

August 2003/42
Policy development

Consultation

Responses should be made online
by Friday 14 November 2003

This document seeks views on proposals to develop our methods for funding teaching, and widening access and improving retention, for 2004-05 and beyond. The proposed changes to the main funding method for teaching relate chiefly to parameters (such as weighting factors), and to the incorporation within teaching funds of previously separate elements of grant. We are also consulting on how our funding methods for widening access and improving retention should develop.

Developing the funding method for teaching from 2004-05

Consultation

Developing the funding method for teaching from 2004-05: consultation

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, Planning
Reference	2003/42
Publication date	August 2003
Enquiries to	HEFCE higher education advisers

Executive summary

Purpose

1. This document seeks views on proposals to develop our methods for funding teaching, and widening access and improving retention, for 2004-05 and beyond. Further information is available on our web-site, www.hefce.ac.uk under Learning & teaching. This includes reports of studies that have informed our proposals. A simulation of the funding implications for individual institutions if these proposals were to be implemented will be available in September.

Key points

2. The proposed changes to the main funding method for teaching relate chiefly to parameters (such as weighting factors), and to the incorporation within teaching funds of previously separate elements of grant. We are also consulting on how our funding methods for widening access and improving retention should develop.

3. During 2004 we intend to embark on further consultation on how our funding methods for teaching should develop in the longer term. In particular, this will cover how the underlying principle of our funding method might be revised in the light of the Government's proposals to introduce differential tuition fees from 2006-07. It will also cover how we should measure institutions' activity.

4. The issues on which we now seek comments relate to:

- a. Changes to how activity is assigned to the broad subject-related price groups, and how those price groups should be weighted in the funding method.
- b. The sector-wide assumptions we make about tuition fee income for postgraduate taught and part-time undergraduate students.
- c. The introduction of a 10 per cent premium for students on foundation degree courses.

- d. The funding of sandwich years-out.
- e. The introduction of a 10 per cent premium for part-time students.
- f. The incorporation of funding for rewarding and developing staff into our teaching funding allocations.
- g. The incorporation of compensation for increases in the Teachers' Pension Scheme into our teaching funding allocations, and the ending of the current pensions premium.
- h. Development of the formula method for funding widening access and improving retention.
- i. Reducing the level of detail collected in our annual aggregate recruitment surveys, by using individualised student data from a previous year to determine the proportions of students with particular characteristics to apply to the aggregate student number counts.

Action required

5. We welcome comments on these proposals: Annex A contains the form, which should be completed online. It can be found on our web-site, www.hefce.ac.uk, either under Learning & teaching or with this document under Publications. The deadline for responses is **Friday 14 November 2003**.

Introduction

6. Our current funding method for teaching was first applied to higher education institutions (HEIs) in the allocations for 1998-99, and to further education colleges (FECs) for 1999-2000. It is described in HEFCE 2003/29, 'Funding higher education in England: how the HEFCE allocates its funds' and summarised at Annex B. Two broad principles underlie the method:

- a. That similar activities should be funded at similar rates, with any variations based on previously determined factors.
- b. That institutions wanting additional student numbers should bid for them.

7. In addition to the main funding method for teaching, we also allocate formula funds for widening access and improving retention. This element of teaching grant seeks to recognise the additional costs for institutions of recruiting students from disadvantaged and non-traditional backgrounds, and of improving the retention of those students most at risk of not completing their studies.

8. This document consults institutions on proposed changes to the main teaching funding method and to the method for funding widening access and improving retention, to take effect in our allocations for 2004-05. The proposed changes to the main funding method relate chiefly to parameters (such as weighting factors) and to the incorporation within teaching funds of previously separate elements of grant. The proposals have been informed by evidence from a number of studies which are available on our web-site.

9. During 2004 we intend to embark on further consultation with institutions on how our funding methods for teaching should develop in the longer term. In particular, this will cover how the underlying principle of our funding method might be revised in the light of our strategic plan, and of the Government's proposals to introduce differential tuition fees from 2006-07. It will also cover how we should measure institutions' activity. However, we believe it is right to introduce the changes that we are proposing in this document in 2004-05, and that they are likely to be consistent with how the method might develop in the longer term. We cannot justify a delay in implementing improvements to the funding method until the new fee regime is introduced.

The block grant principle and zero-sum constraint

10. Two important factors should be borne in mind in considering the proposals: the block grant principle and the zero-sum constraint.

Block grant

11. We allocate recurrent funding as a block grant. Although we calculate allocations to reflect institutions' activity in particular areas – for example, the number of students studying medicine, or the volume of research in history – institutions have considerable freedom as to how they distribute their grant internally to support their academic objectives. In return for their teaching grant, institutions are required to meet certain targets relating to their student numbers. However, we do not expect institutions to allocate their teaching grant internally using the same approach that we have adopted for the sector as whole.

12. Our funding method is broad-brush, recognising that it is not possible or desirable to try to measure the sector's activity in fine detail. Hence the objective of the method has been to provide similar resources (within plus or minus 5 per cent) for similar activities, not the same resources for the same activities. Allocations are based largely on the activity in academic departments. However, HEFCE recurrent funding is intended to support institutions as a whole, including the central costs of, for example, the library, computer centre, administration and estate maintenance. It is not institutions' only source of income.

13. We believe institutions themselves are best placed to determine how their budgets should be managed to support their own objectives and priorities. The block grant principle means that, notwithstanding how their grant has been calculated, institutions can and should still distribute it internally to reflect their own needs and priorities.

Zero sum constraint

14. The method by which we allocate teaching funding does not affect the total amount of funding available. In other words, the net effect of all changes to grant across all institutions will sum to zero, with an increase for one area or one institution implying a reduction for others. If we were to count students differently in distributing grant, then the rate of funding per student would differ to ensure total funding remained within budget. If we increase the weighting given to some students, then the amount of funding per weighted student will fall: there would be a redistribution of funding attributable to students that do not get an increased weighting to those that do.

15. Allocations to individual institutions would only change to the extent that their activity differed from an average for the sector as a whole. This can mean that we do not need to reflect in the funding method the factors that broadly affect all institutions equally and do not lead to any significant change in the distribution of grant between institutions. This can help to keep the funding method simpler and the burden of data provision lighter than might otherwise be the case.

Subject-related factors: price groups and their weightings

16. Within our main teaching funding method, full-time equivalent students (FTEs) are assigned to price groups, which reflect the relative costs of provision in different subject areas. For HEIs the assignment depends on which academic departments provide their teaching: institutions assign departments to academic cost centres (or split them between cost centres); the cost centres are then assigned to price groups. FECs do not have a concept of academic cost centres, so for them the assignment of student activity to price groups depends on the subject of the student's qualification aim.

17. There are currently four price groups:

- price group A (with a weighting of 4.5) for the clinical elements of medicine, dentistry and veterinary science
- price group B (weighted 2) for the high cost science, engineering and technology subjects
- price group C (weighted 1.5) for intermediate cost subjects
- price group D (weighted 1) for all other subjects.

18. The price groups were determined by looking at the expenditure and student FTEs reported by HEIs in academic cost centres, which identified the relative cost of provision in different subject areas. In assigning cost centres to price groups, we have also sought to keep academically cognate disciplines in the same groups, where it was reasonable to do so.

19. We have recently reviewed expenditure and student FTE data by cost centre for the three-year period 1999-2000 to 2001-02. The full report of our study is on our web-site, www.hefce.ac.uk under Learning & teaching. It provides details of the methods used to assign expenditure to price groups, and the different analyses carried out to determine the relative costs of different cost centres. In summary, our study has found that:

a. The relativities between the costs of activity in different cost centres are not as great as our current weightings suggest. This may in part be due to the more extensive use of IT and computer facilities across all disciplines, and the effect of central overhead costs, such as libraries and administration, that do not vary significantly by subject.

b. There is a wide range of expenditure per FTE in price group B, with some traditional laboratory, engineering and physical sciences appearing to be significantly more expensive than other subjects currently assigned to price group B.

c. The evidence is weak for splitting Psychology between price groups B and D, and splitting Media Studies between B, C and D for funding purposes. Psychology shows expenditure patterns that are typical of price group C activity, Media Studies expenditure is typical of price group D, with no greater variation between institutions than other cost centres. Similarly, Sports Science and Leisure Studies, which is currently split between price groups C and D, shows expenditure patterns typical of price group D activity.

20. We propose to address this evidence of differences in relative cost by splitting price group B into B1 for the very high cost subjects and B2 for the other science and laboratory-based subjects. We propose that academic cost centres should be assigned to price groups as shown in Table 1.

Table 1 Proposed assignment of cost centres to price groups

Cost centre	Current price group	Proposed price group
1 Clinical medicine	A	A
2 Clinical dentistry	A	A
3 Veterinary science	A	A
4 Anatomy and physiology	B	B2
5 Nursing and paramedical studies	C	C
6 Health and community studies	C	C
7 Psychology and behavioural sciences	Psychology (B,D)	C
8 Pharmacy	B	B2
9 Pharmacology	B	B2
10 Biosciences	B	B2
11 Chemistry	B	B1
12 Physics	B	B1
13 Agriculture and forestry	B	B2

Table 1 Proposed assignment of cost centres to price groups

Cost centre	Current price group	Proposed price group
14 Earth, marine and environmental sciences	B	B2
16 General engineering	B	B2
17 Chemical engineering	B	B1
18 Mineral, metallurgy and materials engineering	B	B1
19 Civil engineering	B	B2
20 Electrical, electronic and computer engineering	B	B2
21 Mechanical, aero and production engineering	B	B2
23 Architecture, built environment and planning	C	C
24 Mathematics	C	C
25 Information technology and systems sciences	C	C
26 Catering and hospitality management	C	C
27 Business and management studies	D	D
28 Geography	C	C
29 Social studies	D	D
30 Librarianship, communication and media studies	Media (B, C, D)	D
31 Language based studies	D	D
32 Humanities	D	D
33 Design and creative arts	C	C
34 Education	C, D	C, D
35 French, Spanish and German modern languages	C	C
36 Other modern languages	C	C
37 Archaeology	C	C
38 Sports science and leisure studies	C, D	D
39 Computer software engineering	B	C
41 Continuing education	D	D

21. The relative weightings that we propose to apply to each price group are shown in Table 2.

Table 2 Proposed weightings for each price group

Price group	Description	Current weighting	Observed cost relativity	Proposed new weighting
A	Clinical subjects	4.5	4.34 ¹	4
B1	High-cost laboratory-based science, engineering and technology	2	1.93	2
B2	Other laboratory-based science, engineering and technology	2	1.56	1.6
C	Intermediate cost subjects with a studio, laboratory or fieldwork element	1.5	1.21	1.3
D	All other subjects	1	1	1

¹ The observed expenditure data for clinical subjects reflects significant funding from the NHS. The weighting proposed for price group A is sufficient to at least maintain the existing level of resource for courses involving clinical studies (see paragraph 28).

22. In assigning cost centres to price groups, our first criterion is the evidence of similar cost structures. However, we have refined the assignments in some cases so that, where appropriate, academically cognate subjects are assigned to the same price groups. This reduces the likelihood of activity near the borders between disciplines being reassigned to higher-weighted cost centres. It is for this reason that cost centre 25 (Information technology and systems sciences) is assigned to the same price group as cost centre 39 (Computer software engineering). Combined, these two cost centres show expenditure patterns consistent with a price group C attribution, although cost centre 25 on its own would appear to be more appropriately assigned to price group D.

23. In determining the price group weightings, four academic cost centres have been excluded from the calculations: 5, 34, 27 and 41. Cost centre 5 (Nursing and paramedical studies) and cost centre 34 (Education) are predominantly funded by the Department of Health and the Teacher Training Agency (TTA) respectively. They have been excluded so that activity that is not funded by us does not influence the weightings applied to activity that we do fund.

24. For cost centre 27 (Business and management studies), we believe that the expenditure data are significantly influenced by high levels of fee income (based on our survey of tuition fee levels for postgraduate taught and part-time undergraduate students, see paragraphs 31 to 38 below), but that its underlying costs and activities are more consistent with price group D. If we included Business and management studies in determining the average expenditure for price group D subjects, then the weightings for all other subjects would fall. Cost centre 41 (Continuing education) has been excluded because it will include expenditure on non-credit-bearing activity, which is not reflected in the equivalent FTE data.

25. For FECs, activity is assigned to price groups according to learndirect subject codes, because colleges do not have academic cost centres. A proposed mapping of learndirect codes to price groups is available on our web-site under Learning & teaching, which colleges should consider in responding to this consultation. Under the current funding method, activity that colleges have reported in price group B in their recruitment surveys has been assigned for funding purposes to price groups B (weighting of 2) or C (weighting of 1.5), according to the outcome of individual reviews that took place during 1999-2000.

26. With the proposal to split price group B, we believe that in future such reassignment of activity for funding purposes should cease. However, we propose that price group B1 should not apply to FECs. This reflects the nature of the academic disciplines included in price group B1, and also recognises the difference in the way FECs attribute activity to price groups. It is proposed that activity with learndirect codes that map to price group B2 will in future all be funded with the B2 cost weighting.

Effect on the base price

27. The effect of reducing the weighting for certain subjects will be to increase the basic rate of resource per weighted FTE student (known as the 'base price'). Within the same overall funding allocation, there would be a modest shift in standard resource rates between price groups. This is not the same as a simple comparison of price group weightings. For example, although the weighting for price group D would remain at 1, the rate of resource for price group D subjects would increase, because of the increase to the base price. Individual institutions' funding would only be affected if the price group changes resulted in them moving outside the ± 5 per cent tolerance band around standard resource.

28. We believe the effect of the price group changes will be to increase the base price by approximately 15 per cent (it may also change further for other reasons). An example of the effect in funding terms is given by a five-year medical degree. This comprises 2 years' pre-clinical studies (previously funded with a price group B weighting of 2, in future to be funded with a price group B2 weighting of 1.6), and 3 years' clinical studies (funded with a price group A weighting previously of 4.5, in future of 4). Although the weightings for both have fallen, the increase to the base price means that the average rate of funding over the five-year period does not fall (in fact there is a modest increase). In particular there will be an increase in the rate of funding for the clinical years, which applies to most of the residual additional medical places that we have still to fund following the recent increase in intakes to medical courses.

29. We estimate the average changes in the units of resource for the new price groups to be as shown in Table 3. However, there will be variation within these price groups by academic cost centre as a result of changes to how cost centres are assigned to price groups.

Price group	Average change in resource rate
A	2.8%
B1	15.7%
B2	-7.4%
C	-5.0%
D	9.4%
Total	0%

Minority subjects

30. We currently support a number of minority subjects through special funding. This is for specific subjects which may not be as cost efficient as others because they attract only small numbers of students, but where provision is in the national interest. The special funding is in addition to any recurrent funding for teaching that would be allocated for students studying these subjects. HEFCE 00/17, 'Minority subjects', shows the most recent allocations and explained that we would evaluate this initiative by 2004.

Questions 1 to 3 for consultation

- Do you agree with the proposal to move to five price groups, by splitting price group B?
- Do you agree with the proposed assignments of individual academic cost centres (for HEIs) or learndirect codes (for FECs) to price groups?
- Do you agree with the proposed price group weightings?

Fee assumptions

31. Our funding method is resource based – that is, it takes account of assumed fee income as well as HEFCE grant per student. These fee assumptions reflect sector-average or regulated fee rates. They do not vary by institution. We take account of fee income because the Government plans the funding of

higher education on this basis. The balance of higher education funding between HEFCE grant and tuition fees has changed significantly three times² over the last 10 years. In this way, the Government is able to vary the recruitment incentives for institutions and/or students. By taking account of assumed fee income, our funding method is not affected when the Government changes the balance between fees and grant.

32. The contribution to tuition fees from public funds is, however, generally limited to full-time undergraduates and other initial teacher training (ITT) students, and those research students supported by the research councils. For most part-time undergraduates and many postgraduates, institutions are free to determine their own fee levels. Under the current funding method, we have made uniform assumptions about the fees for these categories of student, although there is likely to be wide variation in the actual fees charged. For 2003-04, the assumed fee per FTE for part-time undergraduates (other than those on ITT courses) is £830; the assumed fee per FTE for postgraduate students is £2,940. If institutions charge higher fees than we assume, then we do not reduce the grant we pay. Equally, we do not provide incentives for institutions not to charge student fees by increasing our funding where actual fee income is less than we assume.

33. In order to test the assumptions we make about fee rates for postgraduate taught and part-time undergraduate students, we have conducted a large-scale survey of institutions. Institutions have provided details of the fees chargeable to a stratified sample of some 15,000 students not studying with the Open University³, identified from 2001-02 individual student records. The study has enabled us to determine how the fees charged vary by broad type of institution (multi-faculty HEI, specialist HEI or FEC), mode (full-time or part-time for postgraduate taught students), level (undergraduate or postgraduate for part-time students), and subject of study. The full report from our study is available on our web-site, www.hefce.ac.uk under Learning & teaching.

34. In summary, we have found that:

a. Our current fee assumptions for both part-time undergraduates and postgraduate taught students are below the average levels of fees charged. For part-time undergraduates, the average fee per FTE student is very close to that for full-time undergraduates. For postgraduate taught students, the average fee per FTE student is over £4,000.

b. There is considerable variation according to subject of study and type of institution. For part-time undergraduates, the highest average fees where there are significant student numbers are for law; while for postgraduate taught students, fees are highest for business and management studies. FECs tend to charge slightly lower fees to part-time undergraduates than HEIs, though they are still significantly greater than our current fee assumption. On average, the highest fees are charged by specialist institutions, but this reflects to a large extent the subjects they offer.

c. Average fees for part-time postgraduate taught students are higher per FTE than for full-time postgraduate taught students.

35. As a result of these findings, we propose to increase the assumed fee levels for postgraduate taught and part-time undergraduate students. As currently, we do not propose to make different

² In 1993-94, 1994-95 and 1998-99.

³ We have also collected details of fees for all modules offered by the Open University in 2001-02.

assumptions according to type of institution or subject of study. We do not wish to incorporate factors into the funding method which might be seen as a subsidy for charging low fees, or result in grant reductions if higher than average fees are charged. We also do not wish to create a precedent for how these factors are treated when tuition fee regulations change from 2006-07.

36. For part-time undergraduates, we will assume the same level of fee per FTE as for full-time undergraduates. For postgraduate taught students, we propose to increase our fee assumption to reflect better the average level of fees charged. However, we will cap it, so that we do not assume higher fees than the level of standard resource for a price group D subject. This will mean that postgraduate taught students in price group D may commonly not attract HEFCE funding. This is already the case, and is reasonable as institutions are generally charging tuition fees that are greater than HEFCE resource rates for these subjects. Assuming higher fees for postgraduates than for undergraduates affects the balance of support given to undergraduate and postgraduate provision through HEFCE teaching grant.

37. For those part-time undergraduate and postgraduate taught students whose fees are regulated (such as ITT students and those on some architecture courses), we will continue to reflect the level of the regulated fee – currently £1,125 for 2003-04. Similarly we do not intend to change our fee assumptions for full-time undergraduates or for postgraduate research students, the latter because their fees generally reflect the rates paid by the research councils.

38. The implications of increasing our fee assumptions for postgraduate taught and part-time undergraduate students are not substantial. They will mean that the total level of standard resource, and therefore the base price, increase. Setting the fee assumption for postgraduate taught students at, or close to, the base price merely reflects current practice. For part-time undergraduates, the change could be more significant. However, other changes that we propose below to the funding for part-time students are likely to offset the effects of the increased fee assumption, making the change broadly neutral for institutions.

Questions 4 and 5 for consultation

- Do you agree that the assumed fee level per FTE for part-time undergraduate students should match that for full-time undergraduates?
- Do you agree that assumed fee levels for postgraduate taught students should be increased to reflect the average levels of fees charged, but be capped to ensure they do not exceed the level of standard resource for a price group D subject?

Funding for foundation degrees, sandwich years-out and part-time students

39. The Government stated in its White Paper 'The future of higher education' that it would 'ask HEFCE to review funding levels to make sure they adequately reflect the relative costs of delivering foundation degrees compared with other forms of higher education'.

40. Earlier this year we commissioned a study into the relative costs of 'off campus' modes of delivery, such as distance learning, e-learning, work-based learning, sandwich years-out, the accreditation of prior

experiential learning (where this substitutes for teaching activity), and foundation degrees. The final report, 'The costs of alternative modes of delivery', is available on our web-site.

41. On distance learning and e-learning, the study found that while institutions are making significant use of new technologies in the delivery of learning and teaching, this was most commonly as part of 'blended' learning, where computer or web-based delivery is taking place, often on campus, alongside more traditional forms of teaching. Provision exclusively through distance or workplace learning or e-learning was rarer, and had often been developed by individual enthusiasts rather than as part of institution-wide strategies.

42. Given the way in which distance and workplace learning and e-learning are being developed, we do not propose immediate changes to how we fund this type of activity. We have published a consultation on our proposed e-learning strategy (HEFCE Circular Letter 21/2003), and intend to develop and consult on a workplace learning strategy later in the year. The strategies address the appropriate ways of funding these modes, which will be considered in our longer-term review of our funding method for teaching.

43. There are, however, three areas where we feel able to use immediately the findings of the study on alternative modes of delivery. These are in relation to foundation degrees, sandwich years-out and a part-time premium.

44. On foundation degrees, the study has found that costs do not vary as greatly by subject as our current price group weightings suggest. As has been discussed above, our own studies indicate this applies more generally than just to foundation degrees. However, the study found that there were additional costs associated with partnerships (between HEIs, FECs and employers), and this has implications for foundation degrees. The additional costs do not apply to all foundation degrees: for about one-third, there appears to be no difference in relative cost. This applies where workplace learning is not a significant element of the qualification, and may relate more to foundation degrees that have been developed by converting from HND qualifications.

45. For 2004-05, we propose to introduce a premium for foundation degrees of 10 per cent, to be incorporated in our calculations of an institution's standard resource. This will recognise the additional costs that most foundation degrees are currently showing, relative to other undergraduate provision. However, we propose this only as a temporary measure. In the longer term, we believe that we should move towards an allocation or premium that reflects partnership costs. Only foundation degrees and other qualifications where delivery involved significant partnerships would then be eligible. Because the 10 per cent premium is intended to reflect partnership costs, we propose that it should apply to unweighted FTEs: that is, it would not take account of price group weightings, because partnership costs are not considered to vary according to a student's subject of study.

46. On sandwich years-out, the study identified different costs depending on the specification of the model that institutions adopted, largely relating to the level of interaction between institutions and their students on placement. The costs did not vary significantly according to a student's subject of study. We believe it would be undesirable to determine a rate of funding for sandwich years-out based on the specification at individual institutions, as this might create an incentive for institutions always to opt for a high specification model. Instead, it should be for institutions to determine what level of interaction they have with their students, taking account of the resources they choose to make available from within their block grant. The study found that for a medium specification model, the costs of the sandwich year-out

were broadly equivalent to price group C provision, where the student counts as 0.5 FTE for the year. We therefore propose that in future all sandwich years-out should be assigned to price group C irrespective of a student's subject of study.

47. The study also found that part-time provision was more expensive per FTE than full-time provision, largely because of a number of overhead and support costs that are determined more according to headcount student numbers than FTEs. Our funding method previously included a 5 per cent premium for part-time students, although that is now paid as part of the allocations for widening access and improving retention (see paragraphs 61 to 80 below), rather than through the main teaching funding method. Our fee survey has revealed that part-time activity has also received a further subsidy because of the low undergraduate fee assumption that we have previously made.

48. With the proposal to increase our fee assumption for part-time undergraduates up to the level set for full-time undergraduates, there is a case for now introducing a greater premium for part-time students. We therefore propose to introduce a 10 per cent premium for part-time students into our standard resource calculations. This reflects the findings of the study on alternative modes of delivery and, set at this level, it will offset the effects of the increased fee assumption for part-time undergraduates.

Questions 6 to 8 for consultation

- Do you agree that, as a temporary measure, a 10 per cent premium should be applied for students on foundation degrees?
- Do you agree that all students on sandwich years-out should be assigned for funding purposes to price group C, irrespective of their subject of study?
- Do you agree that a 10 per cent premium in the main teaching method should be applied for part-time students?

Postgraduate research students

49. We are consulting separately on proposed changes to our funding method for research (HEFCE 2003/38). That consultation includes a proposal that postgraduate research students should be funded only through our research funding method from 2005-06. At present, such students are funded through the teaching method if they are full-time and in year 1 (part-time in years 1 or 2); and through the research method if they are full-time in years 2 or 3 (part-time in years 3 to 6). The proposal means that there would be a transfer from the teaching to research funding streams. We would ensure that the transfer would be financially neutral for all institutions in the year of transfer, but thereafter, their funding for research students would follow the outcomes of the research funding model. Comments on this proposal should be made by responding to HEFCE 2003/38, 'Review of research funding method'.

Funding for rewarding and developing staff

50. 'The future of higher education' White Paper stated that existing funding for rewarding and developing staff would be incorporated into the teaching funding allocations from 2004-05. For 2003-04, this funding comprises £170 million allocated pro rata to resource for HEFCE-funded teaching and

research, £8 million allocated pro rata to resource for ITT funded by the TTA, and £6 million for FECs included within the HE in FE Development Fund. Including this funding in the teaching resource calculations will increase the unit of resource per weighted FTE student (the base price). HEFCE 2003/33, 'Rewarding and developing staff in HE – round 2' consults institutions on funding for this initiative from 2004-05. In particular, it seeks views on the criteria which institutions should meet in order for 2003-04 funding under the initiative to be consolidated into 2004-05 teaching grant.

51. We propose to transfer the £176 million allocated on the basis of HEFCE resource by providing all institutions with a pro-rata increase to their grant from the main teaching funding method. This will result in some redistribution of the funding between institutions. The distribution of these funds previously also took account of research funding. So institutions where research comprises a significantly larger proportion than average of recurrent funding are likely to receive a smaller share of this funding than previously. As explained in our March grant letter to institutions, simply transferring these funds to teaching could appear to be a cut in research funding. But this is not in fact the case, because the increases in research funding during the spending review period included money to cover human resource issues (such as the need for market supplements).

52. The £8 million previously allocated on the basis of TTA-funded ITT activity will be added to institutions' main teaching grant to match their 2003-04 allocation of this funding. We will also ensure that the HEFCE-funded activity of the large ITT providers does not as a consequence appear over-resourced relative to the ± 5 per cent tolerance band, by making an appropriate adjustment when comparing actual and standard resource levels.

Question 9 for consultation

- Do you agree with the proposed method for incorporating the 2003-04 funding for rewarding and developing staff into the main teaching grant?

Pension costs

53. For 2003-04 we are providing £47 million to compensate HEIs for increases in employers' contributions to the Teachers' Pension Scheme (TPS). This has been brought about by the transfer of funding responsibilities from the Treasury to employers. Overall contributions increased from 8.35 per cent to 13.5 per cent from April 2003, bringing the level of contribution very close to that for the Universities Superannuation Scheme (USS). The compensation we have provided reflects increased costs of staff engaged in all teaching and research activity, including that for which we do not have funding responsibility.

54. We are discussing with other funding bodies the case for transfers of some of this funding so that, from 2004-05, each body reflects the increased pensions costs in their respective allocations. If transfers of TPS compensation are agreed, it will be for these other funding bodies to decide whether and how to pass on the compensation to the institutions affected.

55. The TPS compensation that we have provided for 2003-04 is part of special funding. For the long term, we need to incorporate it in our recurrent allocations. We propose to incorporate it only in teaching funding, not in research funding. Our research funding method does not reflect differential pension costs,

so if some of the compensation was allocated through research funding, it would not necessarily reach only those institutions affected by TPS increases.

56. With the increase in TPS contributions to 13.5 per cent and incorporation into teaching grant of TPS compensation, we propose to remove the current USS pensions premium of 1.5 per cent in our main funding method for teaching. The differences in the costs of the two schemes are now negligible, so that a premium is no longer warranted. The transfer of TPS compensation into teaching grant and removal of the USS pensions premium will both serve to increase the base price per weighted FTE. So, although their total weighted FTEs may reduce, institutions that are part of the USS should in general not see a significant change in their overall standard resource levels.

57. Employers' contributions to the NHS pension scheme are also increasing, from 7 per cent to 14 per cent. We are discussing with the Department of Health how the additional costs for HEIs should be reflected in our respective allocations from 2004-05. We have never explicitly reflected pension costs for non-academic staff in our allocations, and do not propose to do so now.

Questions 10 and 11 for consultation

- Do you agree that compensation for increases in TPS costs should be allocated solely through teaching grant from 2004-05?
- Do you agree that the current 1.5 per cent pensions premium should end from 2004-05?

Institutional premiums

58. If we are to maintain diversity in the sector, then the funding method needs to recognise that a diverse range of institutions is likely to carry a wide range of institutional costs. As well as the pensions premium, which we propose to discontinue as discussed above, there are four other institutional premiums reflected in our main funding method for teaching, although FECs are eligible only for the first of these:

- London weighting (8 per cent for inner London, 5 per cent for outer London)
- old and historic buildings (variable)
- specialist institutions (variable, but commonly 10 per cent)
- small institutions (variable).

59. We recognise that the percentage premiums we apply for London weighting are low compared with those of the Learning and Skills Council (LSC), and the local government formula grant distribution. There may also be a case for recognising variations in costs in regions outside London. Nevertheless we do not believe we can address regional differences appropriately through a redistribution of funds. In particular, we do not have evidence that our levels of London weighting are creating more significant difficulties than might result from a significant redistribution of funds between regions. We do not, therefore, propose to change the regional (that is, London) weightings we give in the teaching funding method for 2004-05, but will keep this position under review.

60. We have commitments to individual institutions in the short term over the continuing application of premiums for specialist institutions, small institutions and those with historic buildings. For this reason we do not intend to undertake a general review of these premiums for 2004-05. Any change is likely to be limited to a reappraisal of the size of some specialist premiums once we have modelled the impact on institutions of other changes, such as to price groups and fee assumptions. However, for the longer term, we propose to consult on what institutional factors we should recognise through premiums in our funding methodology, and any eligibility criteria that should apply. We expect to raise this in further consultation during 2004.

Widening access and improving retention

61. For 2003-04, we have significantly increased the proportion of teaching funding allocated for widening access and improving retention. Funding for widening access is intended to support out-reach and other pre-application work in recruiting students from disadvantaged backgrounds. Funding for improving retention is intended to support post-application activity to improve the retention of those students most at risk of dropping out. The total funding for this activity is £265 million, comprising:

- £38 million for widening access, allocated using postcode data
- £155 million for improving retention of full-time undergraduates, allocated using data on students' entry qualifications and age
- £62 million for improving retention of part-time students. Of this, £27 million has been allocated in the same way as the former part-time premium, pro rata to part-time FTE student numbers; £34 million has been allocated pro rata to standard resource for part-time students; and £1 million has been allocated in respect of additional part-time FTEs awarded for 2003-04
- £10 million for provision for disabled students, using data on students that receive the Disabled Students Allowance.

62. We do not propose any change to the basis for allocating funds in respect of disabled students. However, we are looking to develop the allocation methods for widening access and improving retention.

Funding for widening access

63. Funding for widening access is currently allocated on the basis of a geodemographic classification. In outline, we assign each student to one of 160 neighbourhood types according to their home postcode. Students are weighted to reflect how HE participation rates vary according to their neighbourhood type (derived from 1991 census information). Neighbourhood types with at least average rates of HE participation receive a weighting of zero, while neighbourhood types with the lowest participation rates receive the highest weightings. From this, we calculate an institutional weighting factor by dividing the students weighted by neighbourhood type by the unweighted students. This institutional weight is applied to the latest FTE student data for the institution to determine its pro rata share of the funding available.

64. This allocation method has been criticised on the basis that some individual students (or postcodes) do not get the weighting that might intuitively be expected by those who know the area, and because it applies weightings to reflect participation rates for broad neighbourhood types, rather than for the actual neighbourhoods.

65. However, this funding is not a form of student support, so it is not crucial that exactly the right amount of funding is provided in respect of each individual student. Instead, the allocation is a way of distributing recurrent funding to institutions to recognise the additional costs they face in recruiting students from disadvantaged and under-represented groups. As such, it is not necessarily unfit for purpose: attempting to ensure that each individual student is correctly weighted according to the specific participation rate for their own neighbourhood may not lead to any significant redistribution of this funding between institutions, but could have implications for the accountability burden on institutions. However, it may be better to have a measure which is more directly related to activities that institutions might undertake to widen participation, such as building links with particular schools.

66. 'The future of higher education' proposed (paragraph 6.24) a change to this method of allocation to reflect family income, parental levels of education and the average results of the school attended. No data are currently collected for the first two of these indicators. Therefore it would be some time before they could be used in funding allocations. However, information on school attended could be used to replace the postcode allocation. The method for distributing funds would follow a similar approach to the postcode allocation: that is, students would be weighted in bands according to the average performance of the school attended at age 16. This would be used to derive an overall institutional weighting factor, which could be applied to the latest FTE student data to determine each institution's pro rata share of funding.

67. The difficulties with the approach are as follows:

a. Information on school attended depends on the availability of data from the Universities and Colleges Admissions Service (UCAS). In order to use these data, we may need permission from each institution individually, as owners of the data. This means that eligibility for funding might only be given to institutions that have agreed that we may use their UCAS data. If this proposal were adopted, then we might require an additional field in the HESA record which would enable the data to be collected for all students.

b. Initially, the information we will have from UCAS on schools attended will be limited to 18- and 19-year-old full-time undergraduates. Data will be unavailable for other full-time and part-time undergraduates who do not enter through UCAS. For these categories, we will need some alternative measures if we are to make differential allocations to institutions to reflect their recruitment of disadvantaged or under-represented students.

68. We are still assessing whether information from UCAS will be in a format that will allow us to readily identify particular schools. If, for some students, there is a difficulty in identifying schools from UCAS data, or they have not entered through UCAS, an alternative would be for us to make assumptions about the local school attended, based on students' postcodes and estimates of the catchment areas of the schools. Like the existing postcode-based allocation, this would mean that for any individual student we could not guarantee to make the right assumption about school attended and, therefore, the weighting to be applied. However, as a means of distributing grant differentially to institutions, we are confident that it would produce broadly the same outcomes. This would allow us to extend coverage where information on school attended was incomplete. We would adopt this process where details of school attended were not available for particular 18- and 19-year-old full-time undergraduates.

69. For mature full-time undergraduate students (those aged 20+) and part-time students, we would propose a different approach. This is because the data on school attended is not currently available and

in any case is probably less relevant to students' current circumstances as they become older. Rather than attempting to use details of (assumed) school attended at 16, we could weight students according to an improved area measure reflecting average educational achievement in their local area at ward level. Census data can be used to give an estimate of the population in a ward that is qualified at HE level. Students whose wards had lower than average levels of educational achievement would receive a higher weighting. This approach would be similar to the existing postcode-based allocation, except that students would be weighted to reflect educational achievement in their ward, rather than according to a generalisation of the neighbourhood type. It would also be more transparent than the current method, as we would make available complete information for all wards and how they were weighted. In determining allocations in respect of such students, we would look to exclude those students that already have a higher education qualification, unless their previous qualification can be considered a normal progression route onto their current undergraduate course.

Funding for improving retention

70. At present, students who do not complete their year of study are not counted in any of our funding calculations. This is also true of the allocations for improving retention. Completion is measured against a student's aims for the year and is generally determined according to whether the student has undergone (though not necessarily passed) the exams or other final assessments for the year. This approach was adopted to strike a balance between an input and an output-based model. An input-based model might provide funding based on the number of students recruited and how long they studied during the year. This provides an incentive to institutions to enrol students, even if they may have little prospect of completing their studies, and would result in a much more onerous accountability burden so that data returns could accurately reflect the amount of study completed by each student in the year. An output-based model might fund on the basis of the numbers of students awarded a qualification. This provides an incentive to institutions to progress their students, but provides little incentive to recruit those categories of students with the highest risk of non-completion. It also risks compromising academic standards.

71. We do not propose to change our principle that we fund on the basis of students that complete their year of study, although we are reviewing the current definition of non-completion. Instead, we have introduced a funding allocation for improving retention, which reflects the additional costs to institutions of supporting students that are most at risk of not completing their year of study. This allocation allows us to target funding to institutions based on the types of students they recruit and their associated risks of not completing. It avoids providing more funding to institutions that, after taking account of their student population, have higher non-completion rates than would be expected.

72. For full-time undergraduate students, the allocation for improving retention reflects sector-average risk factors associated with non-continuation of studies. These risk factors relate to a combination of age and entry qualifications. As with the postcode allocation, an institutional weighting factor is determined from students weighted by age and entry qualifications, divided by unweighted students. This institutional weighting factor is applied to the latest FTE student data for the institution to determine its pro rata share of the funding available. The institutional weighting factor reflects institutions' relative risk in recruiting students most likely not to continue their studies, but it is applied only to those students who complete their year of study (if no students completed the year, the allocation would be zero).

73. The additional costs of supporting students most at risk of not completing their studies may arise from, for example, additional pastoral support or remedial tuition. However, the allocation does not

currently reflect how these additional costs might vary by subject or by type of institution (reflecting, for example, specialist premiums and London weighting). Given that a significant element of the additional support costs will not be subject-specific or institution-specific, we do not believe that we should apply all the premium weightings in full when calculating institutions' share of this funding. However, there may be a case for allocating some of the funding on the basis of FTEs that also reflect subject and institutional weights.

74. A further refinement to the model would be to take account of how risks of non-completion vary according to subject of study. Tables B9 and B10 of HEFCE 2002/52, 'Performance indicators in higher education in the UK' show how non-continuation rates vary according to age (young or mature), entry qualifications, and broad subject of study. If we were to take account of subject of study, then the methodology would be to assign students to risk categories based not just on age and entry qualifications, but also on subject of study. This added complication to the method would only be justifiable if it resulted in a material difference in the funding distribution between institutions.

75. Funding for improving the retention of part-time students has not been allocated in the same way as for full-time undergraduates, and does not reflect their relative risk of non-continuation according to particular student characteristics. Instead, it has been allocated mainly on a historical basis, reflecting how the funding was previously allocated through the main teaching funding method: £27 million pro rata to unweighted FTEs to match the former 5 per cent part-time premium, and £34 million pro rata to weighted FTEs to reflect standard resource rates. Our ability to identify risk factors based on student characteristics is more limited than for full-time students, because the data are less complete and difficult to interpret.

76. We would like to adopt a method for distributing this funding more differentially, but we wish to avoid making allocations that might reward institutions for their own low continuation rates, irrespective of risks related to the types of students they recruit. We will keep the allocation method for this funding under review, and will return to this issue during the further review of the funding method beginning in 2004 (see paragraph 9).

Balance between funds for widening access and for improving retention

77. For 2003-04, funding for widening access and improving retention (excluding the £10 million allocation for disabled students) is currently divided as set out in Table 4.

Table 4 Allocation of funds for 2003-04			
	Funding for widening access	Funding for improving retention	Total
Allocation for full-time	£36 million	£155 million	£191 million
Allocation for part-time	£2 million	£62 million	£64 million
Total allocation	£38 million	£217 million	£255 million

78. We would like to review whether the split of the total funding is reasonable, between that aimed at widening access and that for improving retention, separately for the full-time and part-time allocations. This funding is intended to recognise the additional costs arising from these activities. For full-time students, it suggests that the additional pre-application costs of widening access are roughly a quarter of the additional costs of retaining students once they have enrolled. We would welcome views as to whether the split of this funding is reasonable.

79. For part-time students, the funding is skewed much more significantly towards improving retention, because of the way the funding methods have developed in recent years. The proposed new allocation method for widening access funding for part-time undergraduates (see paragraph 69) is likely to mean that, without additional funding for widening access, there will be a redistribution of widening access funding from full-time into part-time. This is because a threshold condition that was previously applied in calculating funding for widening access of part-time undergraduates will end.

80. We propose, therefore, that the split between widening access funding and improving retention funding for part-time students should match that for full-time students. If the current full-time split is retained, this would mean that £12 million is allocated for widening access of part-time students and £52 million for improving their retention.

Questions 12 to 16 for consultation

- Do you agree in principle that we should replace the current postcode-based allocation for widening access with:
 - a. An allocation for 18- and 19-year-old full-time undergraduates based on the average performance of the school attended (or an area-based proxy for school attended) at age 16?
 - b. An allocation for other full-time and part-time undergraduates based on the average educational achievement within their ward?
- Do you agree that some of the funding for improving retention of full-time undergraduate students should be allocated to reflect total FTEs weighted by price group and institutional premiums?
- Do you agree that funding for improving the retention of full-time undergraduates should also reflect risk factors associated with subject of study, as well as age and entry qualifications?
- Do you agree that, for full-time undergraduates, the proportionate split of funding should remain approximately 20 per cent for widening access and approximately 80 per cent for improving retention?
- Do you agree that, for part-time students, the proportionate split between funding for widening access and for improving retention should match that for full-time undergraduates?

Accountability burden

81. The accountability burden on institutions relating to the teaching funding method falls into two categories:

- a. Conditions of grant: that is, what we expect institutions to deliver in return for the teaching funding we provide.
- b. Provision of data needed to inform the funding calculations and monitor delivery.

82. We do not currently propose any changes to the targets we set institutions and which we expect them to meet in return for our teaching funding. At present there are three such targets: the contract range; funding conditional upon delivery of growth; and the medical and dental contract FTE. They are described in Annex B. However, along with the Department for Education and Skills, we will keep the need for particular targets under review in the light of how the sector performs against the Government's student number and financial plans.

83. It is also a condition of grant that institutions provide data about their activity: specifically, the data collected by the Higher Education Statistics Agency (HESA) and our own surveys of aggregate student numbers and research activity. The data that inform our teaching funding allocations are the individualised student records returned to HESA and our own Higher Education Students Early Statistics (HESES) survey⁴. We need to ensure that we do not collect data unnecessarily.

84. Institutions now only submit individualised student data to HESA once at the end of each academic year. The previous in-year December return was discontinued from the 2002-03 academic year. This means that the HESES return is the only in-year survey of HE student numbers in England. We use the HESES survey both to review our funding allocations in-year and to inform our distribution of funding for the coming year. The survey includes forecast elements (of students forecast to enrol and those forecast not to complete their year of study after the census date) so that it provides an estimate of the whole academic year's activity. We use individualised HESA data as an end-of-year check of the accuracy of the original HESES return, and to inform the calculation of funding for widening access and improving retention.

85. Some form of HESES survey will always be required – for example so that we can monitor the delivery of growth and so that the Government can assess progress towards its student number and participation targets. However, it should be possible to make substantial reductions to the amount of data collected, by dropping those fields that are not used directly for funding purposes, and by making increasing use of the previous year's HESA data to determine the proportions of students with particular characteristics in the HESES aggregate student numbers. We are already making retrospective adjustments to institutions' funding where their HESA data do not substantiate their HESES return. Our proposal now is to extend use of the HESA data to replace some of the detail collected in HESES.

86. As far as possible, we would like to reduce HESES to a count of student numbers and FTEs, by mode and level. We would derive proportions from the previous year's HESA data to assign the total student numbers reported in HESES:

- a. To the new price groups that we propose to introduce, as discussed above.
- b. To standard-length or long courses.
- c. To assumed fee categories.

87. The use of HESA data to assign HESES student numbers to price groups will in any event be necessary in our initial allocations for 2004-05, if the proposals in this document on price groups are

⁴ For FECs, the equivalent returns are the Individualised Learner Record (ILR) submitted to the LSC and our own Higher Education in Further Education: Students (HEIFES) survey. References in the discussion to HESA and HESES are intended to apply equally to ILR and HEIFES where FECs are concerned.

accepted. The HESES survey for 2003-04 will collect information according to the existing price group definitions, so that institutions' achievement of their funding agreement targets is assessed in a way consistent with how those targets were originally set. In order to incorporate the new price group definitions in our allocations for 2004-05, we will need to determine what proportion of an institution's 2003-04 HESES student numbers should come within each price group. HESA data are the only source of information for this.

88. The question then is whether in the longer term the HESES survey should continue to collect details of student numbers by price group, course length and assumed fee level, or whether we derive this detail from HESA data. Ceasing to collect this information in HESES would greatly simplify the survey and thus reduce the burden of data provision on institutions.

89. Another area where we could make greater use of HESA data is to determine non-completion rates at institutions. As has been discussed above, the students that we count for funding purposes are those who complete in full their year of study, where completion is measured against a student's study aims for the year. The HESES survey therefore includes forecasts of the number of students expected not to complete after the census date. As is inevitable with any forecasts, we have found that their accuracy is variable. We need to ensure that individual institutions do not gain an unfair advantage if their levels of non-completion differ from their forecasts. At present this is being addressed through our audits of institutions' HESES data and the reconciliation with HESA data. However, where discrepancies are confirmed, it is commonly some time after the end of the year in question. This means that any consequential funding adjustments can often apply to allocations over a three-year period, making them harder for institutions to manage.

90. To reduce the likelihood of significant differences between HESES and HESA data, we could cease to collect non-completion forecasts in HESES. Instead, we could derive expected proportions of non-completions from the FUNDCOMP field⁵ of the HESA record. So, for example, our allocations for 2005-06 might be based largely on the student numbers reported in HESES in 2004-05, but reflecting also the non-completion rates for students, derived from the 2003-04 HESA record. We would expect to calculate these non-completion rates separately for the same student categories that are used for funding purposes – that is, by price group, mode, level and length of study in the year.

91. Such an approach would remove one of the elements of HESES which, because it is forecast, is less reliable. It should also reduce the discrepancies between funding based on HESES data and our retrospective recalculations based on individualised HESA data. It will not necessarily reduce discrepancies arising from incorrect implementation of our definition of non-completion, and we will wish to examine the FUNDCOMP field closely as part of our audits of HESA data. It will also mean that there is a lag before improving non-completion rates are reflected in our allocations.

Grant adjustments

92. If institutions do not meet the targets that we set them in our funding agreements, then they are liable to a reduction in grant, known as holdback. Funding may be held back:

- a. If institutions do not deliver sufficient growth following a successful bid for additional student numbers, or

⁵ Completion of year of programme of study.

- b. If their actual resources are more than 5 per cent above standard rates, commonly as a result of a fall in existing student numbers.

93. In both cases, the adjustment to grant is both applied in-year and consolidated into the baseline for the following year. However, in the case of funding for delivering growth, we give institutions a second chance to have the funding restored to their baseline if they make good the previous year's shortfall in student numbers. This is not the case where holdback arises for exceeding our 5 per cent tolerance band.

94. If we introduce the changes above by making greater use of HESA data in our initial allocations, then we also propose to bring these two forms of holdback into line. This will mean that institutions experiencing holdback for exceeding the 5 per cent tolerance band will have an opportunity to recover any funding deducted from their baseline if they make good the previous year's shortfall. Because we would be providing this second chance, we would remove the current minimum threshold of £50,000 (or 10 per cent of teaching grant, if less) before applying holdback. This approach would mitigate the possible effects of using more historical HESA data in calculating institutions' grants.

Questions 17 and 18 for consultation

- Do you agree that, instead of collecting the detail in our HESES survey, we should use a previous year's HESA data to determine:
 - a. The attribution of students to price groups?
 - b. The attribution of students to standard-length or long courses?
 - c. The attribution of students to assumed fees categories?
 - d. The proportion of students treated as non-completions?
- Do you agree that institutions experiencing holdback for exceeding the 5 per cent tolerance band should have an opportunity to recover any funding deducted from their baseline if they recover their position in the following year?

Financial implications for institutions

95. For the main teaching funding method, most of the changes proposed affect the calculation of standard resource: that is, our broad assessment of the level of resource that each institution should have, based on their number and mix of students. This applies to:

- a. Changes to price groups and price group weightings.
- b. Changes to fee assumptions.
- c. The premium for foundation degrees.

- d. The price group attribution of sandwich years-out.
- e. The removal of the pensions premium.
- f. The effects of using HESA data from a previous year to derive proportions.

96. In general, the actual grant we pay an institution would only be liable to change if, as a result of the above changes, the institution moved outside the ± 5 per cent tolerance band around standard resource. Where in future we provide funding for additional student numbers, then the rate of funding is likely to change.

97. Actual grant would be affected by the incorporation into teaching grant of funds for rewarding and developing staff and TPS compensation, but these would also be mirrored by adjustments in the calculation of standard resource. So the most significant effects on the main teaching grant would be:

- a. Some individual institutions would move outside the ± 5 per cent tolerance band. Such institutions would need to embark on a migration strategy, so that their resources came within ± 5 per cent of standard levels over an agreed period of time. This would be either through adjustments to funding or student numbers (or a combination of both). As with the original migration that followed the introduction of the funding method for 1998-99, we would in general adopt a standard approach for institutions, but variations might be agreed in individual cases, such as for specialist institutions.
- b. There would be some redistribution of funding for rewarding and developing staff as it transferred into teaching grant. Institutions that receive a higher proportion than average of their recurrent grant through research funding would receive a smaller share of funds for rewarding and developing staff than previously.
- c. Rates of funding for additional student numbers would change. The impact would depend on the areas in which institutions bid, but could be felt either in terms of the overall cost of supporting a fixed number of additional places, or in how many new places we were able to fund in a particular year.

98. In addition to the impact on the main element of teaching grant, changes to the methods for allocating funding for widening access and improving retention would lead to a redistribution of this funding between institutions.

99. In order for institutions to assess the impact on their own funding, we will provide on our web-site a summary of simulated outcomes by institution. This will show 2003-04 allocations of teaching grant; positions relative to the tolerance band under the current model, and projected as a result of the proposals in this document; and assumed fee income under the current model and using the proposed new fee assumptions. We also intend to show current and projected allocations for widening access and improving retention.

Timetable and next steps

100. To respond to this consultation, please use the on-line version of the form provided at Annex A. We also propose to hold consultative seminars during September. The timetable for developing our funding method for teaching is as follows:

June 2003	HEFCE Board meeting to consider issues for consultation
August 2003	Publication of consultation document on development of funding method Supporting reports available on the HEFCE web-site (www.hefce.ac.uk under Learning & teaching)
September 2003	Consultative seminars (separately for HEIs and FECs) Summary of simulated outcomes by institution available on the web
14 November 2003	Deadline for receipt of consultation responses
December 2003	HEFCE Board meeting to consider consultation outcomes and to make preliminary decisions on funding for 2004-05
February 2004	HEFCE Board meeting to approve 2004-05 recurrent funding allocations to institutions
March 2004	Issue of provisional 2004-05 grant allocations to institutions
April 2004	Beginning of iterative discussion with institutions over longer-term development of funding method to take account of new fee regime and HEFCE's strategic plan
July 2004	Issue of funding agreements confirming institutions' final 2004-05 grant allocations

Annex A

Developing the funding method for teaching from 2004-05: responses

This form is for reference only. Responses should be made online from our web-site, www.hefce.ac.uk, either under Learning & teaching or with this document under Publications. Please respond by **14 November 2003**.

Response by (name of person, institution or organisation):

Institutional response (representing the views of an HEI or FEC): Yes/No

Corporate response (representing the views of the group or organisation): Yes/No

Private response (representing the views of one or more individuals): Yes/No

Contact in case of queries

Name:

Tel:

e-mail:.....

Throughout, please select an option to indicate your response to each question, and add any comments.

Question 1

Do you agree with the proposal to move to five price groups, by splitting price group B?

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments on question 1:

Question 2

Do you agree with the proposed assignments of individual academic cost centres (for HEIs) or learndirect codes (for FECs) to price groups?

Agree to all

Mostly agree

Neither agree nor disagree

Mostly disagree

Disagree

Comments on question 2:

Question 3

Do you agree with the proposed price group weightings?

- Agree to all
- Mostly agree
- Neither agree nor disagree
- Mostly disagree
- Disagree

Comments on question 3:

Question 4

Do you agree that the assumed fee level per FTE for part-time undergraduate students should match that for full-time undergraduates?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 4:

Question 5

Do you agree that assumed fee levels for postgraduate taught students should be increased to reflect the average levels of fees charged, but be capped to ensure they do not exceed the level of standard resource for a price group D subject?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 5:

Question 6

Do you agree that, as a temporary measure, a 10 per cent premium should be applied for students on foundation degrees?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 6:

Question 7

Do you agree that all students on sandwich years-out should be assigned for funding purposes to price group C, irrespective of their subject of study?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 7:

Question 8

Do you agree that a 10 per cent premium in the main teaching method should be applied for part-time students?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 8:

Question 9

Do you agree with the proposed method for incorporating the 2003-04 funding for rewarding and developing staff into the main teaching grant?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 9:

Question 10

Do you agree that compensation for increases in TPS costs should be allocated solely through teaching grant from 2004-05?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 10:

Question 11

Do you agree that the current 1.5 per cent pensions premium should end from 2004-05?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 11:

Question 12

Do you agree in principle that we should replace the current postcode-based allocation for widening access with:

- a. An allocation for 18- and 19-year-old full-time undergraduates based on the average performance of the school attended (or an area-based proxy for school attended) at age 16?
- b. An allocation for other full-time and part-time undergraduates based on the average educational achievement within their ward?

12a 12b

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

Comments on question 12:

Question 13

Do you agree that some of the funding for improving retention of full-time undergraduate students should be allocated to reflect total FTEs weighted by price group and institutional premiums?

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

Comments on question 13:

Question 14

Do you agree that funding for improving the retention of full-time undergraduates should also reflect risk factors associated with subject of study, as well as age and entry qualifications?

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

Comments on question 14:

Question 15

Do you agree that, for full-time undergraduates, the proportionate split of funding should remain approximately 20 per cent for widening access and approximately 80 per cent for improving retention?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 15:

Question 16

Do you agree that, for part-time students, the proportionate split between funding for widening access and for improving retention should match that for full-time undergraduates?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 16:

Question 17

Do you agree that, instead of collecting the detail in our HESES survey, we should use a previous year's HESA data to determine:

- a. The attribution of students to price groups?
- b. The attribution of students to standard-length or long courses?
- c. The attribution of students to assumed fees categories?
- d. The proportion of students treated as non-completions?

17a 17b 17c 17d

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Comments on question 17:

Question 18

Do you agree that institutions experiencing holdback for exceeding the 5 per cent tolerance band should have an opportunity to recover any funding deducted from their baseline if they recover their position in the following year?

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments on question 18:

Any further comments:

Annex B

The funding method for teaching in 2003-04

Main funding method for teaching

Overview

1. Two broad principles underlie the main funding method for teaching:
 - a. That similar activities should be funded at similar rates, with any variations based on previously determined factors.
 - b. That institutions wanting additional student numbers should bid for them.
2. Under the method, we calculate a standard level of teaching resource for each institution. This is a notional resource level, based on the institution's student profile and institutional characteristics, and covers both our grant and tuition fees. We compare this standard resource with what the institution actually receives through HEFCE teaching grant plus our assumptions of income from tuition fees, which together we refer to as 'assumed resource'.
3. The principle of the funding method is that similar activities should be funded at similar rates, so we want assumed resource to come within an acceptable margin of standard resource for the institution as a whole. This margin, of 5 per cent above and below standard resource, is called the tolerance band. If the difference between assumed resource and standard resource is more than 5 per cent, we will take action to ensure that the institution comes within the ± 5 per cent tolerance band over an agreed period of time. This may be by changing our funding levels, or by requiring changes in student numbers.

Standard resource

4. We calculate standard resource by weighting students, expressed in FTEs, according to one of four price groups, which reflect the relative costs of provision in different subjects. Further weights are applied for students on long courses and for a number of institutional factors. These are for the additional costs of provision in London; differences between the two pension schemes, the USS and the TPS; and the extra costs of some specialist institutions, small institutions, and those with old and historic buildings. Standard resource is calculated for each institution pro rata to its total weighted FTEs.
5. The premiums for specialist institutions, small institutions and old and historic buildings apply as follows:
 - a. Specialist institutions. The specialist institution premium recognises that specialists do not have the same flexibility as multi-faculty institutions to trade off higher spending on some activities with lower spending on others, within a block grant allocation based on averages for broad price groups. Institutions are defined as specialist if they have at least 60 per cent of their activity in no more than two academic cost centres (subject areas). The size of the premium is commonly 10 per cent, but can be higher where there is justification from a separate consultancy study. However, in general the premium only applies where an institution's assumed resource would otherwise be significantly greater (by at least 8 per cent) than its standard resource.
 - b. Small institutions. Small HE institutions can provide a distinctive environment for students but have diseconomies of scale, in incurring certain costs that are not correlated with student

numbers. Institutions are defined as small if they have no more than 1,000 FTEs in total. The size of the premium varies inversely to the size of the institution. However, institutions with a specialist premium of more than 10 per cent are not eligible for the small institution premium, because their specialist premium will already reflect overall institutional costs.

c. Old and historic buildings. Research undertaken by the HEFCE estates team indicates that there are significant additional costs associated with operating in old and historic buildings, because of higher maintenance, refurbishment and heating costs, and lower levels of space utilisation and occupancy. The size of the premium reflects roughly half the additional costs per m² associated with operating non-residential pre-1914 buildings. A slightly higher rate is paid for pre-1840 buildings.

Assumed resource

6. Assumed resource comprises our teaching grant plus our assumptions of income from tuition fees. The starting point for calculating our grant is the funding allocated the previous year. We then make adjustments where appropriate for holdback of grant (if the institution has not met the terms of our funding agreement), inflation, funding for additional student places, and other miscellaneous adjustments and transfers. We calculate assumed fee income by applying specified sector-wide fee rates to the same student FTEs used in calculating standard resource. The fee rates largely reflect those specified by the DfES.

Migration

7. For some institutions, assumed resource differs from standard resource by more than 5 per cent. If this was the case when the funding method was first applied to the institution, then we will help the institution to come within the ± 5 per cent tolerance band over an agreed period by adjusting funding or student numbers. This process is called migration. However, institutions' entitlement to migration is generally fixed at the point at which the funding method was first applied. If institutions now move further away from the tolerance band, we expect them to manage any process for recovering their position. In particular, if they move above it (become 'over-resourced'), they may be liable to an immediate reduction in grant; if they move below it (become 'under-resourced'), they may need to reduce student numbers the following year.

Other teaching funding allocations

8. A few other allocations of recurrent funding for teaching are treated separately from the main teaching funding method. They are:

a. Funding for widening access and improving retention. This comprises a number of formula-driven allocations:

i. £38 million for widening access, allocated using postcode data.

ii. £155 million for improving retention of full-time undergraduates, allocated using data on students' entry qualifications and age.

iii. £62 million for improving retention of part-time students. Of this, £27 million has been allocated in the same way as the former part-time premium, pro rata to part-time FTE student numbers; £34 million has been allocated pro rata to standard resource for part-time

students; and £1 million has been allocated in respect of additional part-time FTEs awarded for 2003-04.

iv. £10 million for provision for disabled students, allocated using data on students who receive the Disabled Students Allowance.

b. Funding for prototype foundation degrees. This funding, which totals £9.4 million in 2003-04, supports the development of pilot foundation degree programmes until they reach steady-state. Bids were invited in HEFCE 00/27, 'Foundation degree prospectus' and the outcome announced in HEFCE 01/40, 'Foundation degrees: report on funded projects'. Foundation degrees that are not part of this pilot initiative are supported through the main funding method.

The funding agreement

9. We have a funding agreement with each institution. This specifies what we expect the institution to deliver in return for the funding we provide. For 2003-04, the funding agreement has three separate elements relating to student numbers or resource levels, although not all will apply to all institutions:

a. A contract range, expressed as a permitted range of percentage differences from standard resource. This is commonly the ± 5 per cent tolerance band, but may be extended for institutions that are migrating. We include in our resource calculations all home and EC HEFCE-funded students in all modes and all levels.

b. FTE targets for funding conditional upon delivery of growth. These apply to certain institutions that have been awarded additional funded places for 2002-03 or 2003-04. They relate to HEFCE-fundable FTE student numbers across all modes and levels of study.

c. A contract full-time equivalent student number, representing minimum FTEs on quota-controlled undergraduate medical and dental courses.

10. We adjust grant to reflect the extent to which institutions have met their funding agreement targets, holding back grant in the event of under-recruitment. This is described in HEFCE 2003/24, 'HEFCE grant adjustments 2003-04'.

List of abbreviations

FEC	Further education college
FTE	Full-time equivalent
HE	Higher education
HEI	Higher education institution
HEIFES	Higher Education in Further Education Students Survey
HESA	Higher Education Statistics Agency
HESES	Higher Education Students Early Statistics Survey
ILR	Individualised Learner Record
ITT	Initial teacher training
LSC	Learning and Skills Council
TPS	Teachers' Pension Scheme
TTA	Teacher Training Agency
UCAS	Universities and Colleges Admissions Service
USS	Universities Superannuation Scheme