

# Guide to funding 2015-16

## How HEFCE allocates its funds

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This guide is intended for those working in higher education, and others who wish to understand our funding methods.

It explains:

- how we calculate how much each university or college gets
- the principles that underpin those calculations
- the components of an institution's grant

The information applies to universities and colleges for the academic year 2015-16.

March 2015/04

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# Introduction

1. HEFCE distributes government funding for higher education. This guide explains how we calculate how much each university or college gets, the principles that underpin those calculations, and the components of an institution's grant.
2. This guide is intended for those working in higher education, and others who wish to understand our funding methods. It gives an introduction to those methods, but does not provide the full technical definitions and specifications used in our allocation and monitoring processes.
3. It is our practice to be open about our allocation methods and policies, and this guide is intended to explain them. It is divided into three main sections.
  - a. **Section 1: Overview** gives a basic summary of how we distribute funding, why we do it this way and how we ensure the money is well spent.
  - b. **Section 2: HEFCE's funding methods** contains more detail about each funding stream, our methods and the principles behind them. However, it does not include comprehensive technical details: more information is in the further reading suggested at the end of this guide.
  - c. **Section 3: Conditions of funding** contains more detail about the requirements that institutions must abide by to receive funding from us. This includes the assurance and accountability measures that institutions must comply with to receive funding, along with other funding conditions such as medical and dental intake targets.
4. Some terms are explained in 'jargon busters' throughout the document, and there is a full glossary and list of abbreviations at the end.

## Note on the funding figures in this document

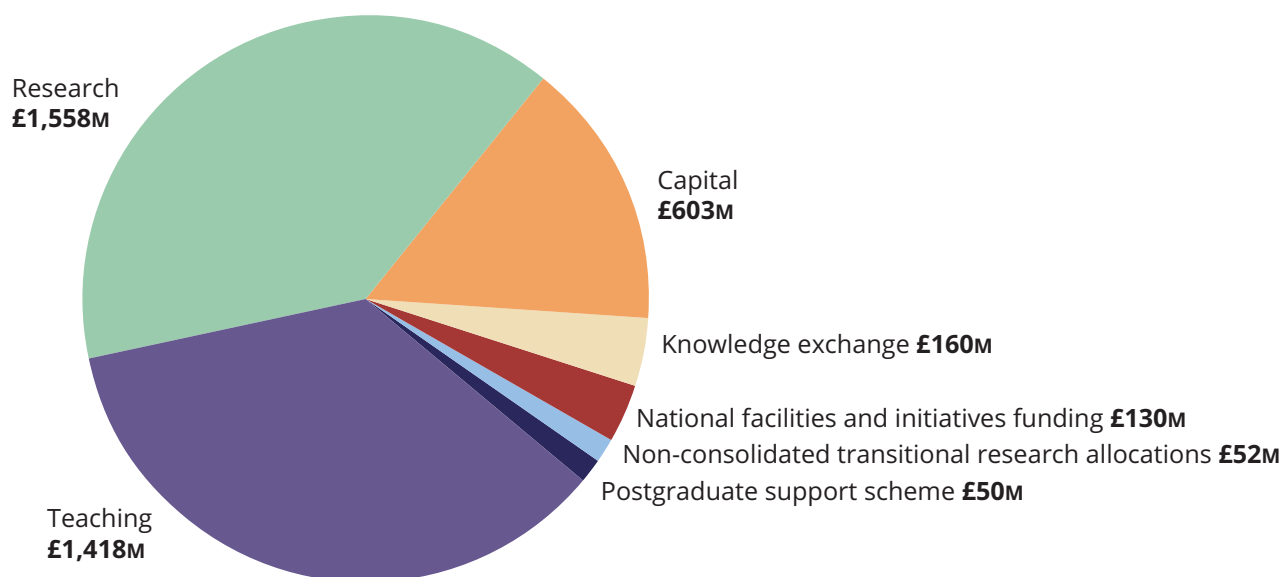
This document reflects the funding allocations announced in March 2015 for the 2015-16 academic year (which has a four-month overlap with the 2016-17 financial year). At the time of writing, we have not had confirmation from the Government of the funding available for the 2016-17 financial year or beyond. We expect a spending review after the May 2015 general election, through which the incoming Government may set out its spending plans for the whole of the next Parliament. It may be some time before the detailed outcomes of this for higher education are known. In the meantime, so we can announce funding for the 2015-16 academic year, we have assumed that, in cash terms, funding by financial year will be maintained for 2016-17 at the level currently announced for 2015-16. Any subsequent changes to the funding available to us from Government for 2015-16, or assumed for 2016-17, are likely to affect the funding we can distribute to institutions in the 2015-16 academic year. This may include us revising allocations after they have been announced.

# Section 1: Overview

5. The total public funding for higher education in England is decided annually by the Government. This is provided through a variety of sources:
  - tuition fee loans and maintenance grants and loans to students
  - grants to universities and colleges from HEFCE
  - grants to institutions and bursaries to students from other public bodies, such as the UK Research Councils and the Department of Health.
6. We are responsible for distributing grants to universities and colleges. Periodically, we advise the Secretary of State on the funding needs of higher education in England.
7. Our grants to universities and colleges do not fully meet their costs: we make only a contribution towards their teaching, research, knowledge exchange and related activities. (Knowledge exchange funding supports the range of knowledge-based interactions between higher education and the economy and society that create external impact.) The proportion of an institution's total income that comes from HEFCE will depend on the fees it charges, its activities and the money it raises from other sources.
8. Each academic year (which runs from 1 August to 31 July), we distribute billions of pounds to English universities and colleges. For 2015-16, the total is £4 billion. We divide the total into money for teaching, research, knowledge exchange, funding for national facilities and initiatives, and capital grants. Occasionally we may have further separate budget lines for particular activities, and this is the case for 2015-16.
9. Money for teaching, research and knowledge exchange is referred to as 'recurrent funding', and is by far the majority of what we distribute. Every March we notify universities and colleges of how much recurrent funding they will receive for the coming academic year. (These announcements are provisional, and figures are finalised later.) In 2015-16 we are directly funding 130 higher education institutions (HEIs) and 214 further education and sixth form colleges (FECs) that provide higher education courses.
10. The remainder is referred to as 'non-recurrent funding'. It comprises grants for capital projects and other development initiatives, and to support national facilities. These grants include funds designed to provide incentives for institutions, such as the Catalyst Fund, which supports projects that help us deliver our strategic aims for higher education. These grants are announced as they are allocated, which may be at any time of the year.

11. Figure 1 shows the breakdown of total HEFCE grant in 2015-16.

**Figure 1: HEFCE grant 2015-16 (£3,971 million)**



12. In 2011, the Government's Higher Education White Paper set out its intention to change the ways in which teaching is funded and student numbers are managed<sup>1</sup>. The aim has been to increase student choice and support greater diversity in higher education. Under the arrangements introduced in September 2012, more public funding is provided directly to students (in the form of up-front tuition fee loans, repayable when the student's income is above a certain level), and less funding is provided to institutions through HEFCE teaching grants. This means that a high proportion of public funding for teaching is channelled through the Student Loans Company, and HEFCE has substantially less funding available to support teaching than in previous years. HEFCE's teaching grant is directed towards areas where tuition fees alone may be insufficient to meet full costs: high-cost subjects; postgraduate provision; supporting student opportunity for those from disadvantaged backgrounds or who may need additional support to succeed; and high-cost distinctive provision at (often specialist) institutions. HEFCE's research grant is ring-fenced, which means it is protected from these changes.

13. Fees for most students are subject to regulation, with limits on what institutions may charge. This applies to most UK and European Union (EU) undergraduates, and to students on teacher training courses. Fees for most postgraduate students are not regulated.

14. HEFCE operated a transitional period between 2012-13 and 2014-15 as the sector shifted into the new fee and teaching funding arrangements. For the academic year 2015-16 we are bringing those arrangements to an end, and this guide includes a description of our new approach to teaching funding. Funding for the academic years 2013-14 and 2014-15 is still being provided under the transitional system, and is described in our previous guide, published in March 2014: '[Guide to funding and student number controls 2013 14 and 2014-15: How HEFCE allocates its funds and controls student numbers](#)' (HEFCE 2014/06)<sup>2</sup>.

<sup>1</sup> 'Higher education: Students at the heart of the system', available at <https://www.gov.uk/government/publications/higher-education-students-at-the-heart-of-the-system--2>.

<sup>2</sup> See [www.hefce.ac.uk/pubs/year/2014/201406/](http://www.hefce.ac.uk/pubs/year/2014/201406/).

15. Our aim, as described in '[Business plan 2015-2020: Creating and sustaining the conditions for a world-leading higher education system](#)' (HEFCE 2015/01), is to create and sustain the conditions for a world-leading system of higher education which transforms lives, strengthens the economy, and enriches society<sup>3</sup>. We will achieve this by:

- funding excellence in research wherever it is found, and the collaborative processes and infrastructure which support an efficient, world-leading research environment
- funding innovation and excellence in knowledge exchange
- incentivising excellence in teaching and learning (education)
- evaluating, promoting and funding practices in the sector which best address the issues of social mobility, participation, retention, achievement and progression
- having a deep 'real-time' understanding of the opportunities and risks facing the full range of higher education providers
- collecting, analysing and benchmarking data, and synthesising evidence, to provide a unique authoritative voice on higher education
- informing, developing, and implementing government policy to benefit the sector and students
- being an intelligent lead regulator of the sector, one which respects the autonomy of higher education providers and protects the interests of students
- working in partnership with others to influence and lever the investment in, and thereby to maximise the success of, English higher education.

16. We allocate funds to institutions to support teaching and, for HEIs only, to support research, knowledge exchange and related activities. We use formulae to divide the majority of the money between institutions. These formulae take into account certain factors for each institution, including the number and type of students, the subjects taught and the amount and quality of research undertaken.

17. Institutions receive most of their teaching, research and knowledge exchange funding as a grant that they are free to spend according to their own priorities, within our broad guidelines. We do not expect them, as autonomous bodies that set their own strategic priorities, to model their internal allocations on our calculations. However, certain conditions are attached to funding and are specified in institutions' funding agreements with us.

18. In addition to funding teaching, research and knowledge exchange activity, HEFCE has always worked to protect the interests of students (past, present, and future). Since the Higher Education White Paper set out a role for HEFCE as 'the student champion', our role in this has become more explicit.

19. Institutions are accountable to HEFCE, and ultimately to Parliament, for the way they use funds received from us. As independent bodies, they receive funding from many other public and private sources. This gives them scope to pursue other activities alongside those for which they receive HEFCE funds.

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<sup>3</sup> See [www.hefce.ac.uk/about/plan/](http://www.hefce.ac.uk/about/plan/).

20. From 2010-11 until 2014-15, HEFCE was asked by the Government to limit the number of students who could be recruited by institutions, to control expenditure on student support and avoid unplanned costs. We therefore allocated a student number control (SNC) to each institution annually. From the 2015-16 academic year, the Government has asked that we remove the SNC altogether from the institutions we fund.

## How is teaching funding calculated?

21. Recurrent funding for teaching comprises a main element to support **high-cost subject funding**, informed by student numbers in different subject areas, plus a number of other targeted allocations. These allocations reflect particular additional costs affecting certain types of students or provision and include allocations to support:

- student opportunity (for example, support for widening access and improving retention)
- students attending courses in London
- students who started their studies before the higher education finance arrangements were introduced in September 2012
- students on exchange programmes with institutions abroad
- very high-cost science, technology, engineering and mathematics (STEM) subjects
- part-time undergraduate study
- intensive postgraduate and accelerated undergraduate provision
- high-cost distinctive provision at (generally specialist) institutions
- some elements reflecting the costs of staff in medicine or dentistry.

22. The main high-cost subject-based element is calculated by multiplying together:

- **student numbers** in different subject groupings, known as price groups
- various **rates of grant** that apply to those student numbers
- a **scaling factor**, which ensures that the total allocated matches the sums we have available.

23. These calculations are carried out for a number of different student categories, to which different rates of grant apply.

24. There are price groups (listed in order of reducing cost) for:

- the clinical years of medicine, dentistry and veterinary science courses
- laboratory-based science, engineering and technology
- computing, archaeology, art and design, and media studies
- other intermediate-cost subjects with a laboratory, studio or fieldwork element
- classroom-based subjects.

25. Calculations are performed separately for students in different modes of study (full-time, 'sandwich year out' and part-time) and levels of study (undergraduate and taught postgraduate).



26. When the fee arrangements changed in 2012, a differentiation was made between:

- a. **'Old-regime'** students – those who commenced their studies before 1 September 2012, when the higher regulated tuition fee arrangements were introduced.
- b. **'New-regime'** students – those who started on or after 1 September 2012.

27. As the number of old-regime students still studying at institutions has now significantly decreased, the main teaching allocation for high-cost subjects now treats all students as if they were new-regime. However, we are providing a separate transitional allocation to institutions, to reflect the remaining numbers of old-regime students we expect them to have and the difference in grant rates that they have received compared with new-regime students. We expect to provide this until the 2017-18 academic year.

## How is research funding calculated?

28. We aim to target funding where research quality is highest. Our main research funding method allocates **'mainstream quality-related research' (QR)** funding. This distributes grant money based on the quality, volume and relative cost of research in different subject areas, with separate calculations to reflect research outputs, environment and impact.

29. First we determine how much funding to provide for research in different subjects, then we divide the total for each subject between institutions. These decisions take into account:

- the volume of research (based on numbers of research-active staff)
- the relative costs (reflecting, for example, the fact that laboratory-based research is more expensive than library-based research)
- the quality of research.

Quality has been measured in the [2014 Research Excellence Framework](#), which informs research funding from 2015-16<sup>4</sup>.

30. In addition to mainstream QR funding, other allocations contribute towards research-related costs. These are as follows.

- a. **QR research degree programme supervision.** This allocation reflects postgraduate research student numbers, the relative costs of the subjects they are studying and a measure of relative quality at institutions.
- b. **QR charity support fund.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs of research. We therefore provide additional funding to institutions in proportion to the income they receive from charities for research.
- c. **QR business research element.** We also provide funding to support institutions undertaking research with business and industry. This is allocated in proportion to the income they receive from business for research.
- d. **QR funding for National Research Libraries.** This is allocated to five research libraries on the basis of a review carried out during 2007.

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<sup>4</sup> See [www.ref.ac.uk/](http://www.ref.ac.uk/).

## How is knowledge exchange funding calculated?

31. We aim to target knowledge exchange funding where the greatest positive impact on the economy and society can be achieved, based on higher education knowledge and skills. We use data on the income received by an institution from its users – businesses, public and third sector services, the community and wider public – as a proxy measure for the impact of its knowledge exchange performance.

32. We calculate allocations for individual institutions by adding together their main knowledge exchange income indicators. These data are collected through the Higher Education – Business and Community Interaction survey and other data submitted to the Higher Education Statistics Agency. Only HEIs with evidence of performance above a certain level gain funding. There is also a cap on allocations. Funding is used to create and sustain a range of knowledge exchange activities in response to demand across the economy and society.

33. From time to time we ask institutions to submit a strategy covering all their knowledge exchange activities, including use of our knowledge exchange funding. Strategies are assessed and published to spread good practice and provide assurance of effective use of public funding.

# Section 2: HEFCE's funding methods

## 2A Background

### HEFCE's funding powers and responsibilities

34. HEFCE was established by the Further and Higher Education Act 1992, which sets out our powers. In broad terms, we are empowered to fund teaching, research and related activities of higher education institutions (HEIs), and prescribed courses of higher education at further education and sixth form colleges (FECs)<sup>5</sup>. We are also empowered to fund other organisations that carry out work for the benefit of the higher education sector as a whole. We can pay grants, whether recoverable or non-recoverable, to these other organisations on the basis of expenditure that they incur.

35. Our 'Business plan for 2015-2020' (HEFCE 2015/01) sets out our high-level aim to create and sustain the conditions for a world-leading system of higher education which transforms lives, strengthens the economy, and enriches society.

36. We do not directly fund students – we fund the activities of institutions. However, we do count students in our funding methods, as a proxy measure for the level of teaching and research activities taking place at institutions. This is an important distinction, and we discuss it further in paragraphs 50 to 53.

37. There are also distinctions between:

- what we are empowered to fund (arising from the 1992 Act)
- what we are responsible for funding (which is a policy decision of Government)
- what we choose to count for funding purposes.

38. Although we still have wide funding powers, a number of public bodies other than HEFCE have responsibilities to fund certain aspects of higher education, as outlined below:

- Research.** The Research Councils distribute public funds for research to HEIs, to support specific research projects and some postgraduate students (HEFCE's research funding, on the other hand, supports the continued maintenance of research capacity and infrastructure in institutions). Research Councils are funded by the Department for Business, Innovation and Skills (BIS) and other government departments<sup>6</sup>.
- Medical and dental education and research.** Government funding for medical and dental education and research is distributed through a

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<sup>5</sup> **Prescribed courses of higher education** are defined in separate legislation, but broadly relate to courses of at least one year's duration when studied full-time, or two years part-time, and which lead, on successful completion, to the award of certain higher education qualifications by certain awarding bodies. For more information see paragraph 38.d and [www.hefce.ac.uk/workprovide/hefe/fund](http://www.hefce.ac.uk/workprovide/hefe/fund).

<sup>6</sup> See <https://www.gov.uk/government/organisations/department-for-business-innovation-skills>.

partnership between HEFCE and the NHS. HEFCE-allocated funds underpin teaching and research in university medical schools, while NHS funds support the clinical facilities needed to carry out teaching and research in hospitals and other parts of the health service. Funding for health-related subjects such as nursing and midwifery generally comes from the NHS.

- c. **Teacher education and training.** The National College for Teaching and Leadership (NCTL) is responsible for supporting education and training courses aimed at school teachers, including initial teacher training (ITT) courses leading to qualified teacher status, and In-Service Education and Training courses for those who hold this status. HEFCE has responsibility for other teacher education and training provision outside the schools sector, although finance is largely provided through students' tuition fees.
  - d. **Higher education in further education and sixth form colleges.** As explained in paragraph 34, in FECs we are only empowered to fund 'prescribed' courses of higher education. These include HNCs, HNDs, foundation degrees, bachelors degrees, postgraduate degrees and certain teacher training qualifications. The awarding bodies for such courses include institutions with degree-awarding powers and (for HNCs and HNDs only) Pearson Education Limited. Prescribed courses do not include other higher education courses at FECs, such as some professional courses, or modules taught to students who may be taking parts of a prescribed course but have not declared an intention to complete the whole qualification. These other higher education courses are the funding responsibility of the further education funding body, the Skills Funding Agency.
  - e. **Loans for tuition fees.** Publicly funded loans to students to meet the costs of tuition fees, as well as grants and loans to support living costs, are administered by the Student Loans Company, which is government-funded and non-profit-making. Student loans are repayable only once the student's income is above a certain level.
  - f. **Knowledge exchange and innovation.** This is funded from a variety of sources:
    - i. The Research Councils support a range of schemes for knowledge exchange to further the impact of their funded research.
    - ii. Innovate UK (formerly the Technology Strategy Board) is the UK's main funder of business and user innovation, and supports higher education knowledge exchange within business collaborations.
    - iii. Universities and colleges play a significant role in local growth partnerships and can receive funding to support their knowledge exchange and skills activities, such as via European Structural and Investment Funds.
    - iv. Funding from the beneficiaries of knowledge exchange in the economy and society provides a significant source of support to many institutions.
39. While we retain the funding responsibility for a wide range of activities, changes to the finance arrangements for higher education and the limitations of our budget mean that only a subset of what is potentially fundable actually attracts grant through our funding method. For example, within teaching we primarily provide funding only in relation to activities where costs exceed the level that tuition fees could generally be expected to cover, and within research we continue to prioritise funding towards activity that meets a high quality threshold.

## HEFCE recurrent funding

40. The Government sets public expenditure across all departments, by carrying out periodic spending reviews that set expenditure levels for certain years. The spending review in 2010 set public expenditure for the financial years 2011-12 to 2014-15; the 2013 spending review extended spending plans to the financial year 2015-16. (The financial year runs from 1 April to 31 March.)

We expect a further spending review to follow the May 2015 general election. To inform these spending reviews, we provide confidential advice to the Secretary of State about the financial needs of higher education.

41. Every year in a [grant letter to HEFCE](#) the Secretary of State confirms the funding available for the following financial year, and provisional funding for any remaining years of the spending review period, along with policy priorities<sup>7</sup>. We then determine the grants to individual institutions, which we generally allocate on an academic year basis.

42. The money we allocate for teaching, research and knowledge exchange is referred to as 'recurrent funding' and is by far the majority of what we distribute. Institutions may spend this recurrent funding largely as they choose; they are not expected to mirror our calculations in their own internal spending. This allows institutions to target spending towards their own priorities, as long as these relate to the activities that we are empowered to fund: teaching, research and related activities. The grant allows institutions to be autonomous and does not impose the burden of accounting in detail for expenditure.

43. HEFCE's funding for teaching is prioritised towards areas where tuition fees alone may be insufficient to meet institutions' full costs: high-cost subjects; postgraduate provision; supporting student opportunity for those from disadvantaged backgrounds or who may need additional support to succeed; and recognising high-cost distinctive provision (often at specialist institutions). It is important that institutions are able to demonstrate effective and efficient use of our teaching grant to support these priority areas in their internal resource allocations.

44. Other HEFCE funding is 'non-recurrent'. It comprises grants for capital projects, and funding for other development initiatives and to support national facilities. These grants are announced as they are allocated, which may be at any time of the year.

## What are we trying to achieve?

45. We have identified a number of principles which guide our approach. We will:

- promote and protect the collective student interest
- endeavour to minimise administrative burden for institutions, including where complex policy objectives have been set
- support government funding priorities (including high-cost subjects, widening participation and specialist institutions)

### Jargon buster

#### **Knowledge exchange:**

Knowledge-based interactions between higher education and the economy and society. Universities have considerable knowledge, expertise and assets that are put to use through engaging with businesses, public services, charities and communities. Examples include: setting up businesses to develop new technologies grounded in university research; enabling small businesses to use specialist equipment and other facilities; delivery of professional training, consultancy and services; supporting graduates to set up their own business; and contributing to social innovation.

#### **Recurrent funding:**

Yearly allocations aimed at ongoing core activities rather than shorter-term projects.

#### **Funding for national facilities and initiatives, and capital funding:**

Allocations used to secure change or fund activities that cannot be addressed through recurrent teaching or research funding.

<sup>7</sup> See [www.hefce.ac.uk/funding/govletter/](http://www.hefce.ac.uk/funding/govletter/).

- be fair across the higher education system, transparent in our methods and accountable for our funding
- reflect our duty to promote competition, and consider the need to take competition into account in allocating funding
- make funding interventions only where there is a strong case that competition will not produce outcomes that are either to the public's benefit, or in the collective student interest.

46. We want to make the best use of taxpayers' money – prioritising funding where we can get the best value and ensuring that we deliver the Government's policy aims and that institutions are accountable for the money they get, but without creating an excessive burden on them. The different elements of our budget have different purposes.

- For **teaching**, we invest in the interests of students and for wider public benefit. We want to ensure the availability of high-quality, cost-effective higher education across the country, so we invest in high-cost subjects at undergraduate and postgraduate levels, including (but not limited to) medicine, science, engineering and agriculture. We support subjects which are strategically important and vulnerable, as well as high-cost specialist institutions such as arts institutions. We target funding towards teaching for students who are new to higher education, rather than for those studying for qualifications that are equivalent to, or lower than, ones they already have (though some qualifications are exempt from this policy). We are committed to enabling institutions to attract and retain students from non-traditional backgrounds and disabled students, and to support postgraduate provision.
- For **research**, our funding method is designed to target funds where research quality is highest – we do not have sufficient money to support all the research that institutions do.
- Knowledge exchange funding** is focused in high-performing institutions and aims to achieve maximum impact on the economy and society.
- Funding for national facilities and initiatives** is (along with capital funding) broadly intended to support the development of the national infrastructure. Funding for national facilities and initiatives supports facilities such as Jisc (which funds development and champions the use of digital technologies in UK education and research). Another example of how this funding is used is to support innovation and dynamism in the higher education sector through the Catalyst Fund.
- Capital funding** helps universities and colleges invest in their physical infrastructure so it remains fit for purpose. It includes:
  - Funding to support sustainability commitments and investment plans relating to teaching and research, provided under HEFCE's Capital Investment Framework. This is for institutions that manage their physical infrastructure in an environmentally sustainable way as an integral part of planning.

## Jargon buster

**Catalyst Fund:** Funding of up to £66 million for 2015-16, to promote and enhance innovative activities that address the Government's key policy priorities.

**Capital Investment Framework (CIF):** A method of assessing HEIs' approaches to investing their capital. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF receive their capital allocation from HEFCE without the need to apply: the grants are paid directly in four quarterly payments.

**UK Research Partnership Investment Fund:** A fund to support investment in higher education research facilities. The fund was set up in 2012 and awards are made through a competitive bidding process.

- ii. The UK Research Partnership Investment Fund, which supports investment in higher education research facilities, to stimulate additional investment in higher education research and strengthen its contribution to economic growth.
- iii. Funds for STEM teaching capital projects.

## How do we do it?

47. Each year we divide the total funds between teaching, research and other funding, following any guidance from the Secretary of State. The breakdown of HEFCE funding available for 2015-16 is shown in Table 1. There are rounding differences within the table.

**Table 1: Breakdown of HEFCE funding for 2015-16**

Element of grant	2015-16
Teaching*	£1,418 million
Research	£1,558 million
Knowledge exchange	£160 million
<b>Sub-total: Recurrent grant</b>	<b>£3,137 million</b>
Non-consolidated transitional funding for research	£52 million
Funding for national facilities and initiatives	£130 million
Capital funding	£603 million
Postgraduate Support Scheme	£50 million
<b>Total</b>	<b>£3,971 million</b>

\* The figure for teaching includes funds for student opportunity and other targeted allocations.

## Formula funding

48. Our recurrent grants to institutions are almost entirely allocated by formula, which means that each institution receives a proportion of funding based on the measures outlined below. This ensures we are fair, transparent and efficient in how we distribute grants to institutions.

49. Any funding formula will generally require:

- a. A measure of volume. (For example, how many students or research-active staff does an institution have?)
- b. A measure of cost. (For example, how does the cost of providing a physics course differ from that of geography or business studies?)
- c. In some instances, a consideration of particular policy priorities. (For example, is there a national need to prioritise some activities above others? Should we take account of the relative quality of activity in prioritising funds?)

The first two components are discussed in detail in paragraphs 50 to 57. Our policy priorities are described in paragraphs 45 to 46 above.



## Measures of volume: the distinction between what we fund and what we count for funding purposes

50. In calculating recurrent grant for each institution, we adopt certain measures of volume. In general, these measures act as proxies for all the teaching, research and related activities that we are funding, but they do not in themselves define what we fund or what our funding should be used for. For example, our volume measures are generally defined in terms of the activities of academic departments – how many students or research-active staff they have in a particular subject – but the funding may support the activity of institutions more generally, not just within those academic departments. We generally categorise our volume measures in terms of subject groupings, but these could be considered proxies for the different ways in which institutions undertake their teaching and research activities – for example, reflecting how some activity needs to take place in laboratories, some on field trips, some at the computer and some in lecture theatres.

51. In deciding what we count it is important to remember that we have a fixed budget provided to us by Government and that we are funding institutions, not individual students. Our budget does not change just because we choose one measure of activity rather than another. Our concern, therefore, is to ensure that institutions receive an appropriate, fair share of that fixed budget, in a way that supports accountability but avoids an excessive burden or unwelcome effects such as pressure on academic standards.

52. We therefore choose our volume measures to reflect factors that are important in higher education, and to take into account the following considerations:

- the extent to which a particular factor can be measured and audited reliably
- the accountability burden on institutions in providing the data
- the extent to which a volume measure will influence the distribution of grant
- the messages and incentives that any particular volume measure may give to institutions and the behaviours (desirable or undesirable) it might therefore encourage.

53. These issues are considered further in sections 2B and 2C, where we describe how we fund the separate elements within teaching and research.

## Measures of cost

54. Periodically, we review information about the relative costs of different types of activity. These reviews are informed by data provided by HEIs on their expenditure in academic departments, or on the full economic costs of their teaching. We may also commission separate costing studies of particular aspects of provision, such as the additional costs for institutions of their activities to widen participation. The main variation in costs relates to subject: we need to recognise, for example, that it costs more to teach medicine than chemistry, which in turn costs more than geography, which in turn costs more than history.

55. The current subject groupings and weightings in our teaching funding method were informed by a 2012 review of the relative costs of teaching different subjects using data from the Transparent Approach to Costing for Teaching (TRAC(T)). The Transparent Approach to Costing is an activity-based costing system which derives the costs of teaching, research and other activity from HEIs' finance information,



and TRAC(T) is the national framework for costing teaching in different subjects. We use TRAC(T) data to review the assignment of different subject areas (known as 'academic cost centres') to broad price groups, and whether and how those price groups should attract HEFCE grant. Our review is then the subject of consultation with the sector.

56. Our concerns are not limited to how much things cost: we also need to take account of how those costs are met – recognising in particular that students' tuition fees are expected to meet most teaching costs. We therefore determine rates of grant for teaching by identifying where costs for different subjects exceed the average level that we assume will be met through fee income (though we do not take account of variations in the fees charged by individual institutions). This approach ensures that we are able to prioritise our funding in those areas where it is most needed, without either disadvantaging those institutions that are able to charge higher fees than the sector average, or subsidising those that might seek a competitive advantage by charging lower fees.

57. Subject fields where the relative costs of research are higher attract a higher rate of HEFCE research funding: for example, laboratory-based research is more expensive than library-based research.

## 2B Teaching funding

58. Our teaching funding is provided through:

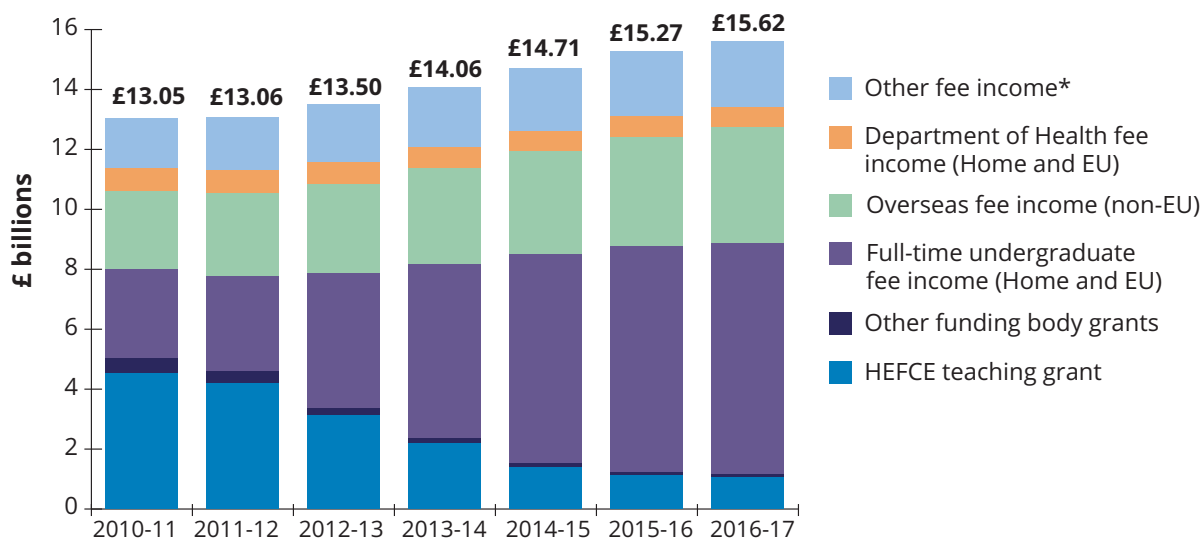
- a main allocation for high-cost subjects that supports the extra costs of teaching particular subjects
- targeted allocations, to help meet additional costs that apply to certain types of student or provision and support areas of strategic importance.

59. Our funding method for teaching is designed to have the following five features:

- a. **Transparency.** The funding method should be clear and public. The data on which allocations are based should be auditable and, wherever possible, public.
- b. **Predictability.** The method and its parameters should be predictable, so that an institution knows how decisions it might take, and changes in its circumstances, may affect its funding.
- c. **Fairness.** Differences in funding between institutions should be for justifiable reasons.
- d. **Efficiency.** The funding method should impose as small an administrative burden on institutions as the need for accountability allows.
- e. **Flexibility.** The method should be flexible enough to respond in a strategic manner to external policy changes, and particularly to developments in HEFCE's own policies.

60. Government reforms of higher education financing mean that the majority of institutions' income for teaching comes through students' tuition fees, and to a much lesser extent through HEFCE grants. The affordability to students of tuition fees is met (for most undergraduates) through the availability of enhanced loans, which are generally repayable after the student has finished their studies. The reductions to HEFCE grants from 2012-13 contribute to meeting the cost to Government of providing these loans. This gradual shift from grants to tuition fees is illustrated in Figure 2, which shows the cumulative changes, in real terms, to teaching income from different sources (actual and projected) over the period 2010-11 to 2016-17. The projected increase in income for teaching is due to an increase in student numbers.

Figure 2: Breakdown of teaching funds from 2010 11 to 2016-17



Source: Data based on institutional financial returns, including actual income for the period up to and including 2012 13, and projected income for the period 2013 14 to 2016-17.

\* Other fee income includes part-time fee income, full-time postgraduate fees and other fees for UK and EU students.

## Data sources

61. For HEIs, there are two main data returns that we use to inform our teaching grant allocations. These are as follows.

- a. [The Higher Education Students Early Statistics \(HESES\) survey](#)<sup>8</sup>. This is a return submitted directly to us that provides aggregate information on numbers of students. It is submitted by institutions each year in December and reports on the student numbers in the current academic year. This ensures our funding decisions are based on the most up-to-date information available. However, because it is provided in-year, it includes elements of forecasting relating to students' activity up until the end of the academic year.
- b. [The Higher Education Statistics Agency \(HESA\) individualised student record](#)<sup>9</sup>. This is submitted after the end of the academic year. We use it to gain information about student characteristics that is used, for example, in our funding allocations for student opportunity. We may also reconcile it against the HESES data previously provided to us by HEIs, and use it as a basis to review other teaching grant allocations. We receive the HESA data approximately 12 months after the equivalent HESES data.

62. FECs make equivalent data returns. These are the [Higher Education in Further Education: Students \(HEIFES\) survey](#) (the equivalent of HESES) and the individualised learner record (ILR), which is submitted to the [Skills Funding Agency](#) and is the equivalent of the HESA individualised student record<sup>10</sup>.

<sup>8</sup> See [www.hefce.ac.uk/data/collect/heses/](http://www.hefce.ac.uk/data/collect/heses/).

<sup>9</sup> See <https://www.hesa.ac.uk/>.

<sup>10</sup> See [www.hefce.ac.uk/data/collect/heifes/](http://www.hefce.ac.uk/data/collect/heifes/) and <https://www.gov.uk/government/organisations/skills-funding-agency>.

## How our teaching funding method has changed for 2015-16

63. As a result of the Government's reforms to higher education financing, HEFCE operated a transitional system between 2012-13 and 2014-15, with separate subject-based teaching allocations calculated for:

- a. **'Old-regime' students:** Those who started their courses before 1 September 2012 and are therefore subject to the pre-2012-13 fee and funding regime. Such students attract a higher rate of HEFCE grant. They include those old-regime students whose fees are limited by law (mostly full-time undergraduates) and those whose fees are not limited in this way (such as most postgraduates and part-time undergraduates).
- b. **'New-regime' students:** Those starting their courses on or after 1 September 2012, who are therefore subject to the new fee and funding regime. Such students attract a lower rate of HEFCE grant. They include those whose fees are limited by law (for new-regime students this applies to most undergraduates, whether studying full-time or part-time) and those whose fees are not limited in this way (such as most postgraduates).

64. In 2012-13, we began a process of phasing out the main subject-based teaching grant that institutions received in 2011-12, as successive cohorts of old-regime students completed their studies. We also began to provide grant for new-regime students in high-cost subjects. This increased as successive cohorts were recruited.

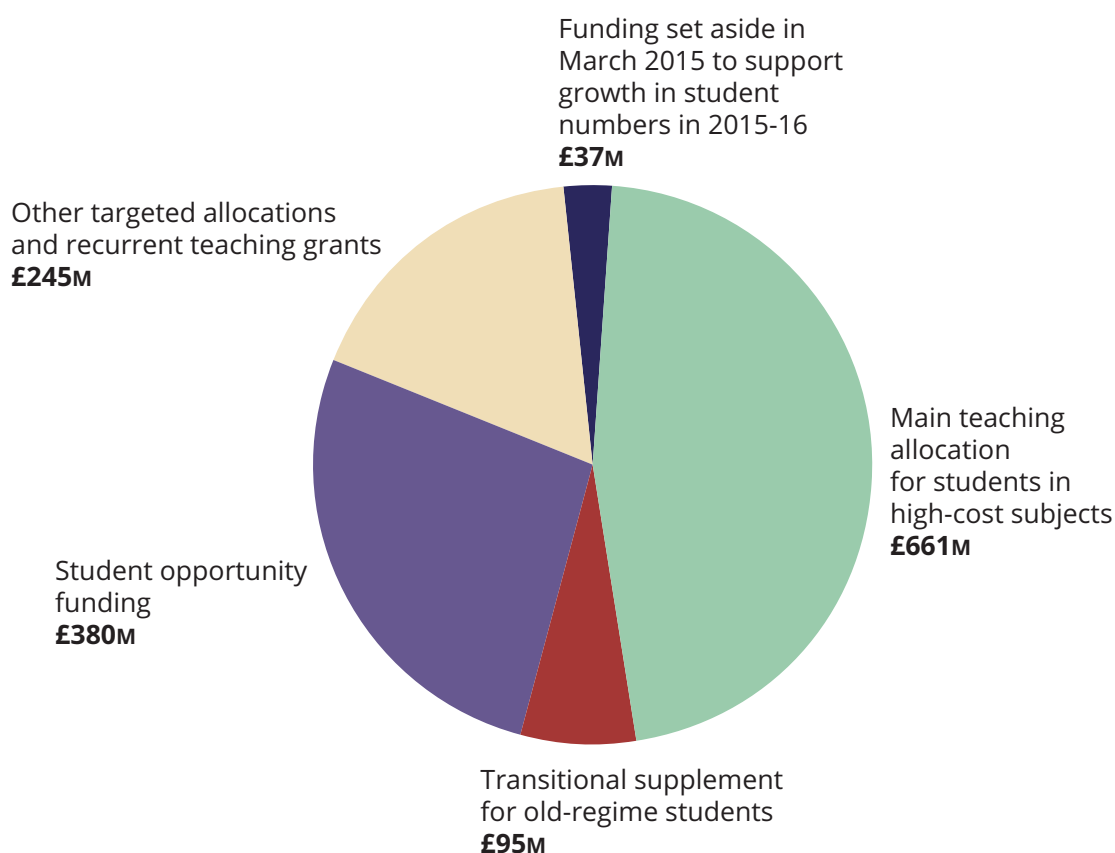
65. The main subject-based teaching allocations during this transitional period reflected the changing balance of old- and new-regime students in each year. This required a three-stage process to calculate and review the grant we paid to institutions for each academic year as we received more up-to-date student data. Initial allocations were based on student numbers forecast before the start of the year. These were adjusted to reflect numbers reported within the year, and then finalised as end-of-year individualised student data became available. Most targeted allocations were not subject to the three-stage process, because they were informed by student numbers for previous years, or not driven by student numbers at all.

66. We have brought this three-stage process to an end in our allocations for 2015-16, because most of the transition is now complete. To do this, we need to base funding more on historical data: thus 2015-16 funding is largely based on 2014-15 student numbers. This avoids the need for recalculation, as student numbers are finalised for the year we are funding. If we did this while maintaining our previous approach, our allocations would be based on outdated proportions of old- and new-regime students. Instead, our main subject-based allocation now treats all students as if they were new-regime, irrespective of when they started their courses. We supplement this with a separate transitional allocation, which reflects the remaining numbers of old-regime students we expect each institution to have, and the difference in grant rates received compared with new-regime students. This transitional allocation will be phased to zero by 2018-19 (see paragraphs 79 to 80).

## Teaching funding streams

67. Figure 3 shows a breakdown of our teaching funding for 2015-16.

Figure 3: Elements of teaching grant for 2015-16 (£1,418 million)



### High-cost subject funding

68. High-cost subject-based funding for students is allocated using the following formula:

- **sector-wide funding rates** by price group and level, as outlined in paragraphs 69 to 73

*multiplied by*

- **student full-time equivalents (FTEs)** for the year reported to us by institutions

*multiplied by*

- a **scaling factor** (to ensure total allocations remain within budget). For 2015-16, this scaling factor has been set at 1.014, providing an uplift for inflation of 1.4 per cent. Scaling factors are explained in paragraphs 74 and 75.

69. Sector-wide funding rates for students are informed by the assignment of subject areas (known as 'academic cost centres') to five price groups:

- Price group A.** The clinical years of study for medicine, dentistry and veterinary science. This price group applies only to HEIs that provide training for students seeking a first registrable qualification as a doctor, dentist or veterinary surgeon, or who are already qualified in those professions.
- Price group B.** Laboratory-based science, engineering and technology subjects.

- c. **Price group C1.** Intermediate-cost subjects where average costs of teaching across the sector exceed £7,500 per year. This group comprises: archaeology; design and creative arts; information technology, systems sciences and computer software engineering; and media studies.
- d. **Price group C2.** Other intermediate-cost subjects with a laboratory, studio or fieldwork element, such as geography, mathematics, languages or psychology. This price group also includes all students on work experience placement years of sandwich courses ('sandwich year out').
- e. **Price group D.** Classroom-based subjects such as humanities, business or social sciences.

### Jargon buster

**FTE:** Full-time equivalent or full-time equivalence. FTE is a measure of how much a student studies over a year, compared with someone studying full-time. Someone studying full-time counts as one FTE, whereas a part-time learner doing half that amount of study counts as 0.5 FTE.

70. As a result of HEFCE's reduced grant, and following consultation with the sector in 2012, our teaching funding is targeted generally towards meeting some of the additional costs of teaching students in high-cost subjects<sup>11</sup>.

71. We fund **undergraduate** provision through the main allocation for students only in subjects where data show that average costs for providers exceed £7,500 per year – that is, price groups A to C1. Funding for **postgraduate taught** provision generally reflects all subjects in price groups A to C2, though we provide higher rates of grant for postgraduate taught provision than for undergraduate provision. This is because we generally expect there to be less scope for institutions to set their fees at as high a level as for undergraduates, since fees for the latter were increased from September 2012.

72. The rates of grant for postgraduate taught students reflect:

- the same rates of grant provided for undergraduate provision
- plus*
- additional funding for all subjects in price groups A to C2, except where students have access to the undergraduate student support regime (this applies to postgraduate ITT students and some studying architecture).

73. Table 2 shows initial rates of grant for students for the academic year 2015-16. Funding rates for part-time provision are the same, pro rata, as for full-time provision.

**Table 2: Rates of HEFCE funding for price groups per student FTE (before incorporating the scaling factor)**

Price group	Undergraduates and postgraduates on courses eligible for undergraduate student support (£)	Postgraduate taught students on courses not eligible for undergraduate student support (£)
A	10,000	11,100
B	1,500	2,600
C1	250	1,350
C2	0	1,100
D	0	0

<sup>11</sup> See 'Student number controls and teaching funding: Consultation on arrangements for 2013 14 and beyond' (HEFCE 2012/04), available online at [www.hefce.ac.uk/pubs/year/2012/201204/](http://www.hefce.ac.uk/pubs/year/2012/201204/).

## Scaling factors

74. Scaling factors are multipliers that we apply in the teaching funding method to ensure that our overall allocations match the funding we have available. They are necessary because we have a fixed budget provided by Government, which we use to support provision for a variable number and mix of students. If our calculations – which are based on the student FTEs reported by institutions, multiplied by the relevant rates of funding – result in a total higher than we can afford, then a scaling factor will be used to reduce the total allocation to the sum available. This might arise, for example, if there were a large increase in student numbers or in the proportions reported in the highest cost price groups. Equally, a scaling factor can be used to scale up allocations when we can afford to.

75. Scaling factors are not a new feature of our funding method: similar elements have been used in the past to provide an uplift towards inflation, or a pro rata reduction or saving. A scaling factor of 1 means we can maintain grant rates or budgets at previous levels; a factor greater than 1 equates to some increase to those rates and budgets to allow for inflation, while a factor less than 1 equates to a cash reduction. Scaling factors can be applied differentially to different elements of teaching grant, depending on spending priorities.

## Targeted allocations

76. As well as the main element of teaching grant relating to high-cost subjects, we provide targeted allocations which support important or vulnerable features of higher education in accordance with key policy initiatives (although many of the activities involved are likely to be supported by the main teaching grant and fee income as well). We review the total amount allocated through each targeted allocation, and the distribution of many of them between individual institutions, each year.

77. The largest targeted allocation is for student opportunity, which includes elements of funding for widening access to higher education for people from disadvantaged backgrounds, improving provision for disabled students, and improving student retention and success. Other targeted teaching allocations recognise the additional costs of, for example, part-time students and specialist institutions.

78. The targeted allocations that apply for 2015-16 are shown in Table 3, and are described further in paragraphs 79 to 110.

### Jargon buster

#### **Student opportunity:**

This refers to activities designed to ensure that everyone with the potential to benefit from higher education has the opportunity to do so. The 'widening access' element of student opportunity funding helps institutions provide this support.

#### **Improving retention:**

Some students need more support than others to see their courses through to completion, because of factors to do with their background or circumstances. The 'improving retention' element of student opportunity funding helps institutions provide this support.

**Table 3: Targeted allocations for 2015-16**

	<b>Total 2015-16 allocation (£ million)</b>	<b>Qualifying institutions</b>	<b>Paragraph reference</b>
Supplement for old-regime students	95	HEIs and FECs	79-80
<b>Student opportunity funding</b>			
Widening access for people from disadvantaged backgrounds (full-time and part-time)	68	HEIs and FECs	83-87
Widening access and improving provision for disabled students	20	HEIs and FECs	88-90
Improving retention (full-time and part-time)	279	HEIs and FECs	91-94
Collaborative outreach network	13	HEIs and FECs	95
<b>Student opportunity total</b>	<b>380</b>		
Part-time undergraduates	8	HEIs and FECs	96-97
Accelerated full-time undergraduate provision	2	HEIs and FECs	98-99
Intensive postgraduate taught provision	35	HEIs and FECs	98-99
Erasmus+ and overseas study programmes	25	HEIs and FECs	100-101
Students attending courses in London	64	HEIs and FECs	102-104
Institution-specific high-cost distinctive provision	65	HEIs only	105
Very high-cost STEM subjects	23	HEIs only	106-107
Institutions' costs relating to medical and dental staff (Clinical consultants' pay, senior academic general practitioners' pay, NHS pensions scheme compensation)	23	HEIs only	108-110

### Supplement for old-regime students

79. We recognise that our main high-cost subject funding allocation does not in itself provide a sufficient level of grant for any remaining old-regime students, whose tuition fees are generally lower than those of new-regime students. We are therefore providing a transitional supplement to recognise that there will still be old-regime students at some institutions. This is based on estimates of the old-

regime numbers that we expect institutions to have, informed by historic data. It is also based on the difference between the rates of grant they have historically received, and those provided through the main allocation for high-cost subjects and the targeted allocations for students attending courses in London and for part-time undergraduates.

80. This allocation will be phased out over time. Although we have calculated indicative allocations for 2016-17 and 2017-18, again based on forecast numbers, it should be noted that these allocations, like all recurrent funding allocations, are conditional on the annual grant we receive from the Government. The total allocation for 2015-16 is £95 million.

### **Student opportunity**

81. We allocate funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged backgrounds and students with disabilities, and to help improve retention for students who may be less likely to continue their studies. The funding contributes towards institutions' costs in supporting students to achieve successful outcomes and in addressing the needs of students facing particular hardship.

82. The formulae that we use for these allocations are designed to target funding towards those institutions that do more to widen participation or that recruit students who are likely to need more support. We calculate the elements of student opportunity funding on a pro rata basis, based on weighted student FTEs. For each element of funding we use an institutional weighting factor that reflects the broad characteristics of an institution's students which give rise to such additional costs.

#### **Widening access for people from disadvantaged backgrounds**

83. The element of student opportunity funding for widening access recognises the extra costs associated with recruiting and supporting undergraduate students from disadvantaged backgrounds who are currently under-represented in higher education.

84. Institutions' allocations are calculated pro rata on the basis of the previous year's student FTEs, weighted to reflect the broad institutional mix of students from different census wards and the London weighting.

85. To calculate the institutional weightings (separately for full-time and part-time undergraduates), we use postcode information from the individualised student records provided by HEIs to HESA and by FECs to the Skills Funding Agency to map each undergraduate new entrant to a 2001 census ward. We weight these students according to the young higher education participation rate (for young full-time undergraduates), or the proportion of adults with a higher education qualification (for part-time and mature full-time undergraduates), in each census ward. Students from wards with the lowest rates of higher education participation or qualification receive the highest weightings, while other students may receive a weighting of zero.

86. Because the funding is for widening access to higher education for those who wish to enter for the first time, those part-time and mature students who already hold a higher education qualification at the same level as, or higher than, their current qualification aim, or whose entry qualifications are unknown, are given a weighting of zero irrespective of their census ward. The overall institutional



weightings reflect the numbers of full-time or part-time undergraduate new entrants weighted by ward, divided by the unweighted full-time or part-time undergraduate new entrants. Only students who complete their year of study are included in these calculations.

87. The total funding for widening access for people from disadvantaged backgrounds in 2015-16 is £47 million for full-time undergraduates and £21 million for part-time undergraduates.

### **Widening access and improving provision for disabled students**

88. The element of student opportunity funding for widening access and improving provision for disabled students reflects institutions' success in recruiting and retaining disabled students.

89. The allocations are made pro rata on the basis of weighted student FTEs from the previous year. We assign each institution to one of four weighting bands according to the proportion of its undergraduate and postgraduate students who receive the Disabled Students' Allowance (DSA), determined from HESA and ILR data. The calculations include London weighting where appropriate<sup>12</sup>.

90. The total funding is £20 million for 2015-16, an increase of £5 million compared with 2014-15. This reflects the changes to the DSA that are being phased in from 2015-16, which will leave more costs of supporting disabled students to institutions.

### **Improving retention**

91. Like the element for widening access (paragraphs 83 to 87), funding for improving institutions' retention of their full-time undergraduates is allocated pro rata based on weighted student FTEs. We use institutional weighting factors that reflect those broad characteristics of their students which give rise to additional costs. We have found that the main factors affecting the likelihood of a student continuing their studies are entry qualifications and age. In general terms, those with lower entry qualifications are less likely to continue than those with, say, high A-level grades, and mature students are less likely to continue than young entrants. Institutions face additional costs in supporting such students to continue. We therefore weight students according to these two factors and determine an overall average weighting for the institution as a whole.

92. In total there are 12 student weighting categories, reflecting age (young and 'mature', defined as aged 21 or over on entry), qualification aim (those aiming for a first degree and those aiming for another undergraduate qualification) and risk associated with entry qualifications (low, medium and high). We also apply London weighting where appropriate.

93. The funding to improve retention of part-time students is allocated pro rata based on part-time student FTEs, incorporating any relevant London weighting.

94. The total funding for improving retention in 2015-16 is £215 million for full-time undergraduates and £63 million for part-time undergraduates.

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<sup>12</sup> The Disabled Students' Allowance – grants to help meet the extra costs students can face as a direct result of a disability or specific learning difficulty.

## Collaborative outreach networks

95. Over the academic years 2014-15 and 2015-16, we are providing funding to almost 200 universities and colleges to develop local and national networks for collaborative outreach. This funding, which totals £13 million for 2015-16, is not included in the distribution of recurrent grant to institutions.

## Part-time undergraduates

96. There are extra costs associated with part-time students. For example, an institution's administration costs for two part-time students, each with an FTE of 0.5, are likely to be higher than for one full-time student. The targeted allocation for part-time undergraduates recognises these additional costs. It is allocated pro rata on the basis of part-time undergraduate FTEs in price groups A to C1.

97. The allocation totals £8 million for 2015-16.

## Accelerated full-time undergraduate and intensive postgraduate taught provision

98. Some courses are taught over longer periods within the year than others, and so cost more. Students studying on courses that last for 45 weeks or more within one academic year attract a targeted allocation, on top of any teaching grant provided through the main allocation for students studying high-cost subjects. This does not apply to courses in price group A, where the intensity of study has already been taken into account in the high-cost funding rate, or to postgraduate taught provision in price group D, which does not attract funding through the main high-cost subject grant, because tuition fees are generally expected to meet costs. We are allocating the following funds in 2015-16:

- a. £2 million to support full-time accelerated provision for undergraduates. This is not provided for part-time undergraduates, as it is intended to support accelerated degrees such as two-year honours degrees.
- b. £35 million to support intensive postgraduate taught provision.

99. The rates of funding we are providing per FTE for 2015-16 are as follows.

Price group	Accelerated undergraduate	Intensive postgraduate taught
A	£0	£0
B	£1,439	£1,439
C1, C2	£1,100	£1,100
D	£846	£0

## Erasmus+ and overseas study programmes

100. Erasmus+ is the European Union's framework programme for education, training, youth and sport. Part of the programme provides opportunities for higher education students to take study or work placements abroad, but institutions may also establish exchange programmes for their students with overseas institutions outside the Erasmus+ programme. New arrangements to support institutions' participation in such programmes were introduced from 2014-15, designed to strike a balance between the needs of students and those of institutions participating in them. This allocation totals £25 million, and is based on providing £2,250 per student taking a study year abroad (either under the Erasmus+ scheme or otherwise), or a work placement (sandwich) year abroad under the Erasmus+ scheme.

101. The allocation for 2015-16 is informed by student numbers reported as spending a whole year abroad in 2014-15. These numbers are counted as a proxy measure for the activity of institutions in exchange programmes. Further information is provided in [‘Finance arrangements for Erasmus and other student mobility years abroad from 2013-14’ \(HEFCE Circular letter 14/2013\)](#)<sup>13</sup>.

### Students attending courses in London

102. We provide a separate allocation relating to students attending courses in London, to contribute to meeting the additional costs for institutions of operating in London. This applies to all students in all price groups, with rates differing between price groups.

103. The standard rates for 2015-16 for institutions whose activities are wholly within inner or outer London are as follows.

Price group	Inner London rate	Outer London rate
A	£1,105	£691
B	£470	£294
C1 and C2	£360	£225
D	£277	£173

104. Where institutions have activities that span boundaries between inner, outer and outside London, rates are varied to reflect the proportion of activity in each area. The allocation totals £64 million for 2015-16.

### Institution-specific high-cost distinctive provision

105. The targeted allocation for institution-specific high-cost distinctive provision recognises that, due to the nature of their provision and their institutional circumstances and characteristics, certain institutions face higher costs which cannot be met by the new fee regime. We reviewed this funding in 2012, to determine the extent to which the higher costs incurred by these institutions should be supported by additional HEFCE funds. The allocations total £65 million for 2015-16. We are reviewing this funding further during 2015, to inform allocations from 2016-17.

### Very high-cost STEM subjects

106. Since 2007 HEFCE has provided funding to help secure the provision of four very high-cost STEM subjects. These are chemistry, physics, chemical engineering, and mineral, metallurgy and materials engineering.

107. We are therefore providing a targeted allocation, totalling £23 million in 2015-16, to recognise the high delivery costs of these subjects. This allocation supplements the standard HEFCE funding for price group B subjects in the main allocation for high-cost subjects. It is based on 2013-14 undergraduate and postgraduate student numbers in all years of study.

### Clinical academic consultants’ pay

108. We are providing a targeted allocation totalling £17 million for 2015-16 to recognise the additional costs that arise from applying the Consultant Contract (England) 2003 to clinical academics.

<sup>13</sup> See [www.hefce.ac.uk/pubs/year/2013/cl,142013/](http://www.hefce.ac.uk/pubs/year/2013/cl,142013/).

## Senior academic general practitioners' pay

109. Since April 2005, we have allocated funding to enable senior academic general practitioners to be paid in line with their hospital-based colleagues. This allocation totals £1 million for 2015-16.

## NHS pensions scheme compensation

110. Employers' contributions to the NHS pension scheme increased from April 2004. Since then, we have provided a targeted allocation to compensate institutions for this increased cost. This allocation totals £5 million for 2015-16.

## Teaching funding set aside for growth in 2015-16

111. We have set aside £37 million for allocation within the year on the basis of growth in student numbers. This is not included in the totals for high-cost subject funding or for targeted allocations shown above, but may supplement such allocations later in the year as appropriate. We intend to allocate it once we have in-year student data for 2015-16.

## The volume measure for teaching grant

112. The volume measure for our teaching funding method is based on the number of students at the institution.

## Which students do we count?

113. In general terms, we count students from the UK and other EU countries (but not from outside the EU), if:

- a. They are on a recognised taught course of higher education or, in the case of students at HEIs, they are studying credits at higher education level<sup>14</sup>. We do not count postgraduate research students for teaching funding purposes.
- b. Funding responsibility does not rest with another EU public source. For example, the NCTL has responsibility for school teacher training, and the NHS for nursing, midwifery and certain other healthcare professions. Funding responsibility for taught Open University students in Scotland, Wales and Northern Ireland rests with the devolved administrations, rather than HEFCE.
- c. They are on a course open to any suitably qualified candidate. If, for example, a course was available only to candidates from a particular employer, we would not consider the course to be open.
- d. They are not aiming for an equivalent or lower qualification (ELQ), or are exempt from the ELQ policy (see paragraph 114).
- e. They are studying at least 3 per cent of a full-time year of study – equivalent to about one week's study in the year.

114. From 2008 09, students aiming for an ELQ are generally not counted towards our funding allocations unless they are covered by an exemption. Current exemptions, for our funding purposes, include:

- students aiming for foundation degrees
- those aiming for a qualification in certain public sector professions, such as medicine, nursing, social work or teaching
- those receiving DSA.

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<sup>14</sup> Broadly speaking, 'higher education level' means an academic level above A-level standard.

115. Not all countable students will attract funding for their institution through every element of HEFCE teaching grant. For example, an undergraduate in price group D or C2 will not attract funding through the main allocation for high-cost funding (because the rate of grant for these students is zero) but may do so through the funding for student opportunity.

### How do we count these students?

116. In general, students are only counted if they complete their full year of study. To count as completing for funding purposes, a student must normally undergo the final assessment for each module that they intended to complete, within 13 months from the start of that year. If the student misses the final assessment, but nevertheless passes the module, this also constitutes completion. Institutions receive income through tuition fees for students reported as non-completions.

117. Students are counted in terms of FTEs. Full-time students count as one FTE. Students on a 'sandwich year out' are counted as 0.5 FTE. The FTE of part-time students depends on the intensity of their study by comparison with an equivalent full-time student, based either on how long it takes them to complete their qualifications, or on how many credit points they study in the year.

## 2C Research funding

118. Public research funds are provided to HEIs under a system known as 'dual support':

- a. **HEFCE** provides funding to ensure that the research base has the capacity to undertake high-quality innovative research, and to contribute to supporting the research infrastructure. Our funds are not allocated to any specific activity – they may go towards the costs of salaries for permanent academic staff, premises, libraries or central computing, among other things. They support fundamental and 'blue skies' research in institutions, and contribute to the cost of training new researchers. This research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.
- b. The **Research Councils** provide funding for specific programmes and projects. This is calculated as a proportion of the full economic cost of the work to be done. They also provide funding for research studentships.

119. We aim to target funding where research quality is highest. Our main research funding method distributes grant based on the quality, volume and relative cost of research in different subject areas.

120. Since we are committed to promoting excellent research, HEFCE research funds are distributed selectively to HEIs that have demonstrated the quality of their research with reference to national and international standards. From 1986, quality was measured in a periodic Research Assessment Exercise (RAE). This UK-wide peer-review exercise produced quality ratings for research groups that institutions chose to submit for assessment in their respective subject areas. The RAE has been replaced by the Research Excellence Framework (REF), which was developed in consultation as the system for assessing research in HEIs. Information about the REF is available at [www.ref.ac.uk](http://www.ref.ac.uk). The first REF was completed in December 2014, and its assessments of quality in HEIs inform research funding from 2015-16.

121. FECs are not eligible for our research funding, because we are only empowered to fund them for prescribed courses of higher education (see paragraphs 34 and 38.d).

122. Our recurrent funding for research in 2015-16 is £1,558 million. There is also a one-off supplementary £52 million in transitional funding for 2015-16, to:

- mitigate the decline in real terms of funding for postgraduate research students in recent years, and emphasise the importance of supporting the next generation of researchers
- mitigate the impact on institutions of changes to the amounts allocated for some STEM subjects<sup>16</sup>, arising from the transition from RAE 2008 to REF 2014.

See paragraphs 148 to 154 for further detail.

## How recurrent research funding is calculated

123. Our recurrent research funding is known as quality-related research (QR) funding. The main research funding method distributes grant (known as 'mainstream QR') based on the quality, volume and relative cost of research in different areas. Together with a London weighting on mainstream QR, it accounts for about two-thirds of the total QR funding we allocate.

124. **Mainstream QR funding** is first separated into three 'pots' according to the contribution that the three elements of research assessed in the REF make to overall quality profiles. These pots are then further divided by subject, and finally distributed to institutions. The distribution between subjects and institutions are informed by:

- the **volume of research** (based on numbers of submitted research-active staff)
- the **subject cost weights** (reflecting, for example, the fact that laboratory-based research is more expensive than library-based research)
- the **quality of research** as measured in the REF.

125. In addition to mainstream QR, allocations are made to contribute towards other research-related costs. These are as follows.

- a. **QR research degree programme (RDP) supervision fund.** This allocation reflects postgraduate research student numbers in departments that attract mainstream QR funding, the relative costs of the subjects they are studying, quality and London weighting.
- b. **QR charity support fund.** Many charities support research in higher education, particularly in medical disciplines, but they are not always able to meet the full economic costs of research. We therefore provide additional funding to institutions in proportion to the London-weighted income they receive from charities for research.

### Jargon buster

**Research Excellence Framework (REF):** A periodic, peer-review exercise that provides a profile of research quality in UK HEIs and the numbers of research-active staff they have submitted for assessment across 36 different subject areas. For each submission by an HEI to a subject area, quality is assessed for three separate elements covering research outputs, impact and environment, which are combined into an overall quality profile for the submission.

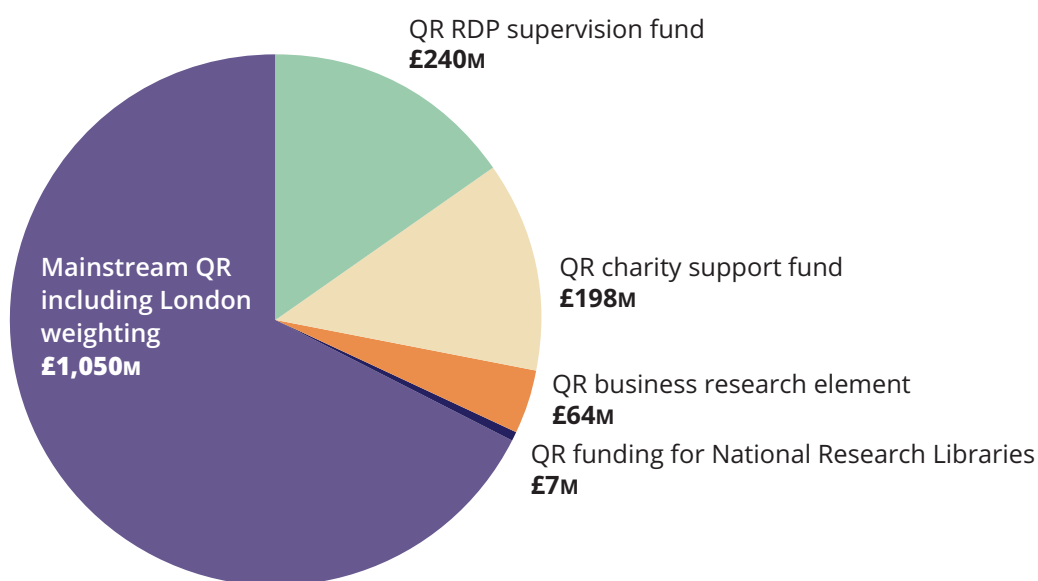
<sup>15</sup> In research, STEM subjects also include medicine.

- c. **QR business research element.** We also provide funding to support institutions undertaking research with business and industry. This is allocated in proportion to the income they receive from business for research.
- d. **QR funding for National Research Libraries.** This is additional support for five research libraries which we designated as being of national importance on the basis of a review in 2007.

126. Budgets for the separate components of QR funding are shown in Figure 4.

**Figure 4: Elements of recurrent research funding for 2015-16: total £1,558 million**

Note: Amounts do not add up, because of rounding differences.



### Mainstream QR funding

127. A number of different components are used in our mainstream QR funding method. These are:

- a volume measure
- quality profiles for each institution
- subject cost weights
- London weighting.

### The volume measure

128. The volume measure in our research funding method is the number of research-active staff employed by the institution and submitted to the REF (counted in FTE terms), multiplied by the proportion of research that meets a quality threshold in the REF. This threshold is explained below.

129. The quality ratings and staff volume were determined from REF 2014. As with teaching grant, the volume measure for research determines what we count for funding purposes, but does not define what we fund (or what our funding should be used for).



## Quality profiles

130. REF 2014 reviewed research in all disciplines, divided into 36 subject areas, known as units of assessment (UOAs). A two-tier panel structure was used to determine the profile of research quality in each submission. Each UOA was assessed in one of 36 sub-panels, with four main panels (A to D) co-ordinating and advising on the work of the sub-panels in related disciplines. It was for institutions to decide which (if any) academic staff to submit for assessment in these UOAs.

131. For each submission made, the panels determined a quality profile, identifying what proportion of the research met certain quality thresholds. This profile was on a five-point scale:

- **four-star (4\*)** – quality that is world-leading
- **three-star (3\*)** – quality that is internationally excellent
- **two-star (2\*)** – quality that is recognised internationally
- **one-star (1\*)** – quality that is recognised nationally
- **unclassified** – quality that falls below the standard of nationally recognised work.

132. Each overall quality profile is composed from sub-profiles reflecting the three elements assessed in each submission. Each element is given a different weighting towards the overall profile. These elements are:

- the quality of research **outputs** – predominantly publications (65 per cent)
- the social, economic and cultural **impact** of research (20 per cent)
- the research **environment** – the resources and infrastructure that support research (15 per cent).

133. The following is an example of an institutional quality profile identified from the REF.

**Table 4: Example institutional quality profile from REF 2014 for UOA3**

UOA 3 – Allied Health Professions, Dentistry, Nursing and Pharmacy	Percentage of research activity in the submission judged to meet the standard for:					FTE staff submitted:
	4*	3*	2*	1*	U/C	
Overall	49%	44%	5%	1%	1%	52.70
Outputs	40.5%	52.3%	5.3%	1.0%	0.9%	
Impact	58.2%	36.8%	5.0%	0%	0%	
Environment	70.3%	20.7%	4.1%	4.9%	0%	

## Subject cost weights

134. There are three subject cost weights.

	Weighting
A High-cost laboratory and clinical subjects	1.6
B Intermediate-cost subjects	1.3
C Others	1.0



## London weighting

135. This is 12 per cent for institutions in inner London and 8 per cent for institutions in outer London.

## Calculating mainstream QR funding

136. There are four stages to the allocation of mainstream QR funds (summarised in Figure 5):

- **Stage 1** – separating the mainstream QR total into three pots, reflecting the weight given to each sub-profile element in determining the overall quality profile
- **Stage 2** – distributing the three pots between the four REF main panel disciplines
- **Stage 3** – distributing the main panel totals between the 36 UOAs
- **Stage 4** – distributing the totals for each UOA between institutions.

### Stages 1 and 2: Determining the amount provided for the four main REF panel disciplines

137. The total mainstream QR allocation is separated into funding pots for each sub-profile element. This reflects the weighting given to the elements submitted to the REF in determining the overall quality profile:

- outputs – 65 per cent
- impact – 20 per cent
- environment – 15 per cent.

138. The next stage is to decide the amounts that will be allocated from these separate pots to the main subject panels. The total in each pot is divided in proportion to the volume of research in each panel that met or exceeded the 3\* quality level in the REF, weighted to reflect the relative costs of research in different subjects.

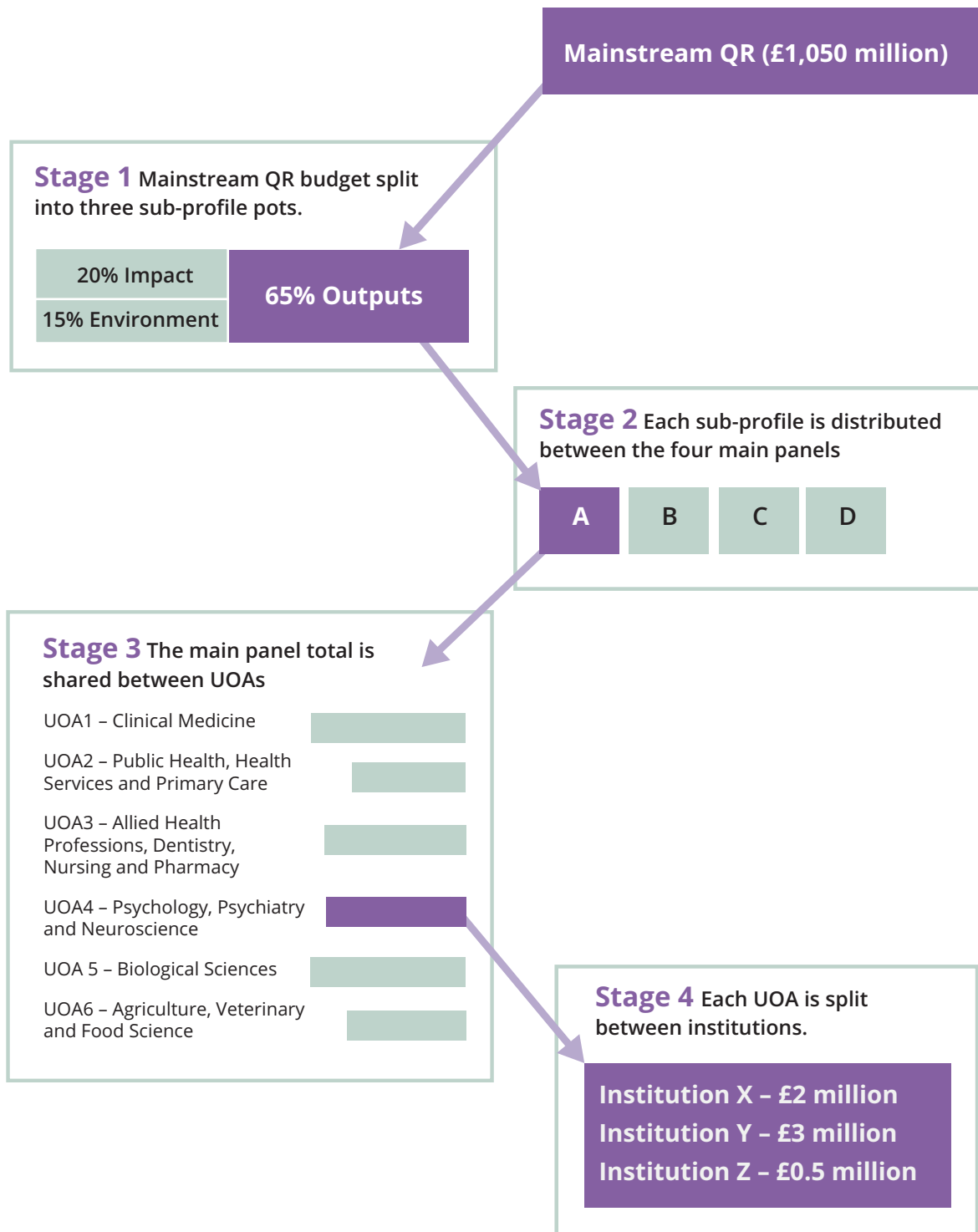
139. After RAE 2008, we adjusted the mainstream QR totals allocated to each main panel to ensure that the proportion of the total distributed to each main panel in STEM subjects would be no less than applied in 2008-09, informed by RAE 2001. Given the increase in STEM activity from REF 2014 that we are now funding, this STEM protection is no longer necessary. See paragraphs 151 to 154 for further detail.

### Stages 3 and 4: Distributing the main panel totals between UOAs and then institutions

140. The final stages distribute the totals for each main panel, firstly between its constituent UOAs, and finally between institutions. The shares for each UOA, and within them for each institution, are in proportion to their volume of activity reaching the 3\* and 4\* quality levels in the REF, multiplied by quality and cost weights.

141. In stages 3 and 4, we apply weightings to the volume of research attributable to each quality rating, as shown in Table 5. This ensures that our funding of research is highly selective.

Figure 5: Allocation of mainstream QR funding



Note: Sizes of allocations are for illustrative purposes only.

**Table 5: Research funding quality weightings**

Quality rating (with abbreviated description)	Quality weighting
4* (world-leading)	4
3* (internationally excellent)	1
2* (recognised internationally)	0
1* (recognised nationally)	0
Unclassified (below the standard of nationally recognised work)	0

142. The cost weights used in the funding method for mainstream QR (shown in paragraph 134) are unchanged from previous years. However, REF 2014 has a different UOA structure to RAE 2008, which we have had to map to these cost weights.

143. Two UOAs span subject areas of varying costs:

- a. UOA 4 (Psychology, Psychiatry and Neuroscience) is in the higher cost band, but includes some elements of psychology that are lower cost.
- b. UOA 17 (Geography, Environmental Studies and Archaeology) is in the middle cost band, but includes some elements that are higher cost.

To ensure that these disciplines are not unduly affected by the revised mapping, we are funding them using the rates of funding per submitted staff used for 2014-15.

### London weighting on mainstream QR

144. We provide London weighting as a percentage of an institution's funding for mainstream QR (see paragraph 135). This is calculated separately after Stage 4.

### QR RDP supervision fund

145. Funding for RDP supervision is provided on the basis of postgraduate research (PGR) student FTEs in all departments that receive mainstream QR funding for research<sup>16</sup>. These are derived from institutions' HESA data for previous years. Our first step in determining RDP supervision fund allocations is to calculate a quality score for each department. This consists of the amount of 3\* and 4\* activity as a proportion of total activity at 2\* quality and above, in its REF overall quality profile. For each eligible department, PGR student FTEs are subject to London weighting (using the percentages given in paragraph 135), the cost weightings given in paragraph 134 and the quality score. We then distribute the total available funding pro rata to these weighted FTEs.

### QR charity support fund

146. The QR charity support fund is provided to institutions in proportion to the amount of eligible research income from charities reported in their two most recent HESA Finance Statistics Returns (FSRs), subject to London weighting (see paragraph 135). There is no minimum quality threshold for eligibility for this funding.

<sup>16</sup> The term 'department' means a group of staff and their research activity returned in a single submission within one subject UOA, irrespective of whether this forms a single administrative unit within the institution.

## QR business research element

147. The QR business research element supports HEIs undertaking research with business and industry. The allocation is provided in proportion to the amount of research income institutions receive from industry, commerce and public corporations, using data reported by institutions on the HESA FSR for the two most recent years available. There is no minimum quality threshold for eligibility for this funding.

## Non-consolidated transitional research allocations for 2015-16

148. For 2015-16 only, we are providing £52 million in supplementary research funding, separate from the main recurrent funding allocation of £1,558 million.

### Transitional funding for RDP supervision

149. In September 2014, we received a report on 'Understanding the recruitment and selection of postgraduate researchers by English higher education institutions'<sup>17</sup>. This report noted that the most common issue raised by institutions in regard to PGR study was funding, and recommended that HEFCE should increase its support.

150. For 2015-16 we are therefore making available an additional one-off supplement of £24 million to address this and to emphasise the importance of investment in the next generation of researchers. This is distributed in proportion to the QR RDP supervision funding for each institution.

### Transitional funding to mitigate the removal of STEM protection

151. In RAE 2008, the total share of research activity attributable to STEM subjects had dropped relative to the previous RAE. From 2009 10 to 2014-15, an adjustment was made to the mainstream QR funding calculation to ensure that the proportion of funding for each main panel in STEM subjects remained at a level no lower than that in 2008-09. This was achieved by reducing the allocation made to arts, humanities and social science.

152. The REF results have shown that the proportion of STEM research has increased and that it is no longer necessary to apply this adjustment. This 'STEM protection' is not therefore being applied from 2015-16.

153. We recognise that removal of STEM protection will adversely affect some institutions. To mitigate this effect, we are distributing an additional one-off allocation of £28 million as a transitional measure, so that no institution is adversely affected in 2015-16.

154. An institution receives this supplement if its funding for mainstream QR plus London weighting on mainstream QR would have been higher if STEM protection had not been removed. The supplement is the difference between these two calculations.

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<sup>17</sup> Available at: [www.hefce.ac.uk/pubs/rereports/year/2014/pgrrcruitment/](http://www.hefce.ac.uk/pubs/rereports/year/2014/pgrrcruitment/).

## 2D Knowledge exchange funding

155. Our knowledge exchange funding provides incentives for and supports HEIs to work with business, public and third-sector partners, with a view to exchanging knowledge and thereby increasing economic and social benefit.

156. Recurrent funding of £150 million per year was provided for the period from 2011-12 to 2014-15, of which £113 million was from ring-fenced science and research funding, and £37 million from the overall HEFCE budget. We provided a further £10 million in formula funding for 2013-14 and 2014-15, to enable existing knowledge exchange strategies to be enhanced where there is evidence that the current cap on funding is a constraint to institutions' support of economic growth.

157. For 2015-16, we have rolled these overall budgets forward, but redistributed them on the basis of the most recent data available. These funds are allocated by formula to all eligible HEIs, subject to acceptance by HEFCE of an institutional strategy for knowledge exchange and a plan for use of the HEFCE component.

158. We are currently re-examining our approach to knowledge exchange funding. HEIs will be notified of any changes or updates to our method of knowledge exchange funding and details will be published through our website.

159. Allocations were fixed between 2011-12 and 2014-15. The key features of our knowledge exchange funding method are as follows:

- a. All funding is allocated on the basis of performance, using a combination of measures of income as a proxy for impact on the economy and society. This aims to achieve the greatest impact from public funding of knowledge exchange. Income from small and medium-sized enterprises is given a double weighting within this component, to signal the importance of working with such businesses and to recognise the higher costs involved.
- b. There is an allocation threshold for all HEIs. Institutions that do not achieve an allocation of at least £250,000 per year through the formula get no allocation at all. This is intended to ensure that our funding for knowledge exchange is efficient, through being targeted at institutions with significant knowledge exchange performance and partnerships.
- c. There is a cap of £2.85 million on individual allocations.
- d. Allocations are capped at 150 per cent of the annual allocations under the previous round of funding.
- e. 'Transition' funding is provided to ensure that, subject to meeting the £250,000 threshold, no HEI's annual allocation will fall below 50 per cent of its allocation from the previous round of funding.

160. ['Higher Education Innovation Funding 2011-12 to 2014-15: Policy, final allocations and request for institutional strategies'](#) (HEFCE 2011/16)<sup>18</sup> sets out in more detail the policies and processes for allocating formula funding for knowledge exchange.

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<sup>18</sup> See [www.hefce.ac.uk/pubs/year/2011/201116/](http://www.hefce.ac.uk/pubs/year/2011/201116/).

## 2E Funding for national facilities and initiatives and capital funding

161. Funding for national facilities and initiatives and capital funding is used to secure change or fund activities that cannot be addressed through our recurrent formula funding to institutions.

162. We aim to provide as much as possible of our funding for learning and teaching, student opportunity, research, and knowledge exchange through recurrent grants. We continually review the level of funding for national facilities and initiatives to ensure that it is justified, and that the amount of funding that comes from the recurrent baseline is limited.

163. For 2015-16, we are allocating £130 million in funding for national facilities and initiatives, and a further £603 million for capital grants.

### Funding for national facilities and initiatives

164. We allocate a small proportion of our total funding to support special programmes, promote specific policies and contribute towards additional costs that are not recognised through our recurrent funding methods. These amounts by strategic aim are set out in Table 6.

**Table 6: 2015-16 funding for national facilities and initiatives by strategic aim**

Strategic aim	Funding (£ million)
Learning, teaching and student choice	21
Research	11
Information, investment and partnership	98
<b>Total</b>	<b>130</b>

165. This funding supports the work of some sector bodies, such as Jisc, the Quality Assurance Agency for Higher Education and the Higher Education Academy.

166. This funding also includes support for the Catalyst Fund, which provides exceptional funding to help institutions manage transition through the new finance arrangements in higher education, and to support key objectives that address the Government's policy priorities. Funds are awarded following a formal assessment and approval of proposals from institutions. For 2015-16 we have £40 million to allocate through the Catalyst Fund for non-capital projects and £26 million for capital (as explained in paragraph 173).

### Capital funding

167. Capital funding is additional funding provided by the Government to support sustainable investment in higher education. It totals £603 million for 2015-16. Table 7 shows the breakdown of this total between different capital funding streams.

**Table 7: 2015-16 Capital funding allocations**

Strategic aim	Funding (£ million)
UK Research Partnership Investment Fund (UKRPIF)	100
Research Capital Investment Fund (RCIF)	194
Teaching Capital Investment Fund (TCIF)	90
STEM teaching capital	200
Jisc	19
<b>Total</b>	<b>603</b>

168. UKRPIF supports large-scale projects to enhance research facilities and strategic partnerships at UK HEIs that can attract substantial co-investment from private sources. It is allocated through a competitive bidding process.

169. The Capital Investment Framework (CIF) aims to assess the way HEIs approach capital investment by asking them to demonstrate that they are:

- managing their physical infrastructure as an integral part of their strategic and operational planning
- ensuring that their plans in this area are environmentally sustainable.

170. HEIs that meet the requirements of the CIF receive funds directly on a grant profile in two elements, RCIF and TCIF, allocations for which are made by formula. HEIs and FECs that receive recurrent teaching funding are eligible for a TCIF allocation and HEIs that receive recurrent research funding are eligible for an RCIF allocation. We are not providing allocations under either programme for 2015-16 if an institution's share would fall beneath a threshold of £10,000.

171. Of the total £90 million for TCIF, £80 million is allocated in proportion to teaching resource (HEFCE recurrent teaching grant plus an assumption of tuition fee income) for each institution, and a further £10 million is allocated in proportion to teaching resource solely for price group B provision. Of the total £194 million for RCIF, £86 million is allocated in proportion to institutions' research income from Research Councils UK and £108 million is allocated in proportion to institutions' total 2015-16 QR funding plus research income from charities, government bodies and industry.

172. Funding for STEM teaching capital has been allocated through a competitive bidding exercise to provide new or upgraded teaching facilities to meet increased demand for STEM provision and increase the flow of STEM graduates into industry.

173. In addition to the above sums, we are also providing £26 million in 2015-16 for the capital projects supported through the Catalyst Fund (see paragraph 166). This is financed through the reinvestment of capital funding provided previously as recoverable grants that have now been repaid.

# Section 3: Conditions of funding

## Accountability for funding

174. Institutions need to be accountable for the funding they receive, but should also be able to demonstrate more broadly the value they provide. We seek this accountability, and to influence the behaviour of institutions, in a number of ways. These can apply individually or in combination.

- a. **Through the funding method itself.** The way in which we calculate the funding will influence how institutions respond: all other things being equal, institutions may concentrate their efforts on those activities that will increase their income. This means that we need to think carefully about how we fund institutions. We need to consider the desirable behaviours we want to encourage, but equally importantly we need to avoid creating unintended incentives that could lead to undesired behaviours. While the funding method is one means of influencing the sector's behaviour, it is not always the best way of achieving a particular outcome.
- b. **Through conditions of grant.** These require institutions to behave in a particular way, or provide something specific, in return for the grant. If they fail to do so, their grant may be reduced. We expand on conditions of grant in paragraphs 175 to 180.
- c. **Through providing information.** Increasing the transparency of what institutions deliver for the funding they receive improves their public accountability but can also encourage improved performance through greater competition. Examples include the performance indicators published by the Higher Education Statistics Agency, the National Student Survey and the data provided on the website [www.unistats.com](http://www.unistats.com) (where a Key Information Set (KIS) for each relevant course is published).

175. We allocate substantial amounts of taxpayers' money to institutions every year. It is important, therefore, that institutions are well managed and accountable for the funding they receive, and that we are accountable, ultimately to Parliament, for the funding we allocate.

176. Our formal relationship with higher education institutions (HEIs) is governed by a memorandum of assurance and accountability<sup>19</sup>. It reflects our responsibility to provide assurances to Parliament that:

- funds provided to us are being used for the purposes for which they were given
- risk management, control and governance in the higher education sector are effective
- value for money is being achieved.

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<sup>19</sup> See 'Memorandum of assurance and accountability between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions' (HEFCE 2014/12), available online at [www.hefce.ac.uk/pubs/year/2014/201412/](http://www.hefce.ac.uk/pubs/year/2014/201412/).



177. The memorandum of assurance and accountability is in two parts. Part 1 sets out terms and conditions of grant that apply in common to all HEIs. We review this periodically and consult the sector on its contents. Part 2, known as the 'funding agreement', is issued annually and gives conditions specific to each HEI. It includes details of the recurrent grant that we are providing and of the requirements that HEIs are expected to meet in return for their grant. For further information on the funding agreement see paragraphs 181 to 183.

178. We do not have a memorandum of assurance and accountability with further education colleges because they are accountable to the Skills Funding Agency or, in the case of sixth form colleges, to the Education Funding Agency, not to HEFCE. Instead we issue an annual funding agreement to the FECs that we fund directly: this is similar to that for HEIs, but incorporates those sections of Part 1 of our memorandum of assurance and accountability with HEIs that are relevant to FECs.

179. We may make certain elements of our grant subject to specific conditions. For example, when we provide capital grants, we expect them to be spent on the capital projects detailed in institutions' investment plans.

180. Just as we have a memorandum of assurance and accountability with HEIs, so the Department for Business, Innovation and Skills has a similar formal relationship with us, which is set out in a Framework Document. This places requirements on us as a condition of the funding we receive from Government, and can be read on our website at [www.hefce.ac.uk/about/unicoll/government/](http://www.hefce.ac.uk/about/unicoll/government/). Further policy guidance and requirements may be set out in the annual grant letter we receive from the Secretary of State.

## The funding agreement

181. The funding agreement sets out the amount of recurrent funding that we will provide to an institution for the academic year, and the other terms and conditions of grant that apply. Institutions have discretion as to how they internally distribute the funding we provide, except where funding has been earmarked for a specific purpose, and as long as the funding is used to support the activities that are eligible for our funding (for HEIs, teaching, research and related activities; for FECs, prescribed courses of higher education). Terms and conditions set out in the funding agreement include, for example, requirements to:

- make certain data returns, including those that inform our allocations or that are used for public information purposes, such as the KIS
- comply with regulated tuition fee limits and any access agreement with the Office for Fair Access
- provide or update a strategic statement about widening participation and make annual monitoring returns
- comply with the Quality Assurance Agency for Higher Education (QAA) UK Quality Code for Higher Education as it relates to postgraduate research programmes<sup>20</sup>.

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<sup>20</sup> Chapter B11 of the QAA UK Quality Code for Higher Education on postgraduate research programmes is available at [www.qaa.ac.uk/publications/information-and-guidance/publication?PubID=2901](http://www.qaa.ac.uk/publications/information-and-guidance/publication?PubID=2901).

182. The funding agreement also sets out circumstances under which formulaic changes to recurrent grant allocations may be made. These include:

- recalculations of recurrent grant to reflect the findings of any audits or reconciliations of the data provided by institutions that inform funding
- adjustments to allocations arising from HEIs' recruitment against intake targets for undergraduate medicine and dentistry (see paragraph 183).

## Medical and dental intake targets

183. For institutions offering undergraduate medical and dental courses, the funding agreement specifies maximum medical and dental intake targets. These intake targets apply to all Home, EU and overseas students starting full-time undergraduate (including graduate-entry) programmes that lead on successful completion to first registration as a doctor or dentist. Institutions must not exceed their intake targets: we may reduce grant if they do so in two successive years. We also do not count students recruited in excess of the medical or dental intake targets towards our funding of high-cost subjects.

# Summary explanation of terms and abbreviations

## **Accountability burden**

The work that institutions must do to demonstrate that they are spending HEFCE funds appropriately. We strive to achieve a fair balance between minimising this burden and ensuring that public money is properly accounted for.

## **BIS**

[Department for Business, Innovation and Skills](#)<sup>21</sup>. This is the government department to which HEFCE is accountable, but as a non-departmental public body we operate at arm's length from it.

## **Capital funding**

Part of non-recurrent funding to help universities and colleges invest in their physical infrastructure so it remains fit for purpose.

## **Catalyst Fund**

Non-formula recurrent and capital funding to promote and enhance innovative activities that address the Government's key policy priorities, and to manage the transition to and through the new finance arrangements in higher education.

## **CIF**

Capital Investment Framework. A methodology for assessing higher education institutions' approaches to investing their capital funding. It was developed to encourage institutions to manage their physical infrastructure as an integral part of their strategic and operational planning. Institutions that have satisfied the requirements of the CIF will receive their capital funding without the need to apply for the funds; the grants will be paid directly in four quarterly payments. Institutions still working towards meeting the CIF requirements need to follow specific application requirements. This is provided in two elements: research capital (RCIF) and teaching capital (TCIF).

## **DSA**

Disabled Students' Allowance. Grants to help meet the extra costs students can face as a direct result of a disability or specific learning difficulty.

## **Dual support**

The system of funding research partly by HEFCE and partly by the Research Councils.

## **ELQ**

Equivalent or lower qualification. Most students who are studying for a qualification equivalent to, or lower than, one they already hold are not counted for HEFCE funding purposes.

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<sup>21</sup> See <https://www.gov.uk/government/organisations/department-for-business-innovation-skills>.

**Erasmus+**

The European Union's framework programme for education, training, youth and sport.

**EU**

European Union

**FECs**

Further education and sixth form colleges.

**FSR**

HESA Finance Statistics Return. This is an annual return completed by HEIs.

**FTE**

Full-time equivalent or full-time equivalence. FTE is a measure of how much a student studies over a year, compared with someone studying full-time. Someone studying full-time counts as one FTE, whereas a part-time learner doing half that amount of study counts as 0.5 FTE. For research funding purposes, the FTE of research-active staff submitted to the REF is used.

**Funding for national facilities and initiatives**

Allocations used to secure change or fund activities that cannot be addressed through recurrent teaching or research funding, including support for national facilities, such as museums and galleries and Jisc.

**HE-BCI**

Higher Education – Business Community Interaction survey. This forms part of the HESA FSR and is used to inform and monitor our funding for knowledge exchange.

**HEFCE-fundable students**

Students who may be counted within HEFCE funding calculations. For teaching funding, this broadly means all higher education students domiciled in the UK or another EU country ('Home and EU' students) other than:

- those expected to be the funding responsibility of another EU public source
- those on a course that is not open to any suitably qualified candidate
- students aiming for an ELQ (with some exceptions)
- postgraduate research students.

The term encompasses some students who may not in fact attract HEFCE funding to their providers, for example where we expect tuition fees to cover the full cost of provision, or where students do not complete their year of study and are therefore not counted in our funding calculations. Further information about this definition is available from our annual HESSES and HEIFES publications.

**HEI**

Higher education institution – a university or college of higher education.

**HEIFES**

[Higher Education in Further Education: Students survey](#)<sup>22</sup>. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.

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<sup>22</sup> See [www.hefce.ac.uk/data/collect/heifes/](http://www.hefce.ac.uk/data/collect/heifes/).

## HESA

[Higher Education Statistics Agency](#)<sup>23</sup>. HESA collects a number of different data returns from HEIs. The one that is most relevant for our teaching funding is the individualised student record, which we use in calculating funding for student opportunity and other targeted allocations, and to reconcile with the HESES return. We also use data from HESA's FSR to inform some of our research funding, and to review the cost weights in our teaching and research funding methods.

## HESES

[Higher Education Students Early Statistics survey](#)<sup>24</sup>. The annual aggregate student recruitment survey completed by HEIs, which informs our funding for teaching.

## ILR

Individualised learner record. This is collected from FECs by the Skills Funding Agency and is the equivalent of HESA's individualised student record.

## Improving retention

Some people need more support than others to complete their studies because of their background or circumstances. An element of our student opportunity funding is provided to assist with improving retention.

## Institution

In this context institution means an HEI or an FEC that offers higher education courses.

## ITT

Initial teacher training.

## Jisc

Formerly known as the Joint Information Systems Committee, Jisc funds development and champions the use of digital technologies in UK education and research<sup>25</sup>.

## Knowledge exchange

HEIs increasingly engage with businesses, public and third sector services, the community and wider public, transferring or exchanging knowledge with the aim of delivering external impact, such as improving products, services, profitability and so on. This is linked with research and teaching and includes consultancy and advisory work, the creation of intellectual property, the development of academic and student entrepreneurship, and a variety of other activities.

## Level

Level of study can be undergraduate, postgraduate taught or postgraduate research.

## Mode

Mode of study can be full-time, part-time or 'sandwich year out'.

## NCTL

National College for Teaching and Leadership.

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<sup>23</sup> See <https://www.hesa.ac.uk/>.

<sup>24</sup> See [www.hefce.ac.uk/data/collect/heses/](http://www.hefce.ac.uk/data/collect/heses/).

<sup>25</sup> See <http://www.jisc.ac.uk/>.

### **New-regime students**

Students who are treated as having started their courses on or after 1 September 2012 and who are subject to the new fee and funding regime. They include those whose fees are limited by law and those, such as most postgraduates, whose fees are not limited in this way.

### **Non-recurrent funding (funding for national facilities and initiatives and capital funding)**

Used to secure change or fund activities that cannot be secured through core teaching or research funding. Capital funding is additional funding provided by the Government over and above the annual budget it allocates for general higher education funding.

### **Old-regime students**

Students who are treated as having started their courses before 1 September 2012 and are subject to the previous fee and funding regime. They include both those whose fees have been limited by law (mostly full-time undergraduates) and those whose fees have not been limited in this way (such as most postgraduates and part-time undergraduates).

### **PGR**

Postgraduate research.

### **Postgraduate Support Scheme**

The 2015-16 [Postgraduate Support Scheme](#) provides individual scholarships to contribute to the costs of masters study in any subject<sup>26</sup>. The funding is allocated by formula to institutions, who determine awards for their students. Each award comprises £5,000 HEFCE funding and a matched £5,000 from institutional or employer funds.

### **Price group**

A group of subjects that show broadly similar costs, used in our teaching funding method. The price groups attract different rates of funding in the method.

### **QR funding**

Quality-related research funding, encompassing all our recurrent research funding.

### **RAE**

Research Assessment Exercise. A periodic, peer-review exercise that rated research quality in UK HEIs and collected information on the numbers of research-active staff. The 2008 RAE informed research funding from 2009-10 to 2014-15 and was superseded by the REF.

### **RDP**

Research Degree Programme.

### **Recurrent funding**

Yearly allocations aimed at ongoing core activities.

### **REF**

[Research Excellence Framework](#)<sup>27</sup>. A periodic peer-review exercise that provides a profile of research quality in UK HEIs and the numbers of research-active staff they

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<sup>26</sup> See [www.hefce.ac.uk/sas/pss/](http://www.hefce.ac.uk/sas/pss/).

<sup>27</sup> See [www.ref.ac.uk/](http://www.ref.ac.uk/).

have submitted for assessment across 36 different subject areas. For each submission by an HEI to a subject area, quality is assessed for three separate elements covering research outputs, impact and environment, which are combined into an overall quality profile for the submission. The first REF was completed in 2014 and is used to inform research funding from 2015-16.

### **Research Councils**

The seven UK Research Councils are funded by Government to support research in their fields of interest, both within their own establishments and in HEIs.

### **Sandwich course**

A full-time course of study which includes periods of work experience in organisations outside the university or college. 'Sandwich year out' means a year spent away from the institution on a work experience placement in business or industry.

### **STEM**

Science, technology, engineering and mathematics. In the case of research funding, this also includes clinical subjects such as medicine.

### **Student number control**

A limit placed by HEFCE during the period from 2010-11 to 2014-15 on the numbers of certain students at each institution starting full-time undergraduate study or a postgraduate ITT course. It has been removed from HEFCE-funded institutions from 2015-16.

### **Student opportunity**

This refers to activities such as widening access and improving retention, designed to ensure that all those with the potential to benefit from higher education have the opportunity to do so.

### **Tuition fees**

Fees paid to a university or college for a student to attend a course. Fees for most undergraduates and for postgraduate ITT courses are subject to limits set out in regulations. For students entering from academic year 2012 13, full-time regulated tuition fees can be charged up to a maximum of £9,000 per year of study (though lower limits apply in particular cases, such as for study years abroad and sandwich years out). Part-time regulated tuition fees can be charged up to a maximum of £6,750 per year of study.

### **TRAC(T)**

A national framework for costing teaching in different subjects, based on Transparent Approach to Costing (TRAC) principles.

### **UKRPIF**

UK Research Partnership Investment Fund. A fund to support investment in UK higher education research facilities.

### **UOA**

Unit of assessment. Used in the RAE and REF to define broad subject areas. (The UOAs in the REF are different from those in RAE 2008.)

# Further reading

HEFCE publications (all available at [www.hefce.ac.uk/pubs](http://www.hefce.ac.uk/pubs))

'Recurrent grants for 2015-16' (HEFCE 2015/05)

'HESES14: Higher Education Students Early Statistics survey 2014-15' (HEFCE 2014/23)

'HEIFES14: Higher Education in Further Education: Students survey 2014-15' (HEFCE 2014/24)

'Memorandum of assurance and accountability between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions' (HEFCE 2014/12)

'Higher education in England: Impact of the 2012 reforms' (HEFCE 2013/03)

'Higher education in England 2014: Analysis of latest shifts and trends' (HEFCE 2014/08)

'Institution-specific funding: Consultation outcomes and invitation to make submissions' (HEFCE 2012/16)

'Knowledge exchange: Formula funding 2015-16' (HEFCE 05/2015)

'Formula capital allocations for teaching and research 2015-16 (HEFCE 09/2015)

'Guide to funding and student number controls 2013-14 and 2014-15: How HEFCE allocates its funds and controls student numbers' (HEFCE 2014/06)

'Business plan 2012-2020: Creating and sustaining the conditions for a world-leading higher education system' (HEFCE 2015/01)

**Information on REF 2014 (available at [www.ref.ac.uk](http://www.ref.ac.uk) under Publications)**

'REF2014: Panel criteria and working methods' (REF 01/2012)

'REF 2014: The results' (REF 01.2014)

**Other HEFCE pages**

'Annual funding allocations' at [www.hefce.ac.uk/funding/annalocns/](http://www.hefce.ac.uk/funding/annalocns/)

'Student access and success' at [www.hefce.ac.uk/sas/](http://www.hefce.ac.uk/sas/)

'How we fund research' at [www.hefce.ac.uk/rsrch/funding/](http://www.hefce.ac.uk/rsrch/funding/)

'Funding for knowledge exchange – Higher Education Innovation Funding (HEIF)' at [www.hefce.ac.uk/kess/heif/](http://www.hefce.ac.uk/kess/heif/)