

March 2003/10
Core funding/operations
Allocation of funds

This document summarises our provisional allocations of recurrent funding to institutions for the academic year 2003-04. Final allocations will be announced in July 2003.

Recurrent grants for 2003-04

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To	Heads of HEFCE-funded institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, planning
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Enquiries to	HEFCE higher education advisers

Executive summary

Purpose

1. This document summarises our provisional allocations of recurrent funding to institutions for the academic year 2003-04.
2. The HEFCE Board agreed the allocations on 26 February 2003. We wrote to all institutions individually on 4 March 2003.

Key points

General

3. All years relate to academic years – that is, 1 August to 31 July.
4. We are distributing £5,485 million in 2003-04, an increase of 7.6 per cent compared with 2002-03. Funding for teaching has increased by 3.8 per cent (1.6 per cent in real terms), allowing us to provide an additional 19,700 full-time equivalent (FTE) places for 2003-04. Funding for research has increased by 10.9 per cent. We are also providing an additional £62 million for earmarked capital funding, and £52 million extra for rewarding and developing staff in higher education, compared with the allocations for 2002-03. The overall unit of resource for teaching (including assumed fee income) has increased by 2.4 per cent compared with 2002-03. The increased funding for rewarding and developing staff, which we expect to consolidate into teaching grant in 2004-05, provides a further 1 per cent increase in the unit of resource.
5. The total includes £3,399 million for teaching, £1,042 million for research, £451 million for special funding, £364 million for earmarked capital funding, £178 million for rewarding and developing staff, and £47 million to compensate higher education institutions for increases in employers' contributions to the Teachers' Pension Scheme.

Teaching

6. The total of £3,399 million for teaching for 2003-04 includes the following:

- a. £265 million to support widening access and improving retention for students from under-represented groups or who are at greatest risk of not completing their studies.
- b. £22 million for additional funded students, allocated in response to the new bids invited in HEFCE 2002/39, 'Additional student places and funds 2003-04'.
- c. £23 million for additional funded students in 2003-04, allocated in response to earlier bidding exercises.
- d. £19 million for increases in medical student numbers.

Research

7. A total of £1,042 million is allocated for research. This is an increase of 10.9 per cent compared with 2002-03. It has enabled us to restore the average unit of resource to 2001-02 levels in real terms for departments rated 5 (as well as those rated 5*) in the 2001 Research Assessment Exercise (RAE). In addition, we are providing supplementary funding of £20 million to those departments that achieved 5* ratings in both the 1996 and 2001 RAEs.
8. For departments rated 4, there is a further reduction in the average unit of resource. We are no longer funding departments rated 3a or 3b through our main quality-related research funding (QR). However, we will provide funding for some such departments through a new capability fund aimed at encouraging research in seven emerging subject areas.

Moderation of teaching and research

9. We have continued our policy of phasing in changes by moderating the allocations. Institutions will not receive a reduction in resource (teaching and research grant, plus regulated fee income) in real terms, compared with the equivalent figure for 2002-03.

Special funding and earmarked capital

10. Most of our grants for teaching and research are allocated by formula. In addition, we distribute special funding for specific purposes. In 2003-04, this funding totals £451 million. We will also allocate £364 million for earmarked capital grants, and £178 million for rewarding and developing staff in higher education.

Student numbers

11. We have provided for an additional 19,700 FTE students for 2003-04. Of these, 6,000 have been allocated through the most recent bidding exercise announced in HEFCE 2002/39.

Action required

12. No action is required in response to this document.

Elements of grant

13. The total distribution to institutions in 2003-04 is £5,485 million, allocated as follows:

	£M
Funding for teaching	3,399
Funding for research	1,042
Special funding	451
Earmarked capital funding	364
Rewarding and developing staff in HE	178
Teachers' Pension Scheme compensation	47
Provision for flexibility and moderation funding	4
Total	5,485

14. The overall total is greater than that announced in EP 03/2003, 'DfES funding announcement 2003-04 to 2005-06'. The main reason is an addition of £8 million to provide funds for rewarding and developing staff engaged in initial teacher training (ITT) funded by the Teacher Training Agency (TTA). In finalising allocations, special funding has increased by £1 million and teaching funding has reduced by £4 million. This has released funds to provide for a flexibility margin and moderation funding.

15. Our funding methods for teaching and research, as they applied in 2002-03, are described in HEFCE 02/18, 'Funding higher education in England: how the HEFCE allocates its funds'. An updated version of this document will be available shortly. Our funding methods are designed to operate at the sector level and in broad terms. It is not necessarily appropriate for individual institutions to replicate them when allocating funds internally.

16. The allocations announced in this document are provisional. We will finalise them by July 2003, when we issue each institution's funding agreement. There may be differences between individual figures and totals, due to rounding.

Funding for teaching

17. The allocations for teaching shown in Table 1 total £3,395 million, made up as follows:

	£M
Core funding	3,063
Additional funded places	71
Widening access and improving retention	261
Total	3,395

18. A full explanation of the data in Table 1 is at Annex A. The balance of £4 million covers provision for additional funding for widening access and improving retention. This will be announced later in the year following finalisation of underlying data.

19. Funding for additional funded places includes £21.5 million allocated in response to the bids for 2003-04, invited in HEFCE 2002/39. We notified institutions of the additional places offered in February. The balance of £49.5 million comprises:

- funding for phased allocations arising from earlier bidding exercises (£22.5 million)
- additional funding for increases in medical intakes (£19 million)

- additional funding for prototype foundation degrees, for which bids were invited in HEFCE 00/27 (£2.6 million)
- funding for diversification out of ITT (£3 million)
- funding for eUniversities places (£1.2 million)
- funding for places previously supported through Dance and Drama Awards (£1.3 million).

20. The Government White Paper 'The future of higher education' announced that additional funding for students from disadvantaged backgrounds would be allocated from 2003-04. It also repeated the Government's intention, previously stated in grant letters to us from the Department for Education and Skills (DfES) in 2000 and 2001, to bear down on drop-out rates.

21. Although overall teaching grant contributes to the additional costs of providing for students from disadvantaged backgrounds, or who are most at risk of dropping out, the method of calculating grant has not previously fully recognised these costs. This has increased the financial risks for institutions that do most to recruit students from disadvantaged backgrounds, particularly because of the costs of providing for students who do not complete their courses.

22. For 2003-04 we are addressing this by identifying within teaching grant a total of £265 million associated with recruiting students from disadvantaged and non-traditional backgrounds and improving retention. This comprises:

- £38 million allocated as last year on the basis of postcode data. This is intended to support out-reach and other pre-application work in recruiting students from disadvantaged backgrounds.
- £155 million allocated for full-time undergraduates on the basis of prior entry qualifications and age. This is intended to support post-application activity to improve the retention of those students most at risk of dropping out.
- £62 million for part-time students, allocated largely as in previous years (see paragraph 24 below).
- £10 million allocated as last year on the basis of the number of students who receive the Disabled Students Allowance (DSA).

23. HEFCE 02/22, 'Funding for widening participation in higher education', consulted institutions on proposed changes to how we allocate formula funding for widening participation. In particular it proposed an allocation to support student progression, based on prior entry qualifications. In our newsletter Council Briefing (issue 44, December 2002), we confirmed that we would alter the method of allocation for 2003-04 to take account of previous educational attainment and age. In February 2003, the Board agreed that £155 million should be distributed on this basis. The allocations for the sector in this grant announcement total £150 million. The balance of £5 million has been set aside for allocation by July, pending finalisation of underlying individual student data.

24. For part-time students we do not currently have sufficiently robust data on which to base such an allocation. The £62 million has therefore been allocated largely as in previous years: £34 million is pro rata to standard resource for part-time students, and £27 million is the funding associated with the 5 per cent part-time premium. The balance of £1 million is a supplement in respect of additional funded part-time places for 2003-04.

25. Because we are now separately identifying sums to support widening access and improving retention, including in respect of mature and part-time students, we have discontinued the premiums for mature full-time undergraduates and for part-time students within the mainstream teaching allocation.

26. We expect to develop our formulaic allocation methods to support widening access and improving retention from 2004-05, taking account of the Government's priorities given in 'The future of higher education' and the availability of data.

27. The overall unit of resource for teaching (including assumed fee income, but excluding the additional funds for rewarding and developing staff – see paragraph 39) has increased by 2.4 per cent compared with 2002-03. The additional funding for rewarding and developing staff represents a further increase in the unit of resource of 1 per cent.

Funding for research

28. Details of the funding method for research were originally described in HEFCE Circular 4/97, 'Funding method for research from 1997-98' and, more recently, in HEFCE 02/18. These publications explain how the total amounts for each subject (the subject quanta) are set, and how these amounts are distributed between institutions, taking account of the quality and volume of their research.

29. Following publication of the Government's White Paper 'The future of higher education', and receipt of our grant letter from the DfES on 22 January, we have made further changes to the way funds for research are allocated. For 2002-03, we were able to maintain the average unit of resource only for those departments rated 5* in the 2001 Research Assessment Exercise (RAE).

30. Total recurrent funding for research in 2003-04 is £1,042 million, an increase of £102 million (10.9 per cent) over 2002-03. In distributing this funding the HEFCE Board has decided:

- to maintain the average unit of resource for 5*-rated departments in real terms compared with 2001-02
- to provide supplementary research funding of £20 million to departments that achieved a rating of 5* in both the 1996 and 2001 RAEs
- to restore in real terms the average unit of resource for 5-rated departments to 2001-02 levels
- to allocate any remaining quality-related research funding (QR) to 4-rated departments
- to discontinue mainstream QR funding for 3a-rated departments, but to establish a capability fund, amounting to £20 million, to support research in specific, emerging subject areas where the research base is not as strong as in more established subjects
- to provide £2 million for veterinary research, through a joint initiative with the Department for Environment, Food and Rural Affairs (Defra).

31. The £20 million supplement for departments that achieved a 5* rating in both the last two RAEs is allocated pro rata to London-weighted mainstream QR funding. At present, this allocation is for 2003-04 only. We expect to consult institutions later this year on allocating supplementary funds for 2004-05 and beyond to the very best of the 5* departments, consistent with the Government's priorities.

32. The amount of funding that we provide for each RAE unit of assessment (UOA) reflects the volume of research and a subject-related cost weight. Because 3a-rated departments are no longer to be funded, UOAs with a relatively high volume rated at 3a could see a reduction in the overall funding provided. This in turn would affect the average unit of resource for departments rated 4 or above in those units. In order to avoid this, we have smoothed changes in total funding for each UOA. This will ensure that there is no cash reduction in the funding in any unit going to 4, 5 and 5* departments combined, other than for changes in their volume between 2002-03 and 2003-04.

33. As in previous years, we have sought to ensure that the proportions of QR attributable to each of the elements of research volume remain broadly constant. For 2003-04, we have adjusted the weighting applied to income from charities to ensure that the proportion of QR attributable to this source remains unchanged compared with 2002-03. The weighting has therefore been reduced from 0.228 to 0.191.

34. The effects of these decisions on the quality weightings used to distribute funding within UOAs, and on average units of resource per quality rating, are shown in the table below. Funding allocated for 4-rated departments has reduced from £139 million in 2002-03 to £118 million in 2003-04. This means a further reduction in the average unit of resource for these departments compared with 2001-02, from the 29 per cent experienced in 2002-03 to 42 per cent by 2003-04.

RAE Rating	Funding weights for:			Change in average unit of resource compared with 2001-02
	2001-02	2001-02 scaled for comparison with 2003-04 ¹	2003-04	
5*	4.05	3.357	3.357	+4.75%
5	3.375	2.798	2.793	+4.75%
4	2.25	1.865	1	-42.44%
3a	1.5	1.243	0	-100.0%
3b	1	0.829	0	-100.0%
2	0	0	0	Not applicable
1	0	0	0	Not applicable

35. The changes in units of resource shown above are averages across all UOAs. They do not necessarily hold for individual units, because of the influence of volume changes between UOAs.

36. We are providing £20 million as a capability fund, to support research in emerging subject areas where the research base is currently not as strong as in more established subjects. We have identified seven UOAs as eligible for this funding, on the basis that they have low proportions of staff in 4, 5 or 5*-rated departments, and had relatively high proportions of QR in 2002-03 attributable to 3a or 3b-rated departments. The seven are:

- Nursing (UOA 10)
- Other studies and professions allied to medicine (UOA 11)
- Social work (UOA 41)

¹ The adjustment for comparison scales all the 2001-02 weightings down by approximately 0.83. This presents the 2001-02 relativities in relation to the weighting for 5* departments in 2003-04

- Art & design (UOA 64)
- Communication, cultural and media studies (UOA 65)
- Dance, drama and performing arts (UOA 66)
- Sports-related studies (UOA 69).

37. We are distributing capability funding pro rata to the number of category A research-active staff in RAE submissions rated 3a or 3b, weighted according to the cost weight for the UOA. We have ensured, however, that the rate of funding provided per researcher does not exceed the equivalent rate for those in 4-rated departments. This limits the total amount of funding provided through this formula to £18 million. The balance of £2 million has not yet been allocated. Capability funding is allocated on the condition that institutions submit acceptable research strategies for each UOA for which funding has been allocated. We will write to institutions in due course with further guidance on submitting strategies.

38. The HEFCE Board will review the basis for distributing research funding for 2004-05 and beyond, to take account of the Government's priorities signalled in 'The future of higher education'. Our grant settlement suggests that there is unlikely to be any real terms increase in total recurrent research funding in 2004-05.

Rewarding and developing staff in higher education

39. HEFCE 01/16, 'Funding for rewarding and developing staff in higher education', announced the indicative allocations from HEFCE and the TTA under this funding stream. From 2003-04, HEFCE is responsible for allocating all the funding, to take account of both HEFCE and TTA-funded activity, and has received a transfer of £8 million for this extended responsibility. We have recalculated the allocations for 2003-04 (as announced in HEFCE 01/16), to distribute the total £178 million pro rata to assumed HEFCE and TTA resource for 2002-03. For some institutions, their allocations remain conditional upon them submitting full and acceptable human resource strategies. We expect to consolidate funding for rewarding and developing staff into teaching grant from 2004-05.

40. The allocations announced in this document do not include £47 million to be allocated to higher education institutions to compensate them for increases in employers' contributions to the Teachers' Pension Scheme. We will write to institutions separately in March to inform them of those allocations.

Special funding and earmarked capital

41. Most of our funding is allocated by formula as recurrent funding for teaching and research. However, we also allocate a small proportion of our total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through our recurrent funding methods (such as support for national facilities). For 2003-04, we are allocating £451 million for special funding, and a further £364 million for earmarked capital grants. The distribution of this funding to institutions is not shown in this publication. We will publish in due course a separate report detailing the allocation of special funding to institutions.

42. The overall distribution of special funding and earmarked capital between the different programmes is shown in Table 3.

Moderation

43. As in previous years, we are providing funds to moderate significant changes in funding. Moderation funding is a short-term measure. It is not intended to be an entitlement or general subsidy, but to support actions that will enable institutions to secure change and manage the transition to lower funding levels.

44. The HEFCE Board decided in February that the thresholds for moderation should be set at a cash increase of 2.25 per cent (a zero per cent change in real terms) compared with the equivalent figures for 2002-03, but that we should not provide moderation where it amounts to less than £100,000.

45. In all cases where the moderation funding is significant, we need an assurance that it is being used appropriately. We will therefore ask institutions with significant levels of moderation funding to explain how they are using the allocation to secure necessary change arising from the change in recurrent resource.

Student numbers

46. We have provided for an additional 19,700 FTE students in 2003-04. The distribution of these places is in the table below.

Additional places for 2003-04	Full-time	Part-time	Total FTE
		headcount	
<u>New places awarded for 2003-04:</u>			
Foundation and sub-degree	3,200	5,300	5,600
Degree and postgraduate	10,100	2,900	11,000
Sub-total	13,200	8,100	16,600
<u>Places rolled forward from 2002-03:</u>			
Foundation and sub-degree	900	9,000	2,200
Degree and postgraduate	600	700	900
Sub-total	1,500	9,700	3,100
Total	14,700	17,900	19,700

47. The new places awarded for 2003-04 comprise:

- 6,000 FTEs awarded through our most recent bidding exercise announced in HEFCE 2002/39
- 6,400 FTEs awarded through phased allocations from earlier bidding exercises
- 800 FTEs for prototype foundation degrees
- 2,100 FTEs for increases in medical student numbers
- 900 FTEs to support diversification out of ITT
- 300 FTEs for eUniversities students
- 100 FTEs previously supported from Dance and Drama Awards.

48. The 3,100 FTEs rolled forward from 2002-03 comprise 3,000 allocated through earlier bidding exercises and 100 to provide a second chance for institutions with small numbers of FTEs to make good shortfalls in student numbers in 2002-03 (as described in HEFCE 2002/32, 'Holdback of HEFCE grant 2002-03', paragraph 32).

49. Institutions are required to remain within ± 5 per cent of standard funding levels. This means that there is a limit to which institutions can recruit students without securing additional grant, and institutions wishing to expand recruitment significantly should do so by bidding through our annual additional student number bidding exercises. In HEFCE 2002/32, we warned institutions (in paragraph 35) that we might introduce measures for 2003-04 which could involve financial or other penalties for institutions that come below their contract range. We will publish later in the year the rules governing holdback of grant for 2003-04.

50. In 2000-01, we introduced overall targets for FTE student numbers for institutions that had been awarded additional funded places through our general bidding exercises. We have again set such targets for 2003-04 to ensure that, where we have provided additional funding, institutions deliver the expected increases in their overall student numbers. The grant letters to individual institutions specify overall FTE targets if either the growth in 2002-03 has not yet been delivered, or we have awarded additional places for 2003-04. The grant letters also identify the funding that is contingent upon those FTEs being delivered.

Conditions of grant

51. Our grants to institutions are conditional on the funds being used for the eligible activities set out in section 65(2) of the Further and Higher Education Act 1992. The conditions of grant that apply to funding are given in the model Financial Memorandum between HEFCE and institutions (HEFCE 00/25).

52. In July we will send institutions their funding agreement for 2003-04. This will form Part 2 of the Financial Memorandum between HEFCE and each institution. It will specify the conditions attached to our teaching funding, in terms of the levels of teaching activity that must be provided.

53. Universities and colleges are expected to follow Government policy on public sector pay by taking account of fairness; the need to recruit, motivate and retain staff; and affordability.

54. The Secretary of State has made it clear that he expects institutions not to charge students, who have been assessed as eligible for support, more than a prescribed amount in fees. The prescribed amounts are given in EP 02/2003, 'Tuition fees for 2003-04', as:

- a. £1,125 for students on full-time undergraduate courses.
- b. £550 for students on courses, including sandwich courses, where the student spends a significant time during the year away from his or her institution (that is, where periods of full-time study are in aggregate less than 10 weeks).
- c. £550 for part-time courses of initial teacher training.

55. The Secretary of State may require us to impose a condition of grant on an institution to ensure that the fees payable by students assessed as eligible for fee support on designated courses are equal to the prescribed amount.

56. Formula funding for widening access and improving retention is summarised in Table 1. This funding is conditional upon institutions submitting acceptable widening participation strategies and action plans. We will write to institutions in autumn 2003 to provide guidance on submission of revised widening participation strategies and action plans in 2004.

57. Funding for research capability is conditional upon institutions submitting acceptable research strategies for the units of assessment for which funding has been allocated. We will write to institutions in due course to provide guidance on such submissions.

58. Our Financial Memorandum with institutions contains sections on providing information. These information requirements are part of the terms and conditions attached to the funding for 2003-04. Details are contained in the letters to institutions, dated 4 March 2003.

Audit of funding data

59. The allocations of funds for teaching and research are informed by the data we collect from institutions. We will continue to audit these data selectively in this and future funding exercises. We will make a number of audit visits, covering the full range of data provided by institutions to inform the 2003-04 funding allocations.

60. In addition, we will use data which institutions provide to the Higher Education Statistics Agency (HESA) or the Learning and Skills Council to verify the data they submit directly to us. If we find that erroneous data have resulted in institutions receiving higher allocations than would otherwise have been the case, then the funding for those institutions will be reduced accordingly.

Further information

61. Institutions requiring further information should contact their HEFCE higher education advisers.