

Higher Education Funding Council for England

Title	Funding for universities and colleges for 2017-18: Board decisions
To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education and sixth form colleges
Of interest to those responsible for	Finance, Planning
Reference	Circular letter 06/2017
Publication date	15 March 2017
Enquiries to	HEFCE Institutional teams – for contact details, visit www.hefce.ac.uk/contact/contactsforinstitutions/

Dear Vice-Chancellor or Principal

Funding for universities and colleges for 2017-18: Board decisions

1. This circular letter sets out the decisions taken at the HEFCE Board meeting on 9 March 2017 on funding for 2017-18. This includes decisions on funding for undergraduate pre-registration courses in nursing, midwifery and allied health professions, which transfers to the higher education finance system from 2017-18.
2. We will notify institutions individually of their recurrent grants for 2017-18 on **Wednesday 12 April 2017**, with all allocations and associated details embargoed until publication on **Friday 5 May 2017**. The delayed publication and lifting of the embargo are to ensure that these do not occur during the pre-election period leading up to local elections on 4 May. We will announce formula capital allocations for teaching and research by the **end of March 2017**.
3. Unless specified otherwise, all figures in this letter relate to academic years (August to July).

Budget decisions for 2017-18

4. The grant letter to HEFCE of 23 February 2017 from the Department for Education and the Department for Business, Energy and Industrial Strategy (www.hefce.ac.uk/funding/govletter/) confirmed the funding available for the 2017-18 financial year (April to March) and provided indicative funding for the 2018-19 financial year. In addition the grant letter provided indicative funding from the science and research budget for the 2019-20 financial year. The letter also identified the policies and priorities that should underpin our approach to funding.
5. In the light of the grant letter, the Board has agreed budgets for recurrent grant and funding for national facilities and initiatives for the 2017-18 academic year, as shown in Table 1. Further detail about these allocations is provided below. In making these decisions, the Board has assumed that the indicative grant for the 2018-19 financial year will be confirmed. As usual, any future changes to the grant made available by Government could affect the funding we are able to distribute to institutions in the 2017-18 academic year, and this may include revising allocations after they have already been announced. In addition, decisions relating to the academic year 2017-18 include the period 1 April 2018 to 31 July 2018, for which, subject to

Parliament, it is expected that the Office for Students and UK Research and Innovation will assume HEFCE's funding responsibilities.

Table 1: Recurrent grants and funding for national facilities and initiatives for the 2017-18 academic year compared with 2016-17

Element of grant	Academic year budgets (£M)	
	2016-17	2017-18
Recurrent teaching	1,360	1,320
Recurrent research	1,578	1,595
Recurrent knowledge exchange	160	160
Sub-total recurrent grant	3,098	3,076
Funding for national facilities and initiatives	98	93
Total non-capital grants	3,196	3,168

Funding for pre-registration courses in nursing, midwifery and allied health professions

6. For 2017-18, students starting undergraduate courses that on successful completion lead to first registration as a professional in nursing, midwifery and certain allied health professions (pre-registration courses) will be supported through the higher education finance system. As a result of the transfer of funding responsibility, HEFCE has £32 million to support these courses in 2017-18 for the first entry cohort of students under the new finance arrangements.

7. To inform our funding decisions, we commissioned a study to identify the costs of teaching for the relevant professions. We are grateful to all those institutions that worked with our consultants to provide costing data, as well as other sector bodies and organisations who have provided advice. We will publish the costing study report by the end of March. In light of the evidence from the costing study, and other work considering the sustainability of training for different professions, the Board has agreed a package of measures to support these courses in 2017-18, comprising:

- a. £16 million through the main high-cost subject funding method, on the basis that pre-registration courses in nursing (all specialisms) should be assigned to price group C1 (requiring £4 million for 2017-18) and pre-registration courses in midwifery and other allied health professions that are subject to the transfer of funding responsibility for 2017-18 should be assigned to price group B (requiring £12 million for 2017-18).
- b. £8 million associated with students starting pre-registration courses that contribute towards the different elements of student premium funding.
- c. £1 million through the targeted allocation for students attending courses in London.
- d. £6 million for a transitional supplementary targeted teaching allocation to support further the sustainability of certain professions, and conditional on institutions maintaining provision in those professions. This will be calculated using the following rates per full-time equivalent (FTE) student number:

- i. £200 for adult nursing, mental health nursing, unclassified nursing, and speech and language therapy.
- ii. £400 for child nursing and learning disability nursing.
- iii. £1,200 for therapeutic and diagnostic radiography, and podiatry and chiropody.
- iv. £3,500 for orthotics and prosthetics, and orthoptics.

The transitional supplement allocation is not being provided for other professions (operating department practice, dietetics, occupational therapy, physiotherapy and midwifery).

- e. £1 million for national initiatives that support demand and improve retention to enhance the sustainability of courses, particularly small and specialist pre-registration courses. This element is not part of the recurrent teaching grant distributed to institutions but is included in the funding for national facilities and initiatives and we expect it to continue each year to 2019-20.

8. We believe that these various elements of grant, combined with net tuition fee income (after provision of bursaries and waivers) increase the funding levels for each professional area within scope for the reforms in 2017-18.

9. The finance arrangements for pre-registration courses in dental hygiene and dental therapy and postgraduate pre-registration courses are not changing in 2017-18, but are expected to change later. This will be factored into decisions on funding from 2018-19.

2017-18 recurrent funding for teaching

10. Recurrent funding for teaching for 2017-18 is £40 million less than in 2016-17, as we implement reductions arising from the 2015 Spending Review and Autumn Statement. In distributing the total, the Board has made the following decisions:

- a. The total budget for our main high-cost subject allocation is £652 million. This is sufficient to maintain the 2016-17 total in real terms, and then provide the additional £16 million required for undergraduate pre-registration courses in nursing, midwifery and allied health professions (see paragraph 7.a). In doing so, we will use a Gross Domestic Product (GDP) deflator of 1.67 per cent for the 2017-18 academic year. Our allocations will take into account the latest student numbers reported for 2016-17 in the Higher Education Students Early Statistics (HESES) survey submitted by higher education institutions (HEIs) and the Higher Education in Further Education: Students (HEIFES) survey submitted by further education and sixth form colleges. Increases in student numbers in 2016-17 mean that the rate of funding per FTE reduces slightly in cash terms by approximately 0.15 per cent (the scaling factor for high-cost subject funding reduces from 1.018 in 2016-17 to 1.0165 in 2017-18).
- b. We are also maintaining in real terms (using the GDP deflator of 1.67) the total funding for:

- i. The targeted allocation for very high-cost science, technology, engineering and mathematics (STEM) subjects (physics, chemistry, chemical engineering and mineral, metallurgy and materials engineering). Each institution will therefore receive the same pro rata increase of 1.67 per cent to its allocation.
 - ii. The postgraduate taught supplement. This was part of our high-cost subject allocation for 2016-17, but will be shown as a separate targeted allocation for 2017-18. HESES and HEIFES data shows a large increase in postgraduate taught student numbers in 2016-17, which follows the introduction of postgraduate masters loans. This increase means that the funding rate per FTE for the supplement will reduce from £1,120 for 2016-17 (including the 1.018 scaling factor) to approximately £955 for 2017-18.
- c. The transitional supplement for old-regime students declines by £23 million, from £37 million allocated in 2016-17 to £14 million in 2017-18. This reflects the continuing phasing-out of this funding as successive cohorts of students who started before 1 September 2012 finish their studies. The allocations are as previously indicated to institutions. 2017-18 is the final year of this supplement.
- d. 'Board decisions regarding the NCOP and teaching funding for widening access, successful student outcomes and progression to postgraduate study' (HEFCE Circular letter 27/2016, www.hefce.ac.uk/pubs/year/2016/CL,272016/) announced a number of decisions affecting elements of teaching grant from 2017-18. This included:
- i. Funding for the four-year national collaborative outreach programme (NCOP) will remain at £60 million per calendar year for the first two years. The Board has now confirmed that the total for the 2017-18 academic year is also set at £60 million (an increase of £30 million compared with the total for the academic year 2016-17).
 - ii. We are discontinuing the formula-based widening access targeted allocation, and supporting investment in this area solely through the NCOP from 2017-18. This allocation totalled £54 million in the academic year 2016-17.
 - iii. We are providing a student premium from 2017-18 recognising full- and part-time students. The allocation for full-time undergraduates will total £195 million for 2017-18, a reduction of £20 million compared with the previous allocation for improving retention for full-time undergraduates. Of the total, 90 per cent will be provided through the main element that reflects risk of non-continuation based on students' entry qualifications and age. The balance will be provided through the supplement that also recognises students from Participation of Local Areas (POLAR 3) quintiles 1 and 2. The allocation for part-time undergraduates is being maintained at £72 million for 2017-18. This combines the previously separate targeted allocation of £8 million for part-time undergraduates with the £64 million provided in 2016-17 for improving retention for part-time undergraduates.
 - iv. The premium for disabled students is being maintained at £40 million. For 2017-18, the allocation will reflect students in receipt of the Disabled Students Allowance, weighted at 2, and other students self-declaring a disability, weighted at 1, both of which are taken from HESA and Individualised Learner Record data. The Board has also now agreed that year-on-year changes to the allocation for individual

institutions will be capped at \pm £100,000, with a view to maintaining a degree of stability for this funding as institutions transition towards more inclusive models of support.

- e. The budgets for the targeted allocations for accelerated undergraduate and intensive postgraduate provision are being maintained in cash terms. For the accelerated undergraduate allocation, this is sufficient to maintain the rate of grant per FTE in cash terms. However, increases in postgraduate student numbers in HESES16 and HEIFES16 mean the rates of grant per FTE for the intensive postgraduate allocation will reduce by approximately 18 per cent.
- f. We are increasing the rate of grant for the targeted allocation for Erasmus and other study years abroad from £2,250 to £2,315 from 2017-18. This rate of grant plus the higher fee cap of £1,385 for such years abroad continue to represent 40 per cent of the higher maximum regulated fee for most full-time undergraduates, which has increased to £9,250 for 2017-18.
- g. Formula allocations for specialist institutions with world-leading teaching will be maintained in cash terms following the review in 2015-16. However, there is a reduction of £8 million as a result of the withdrawal of transitional funding for some institutions.
- h. The total targeted allocation for students attending courses in London will increase by £1 million for 2017-18, to reflect the inclusion of undergraduates starting pre-registration courses in nursing, midwifery and allied health professions (see paragraph 7.c). We are reviewing the relative costs of operating in different geographic areas to inform funding policies for later years.
- i. The budgets for other targeted allocations will be maintained in cash terms.

2017-18 recurrent funding for research

11. The Board has agreed that the budget for mainstream quality-related research (QR), together with its London weighting element, should increase by £17 million in 2017-18 to a total of £1,087 million. This includes an allocation from the Global Challenges Research Fund for investment in cutting-edge research that addresses the challenges of economic development and wellbeing faced by developing countries (as listed on the Organisation for Economic Co-operation and Development's Development Assistance Committee's list of eligible countries). The other separate streams within recurrent research funding will be maintained in cash terms at the same levels as for 2016-17. These are:

- £240 million for QR research degree programme (RDP) supervision funding
- £198 million for QR charities research
- £64 million for QR business research
- £7 million for national research libraries.

12. While research funding methods are largely those used in previous years, there are a small number of technical changes for 2017-18.

- a. We have previously recognised that around half of all the research activity submitted to Unit of Assessment (UOA) 4 (Psychology, Psychiatry and Neuroscience) in the 2014 Research Excellence Framework could reasonably be regarded as more closely analogous to science than to the social sciences, and that as a result HEFCE's standard

cost weights cannot accurately reflect the costs within the unit (B15/05e). Previous adjustments have been made in determining the total mainstream QR funding for UOA4 to address this. We have now undertaken work with an expert panel to assess the balance of clinical and non-clinical work within the UOA, and conclude that overall about 40 per cent of research in the UOA is high-cost (attracting the high-cost weighting of 1.6) and the other 60 per cent equivalent to the cost of work within the social sciences (attracting the intermediate cost weighting of 1.3). The Board has therefore agreed that an average cost weight of 1.42 ($1.6 \times 0.4 + 1.3 \times 0.6$) should apply to this UOA for both mainstream QR and RDP supervision funding. We have recalculated the mainstream QR allocations to take account of this.

b. We are making changes to how we determine the postgraduate research student numbers that we count for RDP supervision funding. We announced the new approach in 'Board decisions on changes to QR RDP supervision funding' (HEFCE Circular letter 34/2016, www.hefce.ac.uk/pubs/year/2016/CL,342016/).

c. The QR charities and QR business elements have previously been calculated pro rata to research income from relevant sources in the two most recent years. For 2017-18, these allocations will be calculated pro rata to research income in the most recent **four-year** period (2012-13 to 2015-16). This change is to moderate the more dynamic effects on funding that would otherwise arise from the new financial reporting standard (FRS) 102. The latter means that from 2015-16, a significant grant for an asset (such as a building or equipment) may now appear in full in income in a particular year, instead of being reported in fractional shares spread over the expected lifetime of the asset. This could result in more significant year-on-year changes to QR charities and business funding than previously. Taking research income averaged over a four-year period reduces the year-on-year fluctuation in these grants. In calculating these allocations, we will include relevant research income that institutions have identified separately for 2015-16 that would otherwise not be included in their accounts in any year because of the introduction of FRS 102 (income that would have been spread over future years under the old accounting method, but would have been counted in full in an earlier year under the new method).

2017-18 funding for knowledge exchange (HEIF)

13. The total budget for knowledge exchange in 2017-18 is being maintained in cash terms at the level provided in 2016-17. 'Higher Education Innovation Funding: Institutional five-year knowledge exchange strategies' (HEFCE 2016/16, www.hefce.ac.uk/pubs/year/2016/201616/) announced some changes to the formula allocation for 2017-18, in particular that:

a. Allocations for each year would be based on data from the Higher Education-Business Community Interaction (HE-BCI) survey for the most recent three years, but the weightings for each year would change from 1:2:7 to 2:3:5 (most recent year listed last).

b. Year-on-year changes to allocations for institutions would be subject to a cap of ± 10 per cent, subject to institutions being above the minimum threshold, and below the maximum allocation.

14. We are calculating 2017-18 allocations accordingly using the latest HE-BCI data for 2013-14 to 2015-16, but also reflecting decisions on the acceptability of institutions' five-year knowledge exchange strategies.

2017-18 capital grants

15. Our grant letter from Government showed total capital grants of £353 million. The Board has agreed capital grant budgets for 2017-18 as shown in Table 2.

Table 2: Capital grants for 2017-18

Element of grant	2017-18 Budget (£M)
Formula-based research capital	189
Formula-based teaching capital	135
National facilities and initiatives	30
Total capital grants	353

16. We provide capital grants on a financial-year basis and thus require capital grants for 2017-18 to be spent in full by March 2018: we cannot provide funding in advance of need. Given the urgency with which 2017-18 capital funding should be spent, we will announce the distribution to institutions of formula-based capital allocations for teaching and research later this month. Our general approach is to keep changes to the formula method since 2016-17 to a minimum, but some technical changes are required as a result of the new FRS 102 (see paragraph 12.c). We will therefore implement the following:

- a. Formula-based research capital will continue to comprise two separate elements:
 - i. 'Research Capital England', totalling £102 million, will be allocated pro rata to 2015-16 and 2016-17 recurrent QR funding and research income (for the same two years) from other (non-Research Council) sources. The latter will include relevant research income that institutions have identified separately for 2015-16 that would otherwise not be included in their accounts in any year because of the introduction of FRS 102.
 - ii. 'HEI Research Capital England', totalling £87 million, will continue to be allocated pro rata to research income from Research Councils, reflecting finance data for the most recent three years. This will also include relevant research income that institutions have identified separately for 2015-16 that would otherwise not be included in their accounts in any year because of the introduction of FRS 102.
- b. Formula-based teaching capital will continue to be determined on the basis of a main allocation reflecting teaching activity across all price groups (a total of £124 million), and a science and engineering allocation reflecting teaching activity in price group B only (a total of £11 million). The data sources for teaching capital will be the 2016-17 HEFCE recurrent teaching allocations and the latest student data from the 2016-17 HESES and HEIFES returns, with adjustments to include students starting pre-registration courses in nursing, midwifery and allied health professions and the associated 2017-18 recurrent funding decisions for them described in paragraph 7. Adjustments will also be made to reflect any transfers between institutions that we expect to implement in our 2017-18 recurrent grant allocations, and for institutions that will be new to HEFCE funding from 2017-18.

Further information

17. Any questions about this letter should be addressed to HEFCE institutional teams.

Yours sincerely

Professor Madeleine Atkins
Chief Executive