We will then consider the need for any changes to the WP allocation in the light of the information obtained through TRAC, and taking into consideration the interplay of other features of the funding method.

### Part-time students

38. Part-time provision plays an important role in enabling HE to respond to the diverse needs and demands of students, business and wider society. By allowing students to study at a variety of paces, part-time education is central to policy objectives such as lifelong learning, widening participation and employer engagement. It is therefore a clear priority for HEFCE.

39. We currently apply a premium to contribute towards the additional costs associated with teaching part-time students. Following JM Consulting's study<sup>4</sup>, the premium was set at 10 per cent and is applied regardless of the subject studied.

40. We believe that we should maintain this support and convert the existing part-time premium into a variable allocation (see paragraph 26) based on the existing cash equivalent sum, pro-rata to part-time undergraduate full-time equivalent (FTE) student numbers.

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<sup>3</sup> Full technical notes for the modelling are available with this document on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

<sup>4</sup> 'The costs of alternative modes of delivery', report to HEFCE by JM Consulting, August 2003, on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications/Research reports.

41. For part-time postgraduate taught (PGT) students, the 10 per cent part-time premium is currently assumed to be met through the higher fee income that institutions charge, relative to full-time PGT students. We wish to maintain this practice, and avoid allocating HEFCE grant for PGT students through the new part-time allocation. For this reason, we would only convert into an allocation the funding associated with the part-time premium for undergraduate students. Further explanation of our proposed treatment of part-time PGT students is in the FAQs section on the web.

### Consultation question 1

Do you agree that we should create a variable targeted allocation to contribute to the additional costs of part-time undergraduate students?

## Institution-based features

### London weighting

42. There are significant costs associated with purchasing and maintaining estates and recruiting and retaining world-class staff in London. We believe that removing our current contribution to the additional costs of operating in London could jeopardise provision in this area and therefore believe it should be retained.

43. There is a clear link between London costs and student numbers, but costs are likely to vary materially only when there is a significant change in student numbers – requiring additional staff or buildings. We therefore believe that this weighting should remain within the tolerance band and not be converted into an allocation. This will also ensure that additional student numbers provided in London remain funded at an appropriate rate.

44. HEIs are often involved in complex franchising arrangements for teaching students that operate across regional boundaries. Institutions that receive London weighting include those with campuses outside London, London institutions with provision franchised outside London, and institutions outside

London with franchised provision in London. We do not currently make any such distinctions in applying the weighting, but intend to resolve this technical issue in this academic year.

### Old and historic buildings

45. It is clear that there are additional costs associated with the maintenance of some old and historic buildings. What is not so clear is whether it is in the public interest for these costs to be supported by the teaching funding method.

46. Old and historic buildings may enhance the ‘brand’ of UK HE, may add to the student experience, and in some cases might be an important part of our heritage and cultural identity. However, HEFCE is not the only source of income for HE, and in a time of pressure on public finances it is an open question how high a priority should be given to targeted support for these buildings within the teaching funding method. Further changes to the funding of HE, such as any increase in private contributions, might further affect the priorities for recognition through a targeted allocation.

47. Nevertheless we are committed to providing institutions with stability in funding during the introduction of variable fees, and to allowing time for managed periods of transition when we do alter funding levels. We therefore believe that we should transfer this premium into the system of allocations in the short term, but should keep it under review in the light of any further changes to the funding of HE.

48. We therefore propose that the old and historic buildings premium should be turned into a fixed allocation based on its current cash value.

### Consultation question 2

Do you agree that we should create a fixed targeted allocation for old and historic buildings?

### Small and specialist institutions

49. We contribute to the costs of both small and specialist institutions through a range of institution-specific premiums. This additional funding was

designed to recognise the public interest contribution that these institutions make to a diverse sector. We committed to reviewing all specialist premiums over 10 per cent every five years, to consider whether a premium is still required and justified. This review is now overdue and, given the development of the new system of targeted allocations and the review of how all our premiums fit into this system, we believe that it should be extended to all premiums for small and specialist institutions.

50. In the coming year we will investigate those features of small and specialist institutions that are in the public interest to support, and identify the factors that should continue to attract additional HEFCE funding. We will review the method of allocating additional funds for small and specialist institutions to ensure effectiveness, transparency and predictability. Throughout this process we will aim to ensure stability in the face of potential market volatility.

51. A panel of specialists from the sector will be set up to advise the project group. We will look to publish the results of the review in summer 2007, and the outcomes will inform funding for the new system of allocations in 2008-09. The modelling on the web (see paragraph 33) shows the current position of small and specialist institutions and will be subject to change depending on the outcome of the review.

### **Provision-based features**

#### **Employer engagement**

52. HE provision that is designed and developed in collaboration with employers enables graduates to make a particularly effective transition to the workplace. It also helps employers to increase the skills of their workforce through new ways of delivering higher learning. Supporting this kind of provision is therefore in line with the aims of the funding method and one of our priorities.

53. Foundation degrees are one example of provision developed with employers. In the current funding method we apply a premium of 10 per cent of the unweighted FTEs, to recognise that there are usually higher costs for foundation degrees

associated with partnerships between institutions and employers.

54. We believe we should maintain this support by converting the existing premium into a variable allocation (see paragraph 26), based on the existing cash equivalent sum pro rata to foundation degree FTE student numbers.

55. These partnerships are not of course restricted to foundation degrees, and we are currently taking a number of steps to encourage closer links between HE and employers through our employer engagement strategy. (Further information is on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Learning and teaching/Employer engagement.)

### **Consultation question 3**

Do you agree that we should create a variable targeted allocation to contribute to the additional costs of foundation degrees?

#### **Accelerated and intensive provision**

56. We currently provide a 25 per cent premium for students on accelerated or intensive courses that last for 45 weeks or more within one academic year. This has previously been known as the 'long course' premium and is predominantly attributable to postgraduate taught masters programmes.

57. We believe that continuing to contribute to the costs of these courses is an important part of our support for flexible learning. We therefore propose that the existing premium should be converted into a variable allocation (see paragraph 26), based on the existing cash equivalent sum pro rata to the relevant subject-weighted FTEs.

### **Consultation question 4**

Do you agree that we should create a variable targeted allocation to contribute to the costs of accelerated and intensive provision?

### Other recurrent funding

58. A small number of other recurrent grants support teaching but are not part of the mainstream teaching allocation. For 2006-07 they comprise funding for:

- a. Additional student numbers for Lifelong Learning Networks (£6 million). These will be mainstreamed into institutions' funding once the relevant three year pilot phase of these initiatives has been completed.
- b. Clinical academic consultants' pay (£18 million). We intend to mainstream this into core funding at an appropriate point.
- c. Funding for increases in NHS pension contributions (£6 million). We intend to mainstream this into core funding at an appropriate point.
- d. Dance and Drama Awards (£4 million). There are currently no plans to alter this initiative.
- e. Senior academic general practitioners' pay (£1 million). This is a three year funding stream applied from 2005-06. We expect to receive confirmation in the next spending review as to whether this will continue.
- f. Funding for high cost and vulnerable subjects (£75 million). This funding stream will operate over three years from 2007-08. It will support chemistry, physics, chemical engineering, and mineral, metallurgy and materials engineering – to help maintain provision in these subjects in HEIs while demand from students grows.

### Recognising flexible study patterns

59. Giving students the opportunity to learn flexibly at a pace and time that suits them is a key part of efforts to widen participation, provide lifelong learning and encourage employer engagement. It is therefore important that our funding method does not create barriers to institutions that want to provide that flexibility. For example, we allow institutions to report provision down to approximately 3-4 credits (0.03 FTE, on

the basis that 120 credits equals 1 FTE), which helps enable them to make small units of learning available.

60. We also wish to recognise the costs associated with teaching students who complete something other than their initial study intentions for the year. This is important because it gives institutions the confidence to allow their students to change the pace at which they study, without fear that this provision will not be counted for funding.

61. Our current funding method does not recognise these costs: for funding purposes, we only count students who complete their initial study intentions for the year. We believe we should now develop a method that recognises the costs of what we have previously referred to as 'partial completion'.

62. This issue might be dealt with through a credit-based system, under which students would be funded on the basis of what they achieve, regardless of their initial study intentions. We are aware of the advantages of credit-based funding, and it is a model we may adopt. A number of institutions are keen for us to do so, but concerns have been raised about the readiness of the sector for such a move and the link it would create between academic success and funding. However, we would not wish to make such a change to our funding method until the recommendations of the Burgess report have been implemented by most institutions<sup>5</sup>.

63. We will undertake further work to explore such an approach through the continuing review of the funding method. Meanwhile we believe that the proposal below will be a significant step toward ensuring that our funding method does not place barriers in the way of institutions providing and promoting flexible learning.

### Changing the volume measure

64. We propose to count the proportion of study completed where this is less than the student's initial study intentions for the year. For example, if a student completes modules equivalent to 60 credits (0.5 FTE) before withdrawing, this volume of study

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<sup>5</sup> 'Measuring and recording student achievement', report of the scoping group chaired by Professor Robert Burgess, Universities UK, 2004.

will be taken into account when calculating the institution's grant. This differs from our 2005 proposal to count provision successfully completed, because we appreciate the sector's concerns that a link between funding and success may put pressure on academic standards.

65. We also propose to introduce a threshold before activity will be counted for funding purposes. This is to minimise any incentives for institutions to divide their provision into very small units. In order to be counted, a student who withdraws from their course of study must have completed modules equivalent to a minimum of 20 credits (0.16 FTE). We believe this threshold strikes an appropriate balance between recognising flexible study patterns, and minimising incentives for undesirable behaviour.

66. This funding will be allocated to institutions as part of their block grant, subject to the tolerance band. This means that institutions that report a relatively large volume of this kind of provision will tend to move towards the bottom of, or further below, the tolerance band. If an institution moves (further) below the tolerance band as a result of this and other changes to our funding method, we will provide additional funding to bring them back within the band.

67. Our move towards counting this provision should not be seen as undermining the importance of improving retention of students. Maintaining or improving continuation rates is one of our key performance targets; we will continue to monitor this through the performance indicators.

#### **Recording data**

68. HEIs can record in their HESA return the proportion of FTE completed by students who complete something other than their initial study intentions for the year (including students franchised to other institutions). This will then be applied to the estimated non-completions reported in the following year's HESES survey<sup>6</sup>. Recording

these data will be voluntary, and HEIs may well choose to opt out if they have a low proportion of students completing something other than their initial study intentions. The proposal will have funding implications for HEIs from 2009-10.

69. Further education colleges (FECs) with HE students cannot currently record data in this way in their Individualised Learner Record return. We will explore with the Learning and Skills Council the possibility of enabling this change as soon as possible. However, we do not wish FECs to be unduly disadvantaged by an absence of data in the meanwhile. We therefore intend to calculate a sector-wide average of the volume of provision completed by students who complete something other than their initial study intentions. This average will be applied to the estimate of non-completions provided by each FEC in its HEIFES survey<sup>7</sup>.

#### **Financial implications**

70. We do not have the data to model the exact financial implications of recognising the volume of activity completed by those students who do not complete their initial study intentions for the year. It is therefore impossible to predict accurately the impact of this proposal in terms of requirements for additional migration funding. Given that we do not expect to receive additional funding for counting this activity, we may wish to limit any redistribution of funding between institutions by capping the extent to which any individual institution might benefit.

#### **Consultation question 5**

Do you agree with our proposal to count for funding purposes the modules completed by students who complete something other than their initial study intentions for the year?

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<sup>6</sup> Higher Education Students Early Statistics survey, completed annually by HEIs.

<sup>7</sup> Higher Education in Further Education Students survey, completed annually by FECs directly funded by HEFCE.

### **Further development of TRAC for teaching**

71. In 2005, we consulted on a proposal to introduce a national framework for costing teaching. Over 80 per cent of institutions supported the idea. Since February 2006, we have been working to develop the framework, known as TRAC for teaching or TRAC(T). For details see [www.hefce.ac.uk/TRAC-T](http://www.hefce.ac.uk/TRAC-T)

72. Our belief is that TRAC(T) will bring substantial benefits both to individual institutions and to the sector in general. Better cost information should help institutions make more informed decisions about their portfolios and how they price their provision. It should also give us a better idea of the resources required to secure a sustainable world-leading HE sector. Finally, more accurate cost information will help us ensure that our grant for teaching is distributed equitably across the sector.

73. To develop the framework in partnership with institutions, we have established a TRAC(T) steering group with membership from across the HE sector. We have worked with a group of adviser institutions, who have assessed the impact of the new requirements. And all institutions were given the opportunity to contribute to the development of TRAC(T) through a series of briefing events in May 2006. A fundamental principle has been to minimise the mandatory requirements, thereby keeping the additional administrative burden for HEIs at a manageable level.

### **TRAC(T) and the funding of teaching**

74. Our aim has been to develop a flexible framework that will meet institutions' own costing needs. However, we also plan to use the data provided through TRAC(T) to inform the way that we fund teaching. A key objective is to derive the full subject-related average cost of teaching a typical student in each HESA academic cost centre. HEIs have been invited to contribute data in February 2007 and February 2008, and to engage in subsequent benchmarking exercises.

75. We plan to use this information in reviewing our price groups and their weightings in summer 2008. Both the number of price groups, and the allocation of provision to each group will be considered. We will consult on any proposed

changes later in 2008, in time for implementation in the academic year 2009-10. Although TRAC(T) data will be an important driver in reviewing the price group weightings, it will not override all other considerations. For instance, we are likely to continue with our current policy of grouping subjects into a small number of broad price groups, to minimise the accountability burden for institutions.

76. From 2007 onwards, we will be extending TRAC(T) to inform funding for non-subject related costs. These are the factors that affect the cost of teaching a student but are not directly related to their subject – for instance, whether the student joins the institution with low entry qualifications, or studies part-time. This work will be carried out in stages, probably with appropriate groups of institutions. Our initial objective will be to explore the differential costs of widening participation, employer engagement and pace of study.

77. The information gathered through this second phase of TRAC(T) will be used to develop the new system of targeted allocations over the coming years. Again, the allocations themselves are unlikely to mirror the TRAC(T) results exactly: we will continue to make strategic decisions about the proportion of costs that we wish to recognise. However, we wish these decisions to be supported by robust cost information; TRAC(T) should, for the first time, make this information readily available.

### **The involvement of FECs**

78. Further education colleges do not currently use TRAC, or any equivalent costing methodology. Implementing full scale TRAC in FECs would therefore be unduly burdensome. In addition, it would take FECs several years of working with TRAC before they could produce robust data. For these reasons, we do not plan to involve FECs in the first rounds of data collection in February 2007 and 2008. Due to the relatively small proportion of HE taught in FECs, this should not affect the accuracy of the data informing the review of our price bands.

79. Nonetheless, we believe that there are good reasons for involving FECs in TRAC. For instance,

TRAC(T) information can be used by colleges to inform their negotiations with partners. It will also help HEFCE better understand the costs of teaching HE in FECs. We therefore propose to run a series of pilot exercises with a small sample of FECs, starting in spring 2007. If colleges find these helpful, we are likely to support the development of a light-touch version of TRAC(T), to be rolled out on a voluntary basis across all FECs with HE provision.

80. FECs with HE provision who have an interest in costing, and who would be able to spend some time working with us, can express their interest by contacting Anna Sherratt (e-mail [a.sherratt@hefce.ac.uk](mailto:a.sherratt@hefce.ac.uk), tel 0117 931 7236).

### **The total cost of sustainable teaching**

81. TRAC(T) should provide institutions with a valuable tool for understanding their own sustainability. In addition, we wish to use TRAC(T) data to help us understand the total costs of sustainable HE teaching in England. In this context, we consider teaching to be sustainable if it is both excellent and efficient, and appropriately funded to maintain these qualities in the long term. This information is likely to play an important role in HEFCE's submissions to future government spending reviews.

82. We propose to understand the total costs of sustainable teaching through moderating the actual costs reported by institutions. This will involve benchmarking the data provided through the subject-related costing exercises. The aims of this process will be to identify and remove outliers. The results of this exercise will help us build up a picture of the cost of teaching a student in each HESA cost centre in a sustainable manner.

83. This exercise will not place any additional burden upon institutions, as the information required will already be provided through the subject-related cost exercise. To ensure that the benchmarking process is transparent, we will agree the metrics used with the TRAC(T) steering group, and will make them publicly available.

84. The benchmarking will be based on actual historical costs, which themselves reflect current forms of teaching and the structure of the sector. We are aware that it may therefore provide a conservative estimate of the long-term costs of sustainable teaching. We will work with the sector to consider how TRAC(T) can be developed in the longer term to contribute further to the debate about sustainability, at both the institutional and the sector level.

### **Consultation question 6**

Do you agree with our proposal to benchmark the actual costs of teaching submitted by institutions, in order to understand the total costs of HE teaching in England?

## **Implementation and timing**

85. The changes we have proposed in this document will occur at a number of points over the coming years. Table 1 highlights the key changes and proposed timing.

Table 1 **Timetable for proposed changes to the funding method for teaching**

<b>Funding round</b>	<b>Recognising flexible study patterns</b>	<b>Targeted allocations</b>	<b>TRAC(T)</b>
<b>2007-08</b>	HEIs encouraged to record more detailed data on volume of student activity through HESA returns	Existing system of premiums in operation  Review of small and specialist institutions completed	First round of data collection on subject costs  Work begins to understand non-subject costs
<b>2008-09</b>	HESES/HEIFES 2008-09 data will be adjusted to take account of the new volume measure when informing assumed student FTEs for 2009-10	New system of targeted allocations introduced	Second round of data collection for subject costs  Review of price bands
<b>2009-10</b>	Affects funding		New price bands affect funding

## Events and responses to the consultation

86. We will be holding consultation events to discuss the issues in this document. These will be on 7 and 8 March in London and 14 and 15 March in Leeds. Invitations have been sent to the heads of all directly-funded institutions and relevant stakeholders. Places are limited so early booking is advisable.

87. In addition, the FAQs section on the web explores many of the issues in more detail. If you have any queries please contact Chris Taylor on [c.taylor@hefce.ac.uk](mailto:c.taylor@hefce.ac.uk) to enable us to make this section as useful as possible for all.

88. Responses to the consultation should be made by **Thursday 5 April 2007**, using the online form available with this document at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

89. We will publish an analysis of responses to the consultation. Additionally, all responses may be

disclosed on request, under the terms of the Freedom of Information Act. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. This includes information provided in response to a consultation. We have a responsibility to decide whether any responses, including information about your identity, should be made public or treated as confidential. We can refuse to disclose information only in exceptional circumstances. This means responses to this consultation are unlikely to be treated as confidential except in very particular circumstances. Further information about the Act is available at [www.informationcommissioner.gov.uk](http://www.informationcommissioner.gov.uk)

### Consultation question 7

Do you have any further comments?

# Annex A

## Overview of the funding method

1. Just over 90 per cent of HEFCE teaching funds are allocated through our mainstream teaching funding method. The remainder consists of funds for widening participation and other recurrent teaching grants. This overview covers our mainstream teaching funding method and is structured as follows:

- general funding principles
- overview of the funding method.

### General funding principles

2. In distributing the funds, we aim to meet the needs of students, employers and the nation by promoting high quality teaching. Our overall budget is set by the Government so the funding method does not affect the total sum available for distribution to institutions.

3. As teaching funding is part of a block grant, institutions have considerable freedom as to how they distribute it internally to support their own aims and objectives. The funding method aims to ensure that we allocate an appropriate level of teaching funding for an institution as a whole. As such, it is designed to be efficient in distributing funding between institutions in the sector, not between departments within an institution. We do not expect institutions to mirror our allocation methods when distributing funds internally. Although our funding is determined according to the activity in academic departments, it is intended to support institutions more generally, including, for example, their central facilities such as libraries, computer centres and administration.

4. Our teaching funding method is based on a principle of similar resources for similar activities. For each institution, our model calculates a level of 'standard resource' which reflects the number of students it has, the mix between different subject areas, and a number of institution-related cost factors. Standard resource is not, however, what we actually pay institutions, but rather a notional benchmark of what we think institutions' share of overall resources should be to reflect their teaching

activities. We compare standard resource with what institutions are actually receiving in HEFCE teaching grant plus broad sector-wide assumptions about levels of income from other sources. We want this assumed resource to come within 5 per cent above or below the standard level.

5. This 5 per cent margin (**the tolerance band**) exists, not because we think it reasonable for institutions' funding to vary by  $\pm 5$  per cent, but to give institutions flexibility and to minimise the accountability burden. This flexibility is both in the nature of the provision they offer to students within broad subject areas (for example, in terms of course content, staffing structures and methods of delivery), and in allowing them to make some changes to the mix and volume of student numbers without financial implications. It is for this reason that the principle of the funding method has been to have similar resources for similar activities, not the same resources for the same activities. This broad-brush approach to funding helps to keep the accountability burden lower than might otherwise be the case. Without it, we would have to measure activity much more finely, since potentially any change in student numbers, however minor, could have a direct effect on grant.

6. The funding method allows institutions to obtain additional funded student places according to criteria that we determine. The Government has made funding available to support growth in higher education for 2006-07 and 2007-08. This has enabled the allocation of approximately 30,000 full-time equivalent places across the sector during this period. The numbers have been allocated to major projects that have already secured funding through our Strategic Development Fund, or to support growth to meet national or regional needs. In order to reduce our use of bidding schemes, which can be time-consuming and burdensome for the sector, we developed a new process for distributing additional places for 2006-07 and 2007-08. This is described in HEFCE 2005/14 'Allocation of funds for additional student numbers 2006-08'.

## Overview of the funding method

7. Institutions receive teaching funds in the form of HEFCE grant and tuition fees. Full-time undergraduate students may receive assistance with their fees. Postgraduate students on taught courses pay fees to institutions mostly from their own funds. Students from outside the EU are generally expected to meet the full costs of their courses.

8. The combined total of grant and tuition fees is referred to as teaching resource or simply as resource. **Resource = HEFCE grant + tuition fees.**

### Calculating the grant

9. There are four stages in calculating the teaching funds for each institution.

#### Stage 1

We calculate a **standard resource** for the institution. This is a notional calculation of what the institution would get if grant was calculated afresh each year. It is based on each institution's profile of students, and takes into account:

- the number of students
- subject-related factors
- student-related factors
- institution-related factors.

#### Stage 2

We calculate the **assumed resource** for the institution. This is based on the teaching grant that we actually paid to the institution for the previous year, adjusted for various factors such as inflation, plus our assumptions of student tuition fee income.

#### Stage 3

We compare the **standard resource** with the **assumed resource** and work out the percentage difference between them.

#### Stage 4

If the difference between the standard resource and the assumed resource is no more than 5 per cent (whether that is plus 5 per cent or minus 5 per cent), then the HEFCE grant will be carried forward from one year to the next. For institutions outside the plus or minus 5 per cent **tolerance band**, their grant and/or student numbers need to be adjusted so that they move to within the tolerance band.

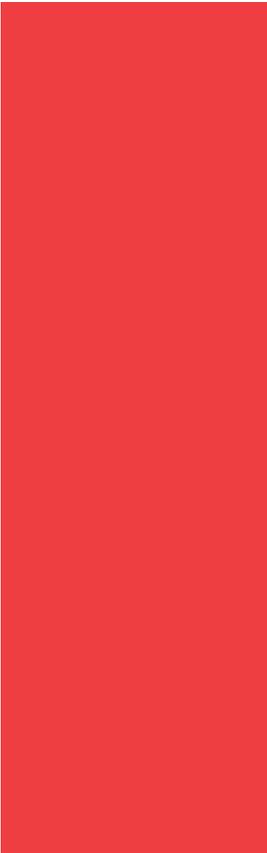
10. In addition to our mainstream teaching funding method, we have made separate allocations to recognise the additional costs of recruiting and supporting students from disadvantaged and non-traditional backgrounds, and disabled students. These allocations to widen participation in HE recognise institutions' success in recruiting and retaining these categories of students. These allocations total £344 million for 2006-07.

# Annex B

## Glossary and abbreviations

<b>Assumed resource</b>	HEFCE grant for teaching plus assumed income from tuition fees.
<b>Block or core grant</b>	The funding provided by HEFCE to an institution for teaching, research and related activities. This does not include special funding.
<b>DfES</b>	Department for Education and Skills.
<b>FAQ</b>	Frequently asked question.
<b>FEC</b>	Further education college.
<b>FTE</b>	Full-time equivalent. Full-time students count as 1 FTE. Students on their sandwich year-out count as 0.5 FTE. The FTE for part-time students is measured by comparing their learning activity with that for an equivalent full time course.
<b>HE</b>	Higher education.
<b>HEFCE</b>	Higher Education Funding Council for England.
<b>HEI</b>	Higher education institution – a university or college of higher education.
<b>HEIFES</b>	Higher Education in Further Education: Students survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.
<b>HESA</b>	Higher Education Statistics Agency.
<b>HESES</b>	Higher Education Students Early Statistics survey. The annual aggregate recruitment survey completed by HEIs, which informs our funding for teaching.
<b>Level</b>	Level of study refers to foundation degree, other undergraduate, postgraduate taught and postgraduate research.
<b>Learning and Skills Council</b>	The main funding body for further education colleges.
<b>Mode</b>	Mode of study refers to full-time, part-time or sandwich. For funding purposes, full-time and sandwich are combined.
<b>Old and historic buildings</b>	Non-residential buildings constructed before 1914, which have been owned by a higher education institution since at least 1 April 1998.
<b>PGT</b>	Postgraduate taught students.
<b>Sandwich course</b>	A course of study which includes periods of practical work in organisations outside the university or college.

<b>Small institution</b>	A higher education institution with no more than 1,000 student FTEs. This includes students at all levels (including those on further education courses) and funded from any source (including overseas students).
<b>Specialist institution</b>	A higher education institution that has 60 per cent or more of its courses in one or two subjects only, such as music or art colleges.
<b>Special initiatives</b>	Special initiatives are funds for specific activities for a limited period not linked to formula funding allocations.
<b>Standard resource</b>	A notional calculation of what an institution would get if teaching grant was calculated afresh each year. It is proportional to each institution's FTEs weighted both by price group and by any student and institutional premiums which may apply.
<b>Tolerance band</b>	This is the range from +5 per cent to -5 per cent of the standard resource.
<b>TRAC</b>	Transparent Approach to Costing – a national framework for costing in higher education.
<b>TRAC(T)</b>	The Transparent Approach to Costing for teaching.
<b>Tuition fees</b>	Fees paid to a university or college for a student to attend a course.



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