

June 2011/20

Policy development

Consultation

Responses should be made online
by Friday 2 September 2011

This is the first stage of a two-stage consultation seeking comments on proposed changes to the way we fund teaching and allocate student numbers. The changes proposed in this stage of the consultation would be implemented in academic year 2012-13.

Teaching funding and student number controls

**Consultation on changes to be
implemented in 2012-13**

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The following correction was made on 6 July 2011:

Second sentence of paragraph 96: £160 million was amended to £113 million.

Teaching funding and student number controls: consultation on changes to be implemented in 2012-13

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges
Of interest to those responsible for	Senior management, Finance, Governance
Reference	2011/20
Publication date	June 2011
Enquiries to	HEFCE-funded institutions should raise any questions with their HEFCE institutional team (see www.hefce.ac.uk/aboutus/cop/contact/ for a searchable list of contacts) Queries from other stakeholders should be sent to tfundingconsultation@hefce.ac.uk

Executive summary

Purpose

1. This is the first stage of a two-stage consultation about the way higher education teaching is funded and student numbers are allocated in England, in the policy context set by the Government's White Paper on the future of higher education: 'Students at the Heart of the System'. It seeks comments on proposed changes to these funding methods. The changes proposed in this stage of the consultation would be implemented in academic year 2012-13.

Background

2. The Government has decided, with the aims of increasing student choice and supporting a more diverse sector, that in future more public funding will be provided directly to students, as up-front tuition loans, and less funding will be provided to institutions as teaching grants. This means that a high proportion of public funding for teaching will be channelled through the Student Loans Company, and HEFCE will have substantially less funding available to support teaching.

Key points

3. In 2012-13, most students will have entered higher education under the old fees regime. We propose to phase out the mainstream funding associated with these students in a way that reflects student numbers, and historic grant levels, at each institution.

4. We propose to discontinue certain non-mainstream teaching allocations, typically because they were originally intended as short-term measures, or because they reflect previous priorities. Others will continue at roughly their present levels in 2012-13 while their long-term future is reviewed.

5. For those students who enter higher education in 2012-13, and are thus subject to the new funding and graduate contribution regime, we intend to introduce an interim system of funding to support teaching that will fund provision in price groups A and B only, at a reduced rate relative to that currently in place¹. In 2012-13 provision in price groups C and D will not receive the main element of HEFCE teaching funding, but will still count towards some targeted allocations such as that for widening participation.

6. We intend, as an interim measure in 2012-13, to continue the student number control² in broadly its current form. However, as requested by the Government, we propose how we will introduce measures to increase dynamism and competition in the distribution of a proportion of student numbers, so supporting greater student choice.

7. This document also provides early indication of various possible changes in 2013-14, including a new approach to funding to support teaching, and changes to the data returns expected from institutions. These changes will be developed and considered in more detail, and comments invited, in the second stage of the consultation, which we expect to publish in winter 2011-12.

Action required

8. Responses should be made by **Friday 2 September 2011** using the online form that can be accessed alongside this document at www.hefce.ac.uk/pubs.

¹ For full details of how we currently calculate teaching funding, see 'Guide to funding: How HEFCE allocates its funds' (HEFCE 2010/24), available at www.hefce.ac.uk/pubs. Price groups are explained in paragraph 74 of HEFCE 2010/24.

² For an explanation of the student number control see 'New student number control for 2010-11' (HEFCE Electronic publication 02/2010), available at www.hefce.ac.uk/pubs/eps/.

Introduction

9. This consultation document is the first stage in a two-stage consultation process that will establish our approach to funding teaching and allocating student numbers in higher education (HE) in England from 2012-13.

10. This first stage proposes largely interim arrangements for the 2012-13 academic year. The second stage will propose long-term arrangements for 2013-14 and beyond. Both stages of the consultation will address funding to support teaching and the allocation of student numbers. We expect to publish the second stage of the consultation in winter 2011-12.

11. These proposals are driven by the Government's intention to make changes to how teaching is funded and student numbers are managed from academic year 2012-13, as outlined in paragraphs 12 to 15. Both stages of this consultation will focus on HEFCE's responses to implementing the Government's new approach, rather than on the Government's policy itself.

Recent changes to the higher education funding context

12. Lord Browne's report on HE fees and funding, published in October 2010³, proposed that the majority of public funding for teaching should be placed in the hands of students, whose choices would establish a market in HE. The Government has largely endorsed the report's approach, agreeing that publicly funded loans will be made to students to allow them to pay fees to HE providers at higher regulated levels. A loan will not need to be repaid until a former student is earning more than £21,000 per year. Part-time students on a designated course who are studying at least 25 per cent of full-time intensity will also now be able to access fee loans for the first time.

13. The standard maximum fee level has been set at £6,000 per year for a full-time undergraduate student, with a higher rate of up to £9,000 permitted in institutions that have an Access Agreement with the Office for Fair Access (OFFA)⁴.

14. As a result of this, we expect that the annual grant we receive from the Government, which we use to contribute to the costs of teaching HE in higher education institutions (HEIs) and further education colleges (FECs), will be greatly reduced in coming years. In parallel, funding for institutions through contributions enabled by student loans will increase.

³ The final report of the Independent Review of Higher Education Funding and Student Finance, led by Lord Browne, 'Securing a sustainable future for higher education in England' (October 2010), is available at <http://hereview.independent.gov.uk/hereview/report/>.

⁴ For more information see the 2010 grant letter from the Department for Business, Innovation and Skills to HEFCE, available at www.hefce.ac.uk/news/hefce/2010/grant1112/.

15. The Government has yet to finalise HEFCE teaching grants for the current spending review period, but we expect that, as income from tuition loans replaces HEFCE teaching funding, our teaching grant will be substantially reduced. Our December 2010 grant letter indicates that our teaching grant is projected to reduce in cash terms to around £2 billion by the 2014-15 financial year, with an initial reduction of £830 million in 2012-13 from the existing level of £4,645 million in 2011-12. Over the same period, the Department for Business, Innovation and Skills (BIS) loans outlay will rise and it is estimated that total BIS investment in higher education in England could increase by nearly 10 per cent in cash terms by 2014-15 if participation remains at existing levels.

16. Changes to policy and funding levels of this scale require us to rethink our entire approach to funding for teaching. At present, the majority of the public funding received by institutions comes via HEFCE. We provide funding for most HE courses, across a wide range of subjects and levels. When the new arrangements are fully established, we will be a minority funder of teaching, with an increasing proportion of funding coming from the Student Loans Company. The Government has indicated that it expects our future funding priorities to be closely targeted at promoting policy priorities and meeting unavoidable costs.

17. As noted in paragraph 15, the Government has yet to confirm our final funding levels beyond 2011-12. Our most recent grant letter from the Secretary of State for Business, Innovation and Skills gives an indicative figure of £3,815 million for our 2012-13 financial year recurrent teaching grant (including most elements of special funding), but warns that this figure is 'subject to refinement as the student and HEI response to the new HE funding package unfolds'. In particular, if higher than expected fees lead to pressure on the student support budget, the Government has warned that this may be offset by adjustments to our funding for teaching⁵. If this happens, we will need to consider how we implement these reductions, including whether it would be appropriate to implement any of them differentially.

Note on terminology in this document

18. In 2012-13, there will be two distinct groups of students in English higher education:

- those who entered HE before 2012-13 and are therefore subject to the previous fee regime, to whom we refer in this document as 'old-regime' students

⁵ '[I]f the average of charges comes out higher than the £7,500 which we have used as a modelling assumption, we will have to consider the option of meeting that increased cost to the student finance budget by making offsetting reductions in the remaining HEFCE grant.' David Willetts, Secretary of State for HE, speech to Universities UK Spring Conference 2011, available at <http://bis.gov.uk/news/speeches/david-willetts-uuk-spring-conference-2011>.

- those who enter HE during or after 2012-13 and are therefore subject to the funding and fee regimes that will be effective from 2012-13, to whom we refer in this document as 'new-regime' students.

19. Full guidance on the definition of old-regime and new-regime students will be issued in the 2011 guidance on the Higher Education in Further Education: Student Survey (HEIFES) and Higher Education Students Early Statistics (HESES). There is early notice of the changes to HESES and HEIFES in 'Advance notification of changes to HESES and HEIFES for 2011-12' (HEFCE Circular letter 17/2011), issued concurrently with this consultation.

20. Throughout this document, all references to years are to academic years, unless otherwise indicated.

Our approach to consultation

21. As described in paragraphs 9 and 10, this consultation is in two stages. The reasons for this approach are as follows.

22. Until the Government's approach to HE funding is finalised (through the process of consultation, clarification and legislation that will follow the White Paper, and through our grant letter for 2012-13), it is impossible for us to be certain that any new funding method we devise will be fit for purpose in the long term. This is compounded by the additional uncertainty relating to fee levels and the effect that these may have on HEFCE funding and student numbers (see paragraph 17).

23. It would not be reasonable for us to delay finalising our approach to funding teaching and controlling student numbers in 2012-13 until these issues are resolved. Institutions require this information as soon as possible for planning purposes, and we need to begin making the decisions that will allow us to announce institutions' grants as usual in March 2012.

24. In 2012-13, the majority of our teaching funding will be associated with old-regime students who, if on designated courses, will be subject to the fee regulations in place when they started their courses before the changes to funding. Only a relatively small proportion of funding will be associated with new-regime students who will be beginning their courses in 2012-13 and subject (if on designated courses) to the new arrangements. While these new-regime students are in the minority, we believe that the best approach to ensuring a smooth transition is to maintain considerable elements of the present teaching funding method, subject to adjustments that recognise the Government's new policy priorities.

25. We intend therefore to develop an approach that phases out the funding associated with old-regime students. For new-regime students, we intend to implement a modified version of our current funding method in 2012-13 **only**, in a way that will help to minimise the amount of change that institutions will have to deal with, and provide as much stability and predictability as we can during this transition year. For 2013-14 and beyond, it is essential that we re-examine both our teaching funding method and the

approach to allocating student numbers, so that our more limited funds can be used as efficiently as possible to address revised priorities, and student numbers can be managed to promote choice and diversity. These changes will be considered in the second stage of our consultation.

26. We have previously consulted on the features and principles of a future funding method⁶. Some aspects of this previous consultation are no longer relevant in the new funding context, but others remain important. We have drawn where appropriate on responses to this previous consultation when formulating the proposals in this consultation.

27. The closing date for responses to this consultation is **Friday 2 September 2011**. We intend to hold three consultation events during July. The HEFCE Board will consider the outcomes of this stage of the consultation in October, and we expect to follow this with an announcement of its decisions in principle. Specific details of the financial implications will be available in the March 2012 grant announcement.

⁶ 'Review of the teaching funding method: Consultation on key principles and features' (HEFCE 2010/10). All HEFCE publications are available at www.hefce.ac.uk/pubs.

Key dates in 2011 and 2012 (provisional)

2011	June	Stage one of the consultation begins, addressing: the phase-out of funding for old-regime students; and student number controls and teaching funding for new-regime students for 2012-13 only.
	July	Consultation events on 8, 13 and 15 July.
	September	Stage one of the consultation closes.
	October	HEFCE Board discusses the outcomes of stage one of the consultation.
	November/ December	Institutions submit HEIFES/HESES data, including a forecast of student numbers in 2012-13.
	November/ December	Decisions of the HEFCE Board published.
	December	Anticipated receipt of grant letter.
2012	January	We anticipate, after receipt of the grant letter, the Board will make its usual in-principle decisions on grant allocations and that these will be communicated to higher education institutions in the normal way.
	January/ February	Stage two of the consultation begins, addressing number controls and teaching funding for new-regime students from 2013-14.
	March	Initial funding allocations for 2012-13 announced, based on the proposals agreed through stage one of the consultation and forecast 2012-13 student numbers.
	April/May	Stage two of the consultation closes.
	July	HEFCE Board takes decisions following stage two of the consultation, which are published shortly after the Board meeting.

Further information

28. Our current teaching funding is allocated as part of a block grant, which institutions are free to spend according to their own priorities within our broad guidelines⁷. Since HEIs and FECs are autonomous bodies that set their own strategic priorities, they are not expected to model their internal allocations on our funding calculations. We expect this principle to continue to apply in 2012-13.

⁷ For full details of HEFCE's current funding methods see 'Guide to funding: How HEFCE allocates its funds' (HEFCE 2010/24).

29. We will continue to recognise the autonomy of institutions. However, as teaching funding becomes more targeted, we will consider introducing further guidance or requirements as to how it is used, particularly taking into account any legislative changes that affect our funding powers.

30. At present, we are only empowered to fund HEIs and FECs. This stage of our consultation does not consider extending HEFCE funding to providers that have not received HEFCE funding before, including private organisations. We are likely to need to discuss the extension of funding and student number controls to alternative providers in the second stage of our consultation.

Proposals for the phase-out of mainstream funding related to old-regime students

31. Paragraphs 34 to 61 set out our proposals for phasing out the mainstream funding associated with old-regime students. The proposals that we describe here would be in place throughout the spending review period, in other words they apply beyond 2012-13. They are quite technical, but are designed to achieve similar effects to the current method and to keep as many elements of the current method as possible. This should assist with minimising instability and promote smooth transition for institutions.

32. In 2012-13, the majority of students in higher education will have begun their course under the old fee and funding regime, and therefore cannot be charged higher regulated fees. Over the following few years, the number of these students in the system will decrease and new-regime students will take their places. HEFCE funding for teaching will be substantially reduced during this period. To recognise this, we need to phase out the mainstream funding that currently relates to old-regime students. We also need to review the non-mainstream allocations that we provide; this is dealt with separately in paragraphs 62 to 93.

33. The proposals outlined in paragraphs 31 to 93 would be in place throughout the spending review period, which runs until financial year 2014-15. We are aware that some old-regime students, including part-time students and those on long courses, will continue on their courses beyond this point. However, we cannot develop proposals for supporting these students until our grant for the next spending review period has been confirmed.

Our approach to calculating the phase-out of mainstream funding for old-regime students

34. In phasing out the mainstream funding for old-regime students, we want to minimise instability, disruption and uncertainty at a time of significant change in the sector. To achieve this, we have worked to develop an approach that:

- is transparent: we want it to be clear from the outset how we intend to calculate and review the phase-out of mainstream funding

- is fair and auditable so that we can continue to ensure accountability for our funding, and recalculate grant where appropriate
- is recognisable, in other words it reflects as far as possible the parameters and measures previously used to calculate funding
- does not introduce extensive new data collection processes
- minimises instability, by ensuring that the rates of funding for each institution reflect their current levels of grant and student numbers.

35. Calculating the grant to reflect the population of old-regime students at each institution will depend on three factors: funding rates, student volume, and a scaling factor. These are described in paragraphs 40 to 46.

36. We will measure volume at a number of stages during this process, with our data becoming increasingly more accurate and less dependent on forecasts and estimates. This means that the initial allocations of grant, particularly for 2012-13, will be highly provisional and subject to adjustment (up or down) as student number data are confirmed.

37. The process for allocating the grant for 2012-13 will cover three stages. The three stages are described in more detail in paragraphs 47 to 58, but in summary for 2012-13 grant they comprise:

- An initial allocation, announced in March 2012, based on forecast 2012-13 student numbers and 2011-12 funding rates, both derived from 2011 HESES and HEIFES returns (HESES11/HEIFES11).
- An adjusted allocation, announced in March 2013, based on updated 2012-13 student numbers from 2012 HESES and HEIFES returns (HESES12/HEIFES12) and funding rates updated as necessary to reflect Higher Education Statistics Agency (HESA)/individualised learner record (ILR) data for 2011-12.
- A final allocation, confirmed in 2014, to reflect, as necessary, changes to 2012-13 student numbers in HESA/ILR data.

38. We will repeat these three stages to allocate the grant for 2013-14 and 2014-15, as updated student numbers for those years are received. We do not expect to revise the funding rates that will apply each year, once they are finalised in the light of 2011-12 HESA/ILR data.

39. The funding that we allocate through this process will directly relate to student numbers. The funding rates that we use during the phase-out period will reflect institutions' position in or outside the tolerance band in 2011-12, but changes to grant will not otherwise be subject to a tolerance band, as is presently the case. This is because we need to ensure that existing funding allocations are reduced each year to reflect the declining numbers and mix of old-regime students, which could not happen if we

maintained a tolerance band that avoids changes to grant where there are small variations in student numbers and profile.

Detailed proposals for calculating funding

Funding rates

40. To phase out mainstream funding for old-regime students, we propose to convert mainstream teaching funding relating to students in institutions in 2011-12 into a series of funding rates per full-time equivalent (FTE) for each institution, price group, mode and level of study.

41. Each higher education institution will therefore have up to 18 different funding rates, from the possible combinations of four price groups, three modes of study (full-time, part-time and sandwich year-out), and two levels of study (undergraduate and postgraduate taught). Each further education college will have up to 14 funding rates from the possible combinations of three price groups, three modes and two levels.

42. These will not be standard average funding rates across modes or levels. Instead, they will be individual rates for each institution and will depend on its student population in 2011-12 (and thus its position in/outside the tolerance band) as well as the variable institutional weights that apply for London weighting (see paragraphs 102 to 105 and 157) and partial completion (see paragraphs 106 to 108). The funding rates derived through this approach may subsequently be scaled (up or down) to ensure that funding for old-regime students is affordable during the phase-out.

43. This approach ensures that the phase-out of mainstream funding reflects historic funding rates, and thereby minimises instability. If we were to create average funding rates across all institutions, this would impact differently on institutions depending on their current positions in the tolerance band, and would lead to disproportionate reductions in funding to institutions that are near to the top of, or above, the tolerance band in 2011-12. We want to avoid the additional disruption that this would create.

44. Initially, the funding rates will be calculated using data submitted in HESES11/HEIFES11. They will then be revised as necessary based on final HESA and ILR data for 2011-12. See Annex A for further details about how we intend to create the funding rate for each institution and Annex B for 2011-12 institutional notional funding rates per FTE for mainstream funding and co-funded provision.

Student volume

45. We will use the data on student numbers returned by institutions to measure the number of old-regime students at each institution. We will do this using HESES11/HEIFES11 data, then adjusting allocations in-year based on HESES12/HEIFES12. The grant allocations based on these data will remain provisional, and will only be finalised once we have reviewed them in light of the HESA/ILR data submitted in 2013. We will review the volume for subsequent years in the same way.

Scaling factor

46. To ensure affordability, we will need to apply a scaling factor. This may be amended at each stage of the process summarised in paragraph 37 and described in more detail in paragraphs 49 to 58 to reflect changes to our budget and the student numbers reported by institutions.

Further information on proposals for calculating and reviewing allocations in 2012-13

47. We propose a three-stage process for calculating the allocation of mainstream grant to institutions in 2012-13, using the combination of funding rate and volume measure. This staged approach means that we will be able to refine the data used to calculate the grant and ensure that the funding allocated to institutions to reflect the population of old-regime students is less reliant on estimates and forecasts. This means grant allocations announced in March 2012 will be initial allocations that will be revised (up or down) at a later point in the process, until the final allocation for 2012-13 grant is confirmed in or around March 2014, when 2012-13 HESA/ILR data are available.

48. Paragraphs 50 to 58 describe how this three-stage process will be used to allocate the grant for old-regime students in 2012-13. It will be repeated to allocate grant for old-regime students in 2013-14 and 2014-15. A summary of the timetable for each of the three years is provided in paragraph 59.

Stage 1: Initial allocation of 2012-13 grant for old-regime students

49. We will use institutions' own forecasts of 2012-13 continuing student numbers returned in HESES11/HEIFES11 to calculate a forecast grant allocation for each institution. The initial grant allocation will be announced in March 2012 and will be highly provisional: essentially its sole purpose will be to determine the grant payments to be made between August 2012 and January 2013.

50. HESES11 and HEIFES11 will collect the same data (in Tables 1 to 6) as were collected in HESES10 and HEIFES10, so that we can monitor the allocations we have announced for 2011-12.

51. However, we propose to add a new Table 7 to HESES11/HEIFES11 that asks institutions how many students they expect to have in 2012-13, split between those subject to the old and the new regime. The numbers subject to the old regime will depend significantly on the 2011-12 student population, but may also need to include forecasts of:

- students transferring in from elsewhere in 2012-13, for example to top up to a bachelors degree from a foundation degree completed at another institution
- students who interrupted their studies in 2011-12 but are continuing in 2012-13 courses that they had been taking in 2010-11.

From these new Table 7 data we will forecast an initial grant allocation for 2012-13.

52. For more details about the changes we propose to HESES11 and HEIFES11, see 'Advance notification of changes to HESES and HEIFES for 2011-12' (HEFCE Circular letter 17/2011), issued concurrently with this consultation.

Stage 2: Adjusted allocation of 2012-13 grant for old-regime students

53. In December 2012, institutions will submit HESES12/HEIFES12 data. This will again collect information on old- and new-regime students in the year, though with much less forecasting. We will use these data to revise the initial grant allocation for 2012-13 based on the in-year estimate of continuing student numbers.

54. This estimated allocation will inform the grant payments between April and July 2013, which will correct for any over- or underpayments made between August 2012 and January 2013 arising from institutions' HESES11/HEIFES11 forecasts. We expect the allocations for every institution to be revised at this stage. It may also be necessary to revise the scaling factor to ensure total allocations remain within the budget available. We will announce the outcomes of this part of the process to institutions in March 2013.

55. At the same time, we will monitor the 2011-12 allocations using HESA/ILR data for 2011-12 and, as necessary, will use the student number data for 2011-12 to recalculate the funding rates used to calculate the phase-out of funding for 2012-13 and beyond. This will be an in-year process. This is necessary to ensure that any incorrect assumptions made about student numbers in 2011-12 are not carried through into future years of the phase-out of funding.

Stage 3: Final allocation of 2012-13 grant for old-regime students

56. In December 2013, we will receive HESA and ILR data for 2012-13. These will provide us with final information about old-regime students who will have been studying in the academic year 2012-13. We will use these data to finalise the grant allocations to institutions, which will include making further adjustments to previously announced allocations.

57. This final review of 2012-13 funding cannot begin until we have received the HESA and ILR data in December 2013. Further data assurance processes may follow. However, we expect to provide a web facility in summer 2013 that will allow institutions to see indicative funding implications of their 2012-13 HESA and ILR data prior to final submission. For HEIs, these outputs will be provided automatically via HESA whenever they submit their data to HESA. This should aid institutions' planning and help them to avoid data error. We will look to implement any final changes to 2012-13 funding during the 2013-14 academic year.

58. The funding calculated through the three stages will not be subject to a tolerance band, in the sense that institutions are familiar with. However, at each stage of the process, we may consider introducing a small threshold, taking into account institutional size, below which grant adjustments are not implemented. The level of any threshold will be confirmed as part of the process of confirming grant allocations.

Beyond 2012-13

59. The generic process described in paragraphs 50 to 58 concerns the calculation of funding for old-regime students for 2012-13. We will need to repeat the process for grant allocations in 2013-14 and 2014-15. This will mean that processes for different years will overlap. In summary, we expect the following pattern:

	Year 1 2012-13 grant	Year 2 2013-14 grant	Year 3 2014-15 grant
Initial allocation	In March 2012 using volume measure and funding rates derived from HESES11/HEIFES11	In March 2013 using volume measure from HESES12/HEIFES12 and funding rates from HESA/ILR 2011-12	In March 2014 using volume measure from HESES13/HEIFES13 and funding rates from HESA/ILR 2011-12
Adjusted allocation	In March 2013 using volume measure from HESES12/HEIFES12 and funding rates from HESA/ILR 2011-12	In March 2014 using volume measure from HESES13/HEIFES13 and funding rates from HESA/ILR 2011-12	In March 2015 using volume measure from HESES14/HEIFES14 and funding rates from HESA/ILR 2011-12
Final allocation	No earlier than March 2014 using volume measure from HESA/ILR 2012-13 and funding rates from HESA/ILR 2011-12	No earlier than March 2015 using volume measure from HESA/ILR 2013-14 and funding rates from HESA/ILR 2011-12	No earlier than March 2016 using volume measure from HESA/ILR 2014-15 and funding rates from HESA/ILR 2011-12

Note: HESA/ILR data may be subject to data audit or reconciliation and we reserve the right to make adjustments to funding following such exercises.

60. During the later years of implementation, we will consider whether HESES/HEIFES could be replaced by a simpler form of early survey. We would not do this until HESES13/HEIFES13 at the earliest. We will also consider, through discussion with sector representatives, whether there are further ways to simplify the process once the number of old-regime students has reduced.

61. In summary, in 2012-13 we will begin phasing out the mainstream funding associated with old-regime students. We will do this by calculating funding rates for each institution that reflect its student population in 2011-12 (and thus its position in the tolerance band). These funding rates will apply to the number of old-regime students at the institution each year throughout the spending review period. The result will be subject to a scaling factor to reflect HEFCE's available grant. Our initial grant announcements will be highly provisional, because they will be based largely on forecast student numbers. As

more robust and reliable data become available, grants will be adjusted, with the final allocation for 2012-13 confirmed in 2014.

Consultation question 1: Following the changes to funding for higher education agreed by the Government, we need to phase out the mainstream teaching funding relating to old-regime students. Do you have any comments on our proposed approach? You may wish to suggest alternatives, with reference to the principles in paragraph 34.

Proposals relating to non-mainstream allocations

62. This section describes proposals regarding the non-mainstream allocations. As with the mainstream allocations, the proposals here respond to the changed funding policy environment. We propose that some of these allocations will be phased out over two years. Others will be continued as an interim measure in 2012-13, prior to review. The proposals described here relate to both old-regime and new-regime students.

63. Our funding method currently includes a number of non-mainstream funding allocations. These are typically provided to recognise costs that are not directly related to the subject of study. Examples are the widening participation targeted allocations, and the targeted allocations for part-time undergraduates and accelerated and intensive provision.

64. For each targeted allocation, we need to consider whether it should be phased out or continued in 2012-13. We believe that some allocations should be discontinued, because they recognise previous priorities, or because they were originally intended as a temporary measure. We propose to phase out such allocations, typically over two years.

65. However, other allocations reflect costs that we may wish to recognise in our funding for new-regime students, often because they support public priorities that cannot be supported through fee income alone. Such allocations will be 'rolled-over' into 2012-13 funding as an interim measure, and then reviewed in the second stage of our consultation.

66. Our proposals about London weighting involve some changes. We will take London weighting into account when calculating institutional funding rates for old-regime students (see paragraph 42). Our proposals relating to London weighting for new-regime students are detailed in paragraphs 102 to 105 and 157.

Summary of changes to the non-mainstream allocations

67. Starting in 2012-13, we propose to phase out the following non-mainstream allocations (figures in brackets are estimated final budgets for 2011-12):

- maintaining capacity in strategically important and vulnerable subjects (SIVS)⁸ following the equivalent and lower qualifications (ELQ) policy⁹ (£28.3 million). Our approach to possible future funding of SIVS is outlined in paragraphs 160 to 163
- the component of the part-time undergraduate targeted allocation related to the introduction of the ELQ policy (£27.2 million)
- the component of the teaching enhancement and student success (TESS) allocation relating to research-informed teaching (£9.3 million)
- the component of the TESS allocation relating to institutional learning and teaching strategies (£28.1 million)
- co-funded employer engagement (£44.5 million)
- transition funding for ELQ students (£22.5 million).

68. In 2012-13, we propose to continue with the following non-mainstream allocations (estimated 2011-12 budgets in brackets):

- widening access for people from disadvantaged backgrounds (£128.8 million)
- widening access and improving provision for disabled students (£12.8 million)
- the component of the TESS allocation relating to improving retention (£226.7 million)
- part-time undergraduates, excluding the component relating to the introduction of the ELQ policy (£38.8 million)
- institution-specific (£47.3 million)
- accelerated/intensive provision (£40.8 million)
- additional funding for very high-cost and vulnerable science subjects (£22.9 million)
- clinical consultants' pay (£18.1 million)
- senior academic GPs' pay (£1.0 million)
- NHS pension scheme compensation (£5.5 million).

⁸ SIVS include: science, technology, engineering and mathematics; modern foreign languages; area studies and related minority languages; and quantitative social science.

⁹ This is the policy of not providing funding to HEIs and FECs to teach students who are studying for a qualification that is equivalent to, or lower than, one they already hold.

69. These allocations will be subject to review as part of the second stage of our consultation. Following this review, they are likely to be subject to change from 2013-14 onwards.

70. In addition, we propose to introduce a new non-mainstream allocation that relates to old-regime Erasmus students.

71. These changes are explained in more detail in paragraphs 73 to 93. It should be noted that any figures are indicative; exact budgets for 2012-13 will be agreed by our Board in 2012 in the light of our grant settlement from the Government.

Non-mainstream allocations to be phased out

72. Starting in 2012-13, we propose to phase out the non-mainstream allocations relating to:

- maintaining capacity in SIVS following the ELQ policy
- the component of the part-time undergraduate targeted allocation related to the introduction of the ELQ policy.

73. These funding streams were introduced in 2008-09 and 2009-10, respectively, to reduce the impact of the ELQ policy on provision in SIVS and part-time provision. In both cases, the funding was agreed until 2010-11, after which it was due for review. We indicated that institutions might wish to use this funding to refocus their recruitment on students who are not aiming for an equivalent or lower qualification.

74. We do not believe that there is a continued case for providing these funding streams, particularly given the reduced resource available to HEFCE. By 2012-13, institutions will have had four years to adapt to the ELQ policy (which was introduced in 2008-09), so further mitigation in these areas should not be necessary. We may in future provide some funding to support SIVS (see paragraphs 160 to 163). However, we do not see the case at this stage for focusing this funding on students studying for an ELQ.

75. These funding streams were allocated to allow institutions to maintain capacity in SIVS and part-time provision, rather than to recruit particular students. It therefore would not make sense to phase out these funding streams in a way that reflects the rate at which old-regime students leave the system. Instead, we propose to phase them out over two years.

76. This means that:

- a. Institutions' final 2011-12 allocations for maintaining capacity in SIVS following the ELQ policy will reduce by half in 2012-13, and will be removed altogether in 2013-14.
- b. We will reduce funding for the part-time undergraduate targeted allocation to remove the sum added as part of the implementation of the ELQ policy. At a sector-wide level, this amounts to the removal by 2013-14 of approximately 41 per cent of the total funding allocated through this funding stream, of which half will be

deducted in 2012-13. Specifically, the 2011-12 budget for the part-time undergraduate targeted allocation is £66 million, of which £27.2 million is attributable to the sum added as part of the implementation of the ELQ policy (after various pro rata reductions in intervening years). We therefore propose to allocate approximately £52.4 million through this funding stream in 2012-13, reflecting the withdrawal of half the sum relating to the ELQ policy implementation. The impact on individual institutions in respect of HEFCE funding will depend upon our approach towards allocating the remainder of the part-time undergraduate targeted allocation; this is discussed in paragraph 88.

77. We also propose to phase out funding relating to:

- the component of the TESS allocation relating to research-informed teaching
- the component of the TESS allocation relating to institutional learning and teaching strategies.

78. These funding streams were introduced to achieve specific purposes – namely, to encourage research-led teaching in less research-intensive institutions, and to enable institutions to broaden the scope of learning, teaching and assessment strategies. These aims have been largely achieved, and the practices in question embedded in institutions' core activities. We would expect institutions to continue with these approaches and to fund future activities through the additional income they receive from the Student Loans Company.

79. We propose to phase out this funding over two years, taking the final allocations for 2011-12 as a starting point. This means that institutions' 2011-12 funding related to research-informed teaching, and learning and teaching strategies, will reduce by half in 2012-13, and will be removed altogether in 2013-14. These figures will not be recalculated to take into account changes in student numbers, although they may be adjusted to reflect the findings of any 2010-11 data audit or reconciliation exercise.

80. We also propose to phase out the non-mainstream allocation relating to co-funded employer engagement, which reflected the approach to employer engagement of the previous Government. Our understanding is that from 2012-13 workplace learners, and other employees, may be supported on the same basis as other students, and with employers encouraged to demonstrate their support for and involvement with HE in different ways.

81. This allocation relates to a specific group of old-regime students. We therefore propose to phase it out, for each institution, in a way that reflects the diminishing numbers of old-regime students previously designated as co-funded in each institution. To do this, we will adopt an approach that mirrors the approach used to phase out funding for mainstream teaching grant, as described in paragraphs 34 to 58.

82. We will calculate equivalent rates for 2011-12 employer co-funded provision for each possible combination of price group, mode and level. These will be used, together with a scaling factor that ensures total allocations remain within budget, to calculate funding for continuing old-regime students who previously counted towards the

achievement of employer co-funded allocations. Those student numbers will be collected in the same data returns used to identify mainstream-funded old-regime students and the allocations subject to recalculation in the same way.

83. We also propose to phase out the non-mainstream allocation relating to transition funding for ELQs. Transition funding for ELQ students only relates to old-regime students, and we will therefore continue to phase it out as previously planned. The final allocations of transition funding for ELQ students will be made in 2013-14.

Non-mainstream allocations to be continued in 2012-13

84. We propose to provide the following non-mainstream allocations in 2012-13:

- a. Widening access for people from disadvantaged backgrounds.
- b. Widening access and improving provision for disabled students.
- c. Improving retention.
- d. Institution-specific.
- e. Accelerated/intensive provision.
- f. Additional funding for very high-cost and vulnerable science subjects.
- g. Clinical consultants' pay.
- h. Senior academic GPs' pay.
- i. NHS pension scheme compensation.
- j. Part-time undergraduate students, excluding the component relating to the introduction of the ELQ policy.

Allocations a to e

85. Allocations a to e in the list in paragraph 84 recognise costs that cannot always be met through income from the Student Loans Company, and which HEFCE therefore has a role in supporting to meet the public interest. In 2012-13, these allocations will be calculated as at present¹⁰, reflecting both old- and new-regime students.

86. All five of these allocations (paragraph 84, a to e) will be subject to review prior to 2013-14, and significant changes to our approach to funding in these areas is likely. This is discussed in paragraphs 151 to 159.

¹⁰ For information on how the non-mainstream allocations are calculated at present, see HEFCE 2010/24 and 'Recurrent grants for 2011-12' (HEFCE 2011/07).

Allocations f to i

87. In the long term, we expect to reflect any additional costs associated with very high-cost science subjects through a new system of funding for high-cost subjects, as discussed in paragraphs 145 to 150, rather than by continuing the current allocations listed in paragraph 84 (f to i). We may also be able to take a similar approach to additional costs associated with clinical medicine. However, our new approach to funding high-cost subjects will not be in place in 2012-13. To avoid a 'funding gap' in 2012-13, we therefore propose that these allocations should continue, and should be calculated as at present. The exact sum associated with each allocation will be agreed by our Board in January 2012, reflecting our final grant settlement from the Government.

Allocation j

88. We propose to continue in 2012-13 the part-time undergraduate targeted allocation (j), but with a reduced total, as explained in paragraph 76, due to the phased withdrawal of the funding that was associated with the implementation of the ELQ policy. We plan to continue with this funding stream in 2012-13 as part of our commitment to smoothing transition, and because we do not yet know whether part-time provision will require any additional support from HEFCE in the long-term. We will return to this question in the second stage of our consultation, which is planned for the winter of 2011-12. To avoid pre-judging this question, we propose to continue the existing allocation as an interim measure.

Funding related to old-regime students on an Erasmus whole year abroad

89. We propose to establish a new funding stream for 2012-13 and 2013-14 relating to fee compensation for students on an Erasmus whole year abroad.

90. For many years, we have been providing compensation to institutions within their mainstream teaching grant so that they do not need to charge a tuition fee to students spending a whole year abroad as part of the EU's Erasmus scheme. These are commonly, but not exclusively, modern language students. The rate of compensation in 2011-12 is £1,680 per student, this being the maximum level of fee that would otherwise have been chargeable for a student on a whole year abroad. The total allocation of fee compensation for 2011-12 is £10.1 million.

91. If this funding were treated in the same way as other elements of mainstream teaching grant, it would start to be phased out from 2012-13. However, students usually take their language years abroad in year three of a four-year, full-time course. This means that, by and large, those taking an Erasmus year abroad in 2012-13 and 2013-14 will be old-regime students and we therefore wish to avoid phasing this funding out during those years.

92. We therefore propose to exclude the £10.1 million of Erasmus fee compensation when we calculate the 2011-12 grant rates to be used for the phase-out of mainstream funding for old-regime students. Instead, we will continue to allocate Erasmus fee compensation in 2012-13 and 2013-14, but as a separate non-mainstream allocation, on

the same basis as currently, reflecting the level of fee that would otherwise have been chargeable to old-regime students for a year abroad.

93. The proposals in paragraphs 62 to 92 can only be considered together, as part of a single package. We have very limited room for adjustment: it would only be possible to increase the funding associated with one non-mainstream allocation by decreasing funding elsewhere. Respondents should be aware of this as they consider Consultation question 2.

Consultation question 2: Given the reductions to HEFCE's teaching grant from 2012-13, do you have any comments on our proposal that certain non-mainstream allocations should be phased out, and others continued as an interim measure in 2012-13, as described in paragraphs 62 to 92?

Proposals for funding related to high-cost subjects in 2012-13

94. This section sets out our proposals for recognising the additional costs of teaching high-cost subjects. These proposals relate only to new-regime students, and are intended as an interim measure for 2012-13 only.

95. As described in paragraphs 12 to 15, the Government has decided that, from 2012-13, there should be a shift in the way in which higher education teaching is funded. At present, HEFCE is the largest single funder of higher education teaching. By the end of the spending review period, the majority of funding will come through publicly funded tuition fee loans for students.

96. The Government has also made it clear that HEFCE should continue to provide some funding for higher-cost subjects. We will have approximately £113 million for this purpose in 2012-13 (based on the indicative numbers in our December 2010 grant letter), which is intended to cover funding both for undergraduates and for postgraduates. We want to find a way of allocating this funding that:

- is proportionate to the amount of funding being allocated
- does not introduce significant new data collection requirements for institutions
- maximises predictability for institutions and thereby smoothes transition
- reflects the way that the Government is changing funding policy.

97. To achieve this, we propose that, in 2012-13, we will not provide any funding related to new-regime students, whether undergraduate or postgraduate taught, who are studying subjects presently in price groups C and D¹¹ (except where they may still be counted towards the calculation of non-mainstream targeted allocations such as for

¹¹ For an explanation of our current system of price groups, see HEFCE 2010/24, paragraph 74. An assignment of cost centres to price groups is given each year in the HESSES and HEIFES publications (most recently HEFCE 2010/26 and HEFCE 2010/27).

widening participation). Price groups C and D include subjects that are entirely, or mainly, classroom-based, and the Government's expectation is that the costs of providing these subjects can generally be met entirely from the additional income from the Student Loans Company.

98. Under this proposal, we will provide additional funding related to new-regime students, postgraduate and undergraduate, who are studying subjects that are presently in price groups A and B. These subjects are generally clinical or laboratory-based. The funding for these subjects will be based on the 2011-12 funding rates, subject to a reduction equivalent to the 2011-12 funding rates for price group C. The implication of this is that higher-cost subjects should not need to charge higher fees than lower-cost subjects in order to maintain reasonable resource levels.

99. As discussed in paragraphs 15 to 17, we cannot provide final funding rates for 2012-13. This is because the Government has not yet given us final figures, and has warned us that our grant for 2012-13 may be reduced if higher than expected tuition fees lead to a shortfall in the student support budget. Final levels of funding for high-cost subjects in 2012-13 will also depend upon the number of new-regime students studying these subjects.

100. However, we can give the following approximate illustrative figures, based on sector-wide funding levels at 2011-12 rates:

Price group	New rates ¹² (£)
A	10,000
B	1,500
C	0
D	0

101. These illustrative average funding rates would apply both to undergraduate and to postgraduate taught, new-regime students. As discussed in paragraphs 40 to 46, old-regime students will be funded at a different rate.

London weighting

102. At present, a London weighting of 8 per cent (inner London) or 5 per cent (outer London) is applied in our calculations of standard resource, although for a small number of institutions an amalgamated rate is used where significant parts of their teaching activity takes place across the London boundaries.

¹² These average rates do not include London weighting.

103. In 2012-13, we will apply London weighting to HEFCE teaching grant, not resource. We therefore believe it is appropriate that the London weights should change to 12 per cent (inner London) and 8 per cent (outer London), matching those used in the research funding method, where London weighting is already applied to grant.

104. We will apply these new weights to our funding rates for price groups A and B. This will also imply recalculating London weighting for teaching for those institutions that currently receive an amalgamated weighting because their provision crosses London boundaries.

105. No funding associated with London weighting will be provided in relation to new-regime students studying subjects in price groups C and D. This reflects the way that the reductions to our teaching grant have been calculated by the Government, which assumes the complete removal of mainstream funding from price group C and D subjects.

Funding for partial completion

106. Our current calculations of mainstream teaching grant include a weighting for partial completion. This is intended to recognise the costs of teaching students that do not complete their study intentions for the year. In future, the bulk of funding for teaching will be provided through tuition fees paid from the Student Loans Company to the institution at fixed points in the year. This income from the Student Loans Company will be higher, and some of it paid earlier in the academic year, and we believe that institutions will thus continue to receive income in relation to students who do not complete their full year of study. Therefore, for 2012-13 we do not propose to continue the partial completion weighting for new-regime students studying high-cost subjects: instead, we propose that our funding for high-cost subjects will relate exclusively to students that complete their study intentions for the year. Please note this policy is likely to be operative for only the 2012-13 new-regime students and will be superseded for new students entering from 2013-14 onwards. We will be consulting about this in the second stage of our consultation.

107. Funding for high-cost subjects will not be subject to a tolerance band, meaning that the final 2012-13 allocations will be adjusted to reflect institutions' exact student profile. As with the phase-out of funding for old-regime students, the funding for high-cost subjects will initially be based on 2012-13 new-regime student numbers forecast by institutions in HESES11/HEIFES11. These allocations will be adjusted in March 2013 to reflect updated 2012-13 new-regime student numbers reported in HESES12/HEIFES12. Further changes may be made as necessary in light of the final HESA/ILR data for the year. In each case, we may not count new-regime student numbers that we attribute to over-recruitment against the 2012-13 student number control or intake targets to quota-controlled medical and dental courses.

108. These proposals for funding high-cost subjects are intended as an interim approach. We cannot continue this interim approach in the long term, because this would be to perpetuate elements of our current funding method without considering whether they remain fit for purpose in the new environment. We anticipate that the second stage

of this consultation, on funding for teaching and student numbers in 2013-14, will propose more fundamental changes to our funding for high-cost subjects. These proposals are discussed, briefly, in paragraphs 145 to 150 below.

Consultation question 3: Following government changes to funding for higher education, we need to change the way HEFCE provides teaching grant for new-regime students. Do you have any comments on our proposed approach for 2012-13, as outlined in paragraphs 31 to 108?

Proposals for student number controls in 2012-13

109. This section describes how we plan to implement government policy for controlling student numbers in 2012-13. As requested by the Government, in a letter to the Chair of HEFCE's Board from the Secretary of State and Minister setting out actions for HEFCE following the White Paper, it sets out proposals to increase competition and dynamism in the distribution of student numbers to facilitate student choice. These proposals will be implemented in 2012-13 and, since they relate to entrant controls, will apply only to new-system students. The Government has indicated its clear ambition to extend these measures in future years.

Entrant controls in 2012-13

110. In 2012-13, we will continue to operate controls on student numbers. These will continue to apply to full-time undergraduate and PGCE entrants. However, it is likely that every institution's student number control will change. This is partly due to the proposals described below, and partly due to the previously planned removal of the numbers originally associated with the University Modernisation Fund (approximately 7,500 entrants, re-distributed for 2011-12 as a 2 per cent uplift to institutions' limits and to be removed from institutions for 2012-13). We expect to be able to publish baseline student number controls in January 2012, and to finalise these numbers by March 2012.

111. From 2012-13, part-time students who are studying at an intensity of at least 25 per cent and are aiming for an HE qualification designated for student support purposes will be able to access student loans for tuition fees. In 2012-13, we do not plan to extend student number controls to part-time students. Institutions should be aware, however, that the Department for Business, Innovation and Skills may reduce our grant if the student support budget is exceeded. If this happens, we will need to consider how we implement such reductions, including whether it would be appropriate to implement any of them differentially.

112. As the number of new-system students increases, and as policies relating to promoting greater student choice and diverse provision take hold, we anticipate introducing further changes about student number controls for 2013-14. These changes are likely to include extending controls to at least some part-time students. We will discuss this in the second stage of our consultation.

Introducing competition and dynamism: core and margin

113. Institutional-level student number controls limit the extent to which institutions can grow to meet student demand. The Government has signalled that it wants to free up student number controls, while still ensuring that overall costs are managed. This is intended to increase competition between institutions, and also to maximise the choice available to students.

114. As described in paragraph 110, institutional student number controls will remain in place in 2012-13. However, within this context, the Government has asked us to explore proposals that ensure more institutions can respond to student demand. Specifically, the Government has asked us to implement the proposal that students who achieve very high grades at A-level, or in equivalent qualifications, are excluded from the student number controls. The Government has also asked us to devise a way of allocating a portion of the remaining controlled numbers on a competitive basis, reflecting price and quality.

115. These proposals are described in detail in paragraphs 116 to 128. They apply to 2012-13 only. From 2013-14 onwards, we expect the Government to be interested in further steps to increase competition between institutions, and to maximise student choice. Any such proposals would be discussed in the second stage of our consultation.

Removing AAB+ equivalent students from student number controls

116. For 2012-13, the Government has requested that we no longer place number controls on the recruitment of students with very high grades prior to entry to higher education. This group of students would be defined as those who achieved grades of AAB, or above, at A-level, or the equivalent of this (see Annex C). We will refer to this group as the 'AAB+ equivalent' population.

117. To implement this proposal, we need to reduce each institution's student number control to reflect the number of AAB+ equivalent students that they currently admit. We also propose to reduce each institution's student number control to reflect any medicine and dentistry students who are not within the AAB+ equivalent population, because these subjects are already separately controlled by HEFCE on behalf of the Department of Health. All institutions will then be able to recruit freely from the AAB+ equivalent population, up to their student number control total and, separately, up to their medicine and dentistry control limits. In recent years the AAB+ equivalent population has been growing year on year, as achievement at Level 3¹³ has improved. So to ensure that the total number of students entering HE does not become unaffordable, we need to reduce all student number controls to recognise that the number of AAB+ equivalent students entering HE is likely to be greater than indicated by historic data. We calculate that for 2012-13 the growth in the AAB+ equivalent population will be 4,000 students.

¹³ That is, A-levels and qualifications of an equivalent level. For more information see www.direct.gov.uk/en/EducationAndLearning/QualificationsExplained/DG_10039017.

118. Taking this into account, we will therefore implement the removal of the AAB+ equivalent population from student number controls in 2012-13 through the following steps:

a. We will remove approximately 4,000 numbers from the student number control (representing our calculation for the growth in the AAB+ equivalent population), with these reductions spread pro rata across the sector. We estimate that 4,000 will be sufficient to allow for differences between the AAB+ equivalent population in 2012-13 and the population identified through our data. This initial reduction will be in addition to the 7,500 reduction originally associated with the University Modernisation Fund, as described in paragraph 110.

b. Following this, we will adjust downwards the student number control limit for each institution to reflect the numbers of AAB+ equivalent students and medicine and dentistry students previously recruited. The Government's White Paper estimates the size of the AAB+ equivalent population in 2012-13 as about 65,000 (and this number may rise), and there will also be about 7,000 medicine and dentistry students. We will calculate the exact populations using the most recently available HESA data, which for 2012-13 will be 2010-11 HESA data. This change will affect institutions only to the extent that they recruit students from these populations. For instance, if an institution's controlled student population, as currently defined, consisted of 10 per cent AAB+ equivalent students and/or medicine and dentistry students, its student number control for 2012-13 would be adjusted downwards by 10 per cent. It will then be able to recruit without restraint from the AAB+ population.

119. The Government has indicated that this approach may remain in place in subsequent years and indeed be extended beyond the AAB+ equivalent population. If so, we will set any limits accordingly, taking into account any further expected improvements in pre-entry attainment.

120. The AAB+ equivalent proposal enables unlimited recruitment for all institutions from a specific population, and it may promote increased competition between institutions for students from this population. It also provides an opportunity for growth for institutions that are able to offer provision to students with a very high attainment level (although this, of course, will be limited by the size of the AAB+ equivalent population). If, however, an institution is unable to compete in this part of the market, it will need to explore opportunities for growth elsewhere, due to the lowering of its student number control limit.

121. For illustration, Annex D models the impact on institutions based on 2009-10 student number control entrants. When implemented in 2012-13, this proposal would be based on 2010-11 student number control entrants.

The AAB+ equivalent population

122. The Government has asked us to consult on the manner in which to remove AAB+ equivalent students from the student number controls. Our understanding is that it has settled on this population because the AAB+ equivalent population is relatively easy to define, and relatively stable. This means that AAB+ equivalent students can be

removed from the student number controls without undue risk of unexpected growth in the number of students entering higher education, which would put pressure on the student finance budget.

123. In particular, the AAB+ equivalent population is a relatively small population with a very high participation rate. A large majority of students (over 90 per cent) with this high level of attainment go on to enter English HEIs. This means that the risk of unanticipated growth of the population is limited. Extending this population to include students with lower levels of attainment will gradually reduce predictability. That is, since a lower percentage of students with lower levels of attainment enter HE at present, there is greater potential for fluctuation in participation rates which could, in turn, place a strain on the student support budget.

What counts as an equivalent qualification?

124. For the purposes of this policy, we consider a set of qualifications to be equivalent if it meets three conditions:

- a. It is equal to or greater than AAB at A-level (see Annex C for details of qualifications and grades that we will accept as AAB+ equivalent).
- b. It consists of a certain type of qualification, such as A-levels, Scottish Highers, International Baccalaureate (a full list is provided at Annex C).
- c. It contains only qualifications of that type (for example, only A-levels or only Scottish Highers).

125. We are also proposing to place a limit on the number of qualifications within each set that count. For instance, we would count no more than three A-levels for any one student, and no more than five Scottish Highers. Again, full information is provided at Annex C. We have thus placed a limit on the type of equivalences.

126. We have applied these conditions so that we can define a predictable, stable population that already has a very high participation rate. As discussed above, we need to do this in order to ensure the proposal is affordable in the long term. We have considered whether the AAB+ equivalent proposal could be extended to all students that achieve UCAS points equivalent to AAB or above at A-level. However, this approach would not define a predictable, stable population and therefore could quickly lead to higher than expected growth in the number of students entering higher education. This could only be offset by further reductions to the controlled population.

Possible impacts of this proposal

127. This proposal represents a new approach to setting student number controls. We are interested in understanding its impact, both so that we can identify any positive and negative effects (and, if possible, take mitigating action) and so that we can advise the Government on the feasibility of extending these measures in subsequent years.

128. We will be particularly interested in the impact of the proposal on:

- widening participation, and fair access and social mobility

- spread of provision across subject areas, for example SIVS
- equality and diversity
- particular types of institution.

We also welcome comments from institutions on possible impacts on other areas.

Consultation question 4: We have been asked by the Government to remove students achieving AAB+ equivalent from the student number controls. Do you have any comments on our proposed method of implementing this, as outlined in paragraphs 116 to 128? Please identify any possible negative or positive impacts from this proposal.

Redistributing numbers to a margin based on quality and value for money

129. For the numbers that remain within the student number control after the removal of places associated with the University Modernisation Fund and AAB+ equivalent population, the Government has asked us to consult on the implementation of a system by which we will reallocate a margin of up to 20,000 places in 2012-13 to institutions that have an average full-time fee of £7,500 or less (net of fee waivers) and can clearly demonstrate the quality of their provision. The Government's objectives are: to make it easier for a wider range of providers to offer places; to encourage competition; and to increase diversity in provision.

Creating a margin

130. Once the steps described in paragraphs 116 to 121 have been implemented, the numbers that remain within the student number control will be further reduced to create a 'margin' (that is, those that may be re-allocated as described in paragraph 129) and the 'core' (that is, those remaining allocated to individual institutions). This margin would not exceed 20,000 students in 2012-13: its exact size could be smaller and will depend on the number of places re-allocated through the competitive process described in paragraphs 133 to 139 below.

131. Creating a margin of 20,000 students would amount to an average reduction of approximately 8 per cent to the student number control of all institutions with an Access Agreement with the Office for Fair Access (OFFA). This would be in addition to the reductions associated with the University Modernisation Fund and the AAB+ equivalent population, as described in paragraphs 116 to 121.

132. Some institutions have not submitted Access Agreements to OFFA, and therefore cannot charge fees of more than £6,000 per year for full-time students in 2012-13. These institutions will therefore be meeting the Government's aim of delivering lower fee provision, so we propose to protect them from any pro-rata reduction to student numbers required to create this margin (they will, though, still be subject to the reductions described in paragraphs 116 to 121). This will avoid creating a burdensome exercise whereby institutions lose numbers that are then likely to be returned to them.

Criteria for redistribution

133. The Government has indicated that a margin should be allocated to institutions that charge students average full-time fees of £7,500 or less (net of fee waivers) and can clearly demonstrate the quality of their provision. We have been asked by the Government to particularly encourage bids from further education colleges that can attract students and have the capacity to grow their higher education provision.

134. We do not think it possible to find a formulaic way to allocate student numbers from a margin, because available measures of quality or student demand do not enable us to make reliable differentiation between institutions without taking into account further contextual information. We therefore propose to allocate the places through a competitive bidding process. Institutions, including those that do not currently have a funding agreement with us¹⁴, will be invited to submit proposals for student numbers from the margin. These proposals will be analysed initially by HEFCE, but the final allocations will be decided by a panel of experts, including representatives from the sector. Numbers allocated to an institution in this way would be added to its core student number control limit for 2012-13, and may be taken into account in setting any number controls beyond this, although this cannot be confirmed until we have clarified with the Government the approach towards controlling student support costs from 2013-14 onwards.

135. It is possible that additional government priorities may emerge in the discussion that follows the publication of the White Paper, and once more is known about changes in student demand following the reforms to higher education finance and funding. We might wish to take these into account as additional criteria in distributing this margin, particularly if we receive bids for more than the 20,000 maximum. Any change to the criteria would be confirmed when we publish our call for proposals (see timetable in paragraph 139).

What evidence will institutions be required to provide?

136. There are a limited number of places available for redistribution, so we will encourage focused proposals to expand particular forms of provision (for instance, particular courses), rather than proposals for simply increasing institutional student number control limits.

137. For those institutions with a range of proposed fee levels, the calculation of the actual average institutional tuition fee for a given year will be complex, and will not be possible until after all students have been accepted for that year. To avoid unnecessary burden, and to make the proposal workable, we propose that institutions interested in gaining places from the margin formally commit to an average fee level of £7,500 or below (net of fee waivers), should their bid be successful. We will ask for confirmation

¹⁴ HEFCE funding could only be made available to institutions that we are empowered to fund under the Further and Higher Education Act 1992: in general, that means designated higher education institutions and further education colleges. These institutions, if successful in bidding for places from the margin and wanting to access HEFCE funding, would need to have a funding agreement with us.

that this commitment has been met once student numbers – and therefore average fee levels – have been confirmed for 2012-13. Failure to meet a declared average fee level will be taken into account when allocating any numbers in future years, whether through subsequent applications of the core and margin model, or otherwise.

138. As noted above, we do not think there is any formulaic way to measure the qualities of higher education provision. The panel will therefore make a holistic assessment of quality, based on information that the institution provides, rather than making a decision based on a single measure or metric. We will encourage proposals that draw on sector-wide indicators of quality and are therefore comparable between institutions, for example audits/reviews by the Quality Assurance Agency for Higher Education (including Integrated Quality and Enhancement Review); benchmarked National Student Survey results; or HESA performance indicators such as non-continuation and completion rates. Other objective indicators may also be used, where appropriate and available. We are interested in evidence at a course level, where this is available. We would also encourage mention to be made of continuous improvement, for example through successful and progressive learning, teaching and assessment strategies, and through effective responses to student feedback about courses.

139. We propose that institutions will also need to provide evidence that they can reasonably be expected to fill the places they are bidding for, and the panel should take this evidence into account when allocating places. This is necessary to ensure that places are not taken from the core and allocated to institutions that do not fill them. It will also be important if the bidding is oversubscribed, because places will need to be allocated fairly among those institutions that have met the price requirements and demonstrated that they have quality learning and provision. In any future allocations we would also expect the panel to take into account institutions' recruitment against these reallocated places, and how well actual average fees match institutions' declarations.

Timetable

End of October 2011	HEFCE issues call for bids, and detailed information on the criteria for re-allocating numbers.
Early December 2011	Deadline for proposals.
January 2012	HEFCE confirms baseline student number controls.
March 2012	Allocations confirmed as part of grant announcement.

Possible consequences of this proposal

140. This proposal represents a new way of distributing student numbers. We will carefully monitor its impact. This will allow us to identify positive and negative effects and, in the case of negative impacts, may enable us to take mitigating action, if needed. It will also allow us to advise the Government on how well these measures deliver its policy objectives.

141. We will be particularly interested in the impact of the proposal on:

- fee levels
- spread of provision across subject areas, for example SIVS
- equality and diversity
- particular types of institution
- widening participation, including fair access and social mobility
- student choice
- promoting diverse provision.

We also welcome comments from institutions on possible impacts on other areas.

Consultation question 5: The Government has asked us to consult on a core/margin approach to re-allocating places towards lower fee provision in order to increase choice, competition and fee diversity. Do you have any comments on our proposed method of implementation, as outlined in paragraphs 129 to 139? Please indicate any impacts you can identify, whether positive or negative.

Possible approaches to funding for 2013-14 and beyond

142. This section describes briefly, and for information only, our current thinking about the likely nature of our approach from 2013-14 onwards. These proposals are currently at an early stage of development, and will be described in much more detail in the second stage of our consultation. They will not generally affect mainstream funding for old-regime students.

143. The funding method for 2012-13 described in this consultation document is an interim solution, intended to maximise predictability for institutions during the first year of the transition. From 2013-14, we expect to implement a new approach to funding for new-regime students and for targeted teaching allocations, which will reflect more fully all aspects of the new funding context, including government policy priorities emerging from the HE White Paper.

144. As stated in paragraph 10, we plan a second stage of this consultation, later this year or early in 2012, covering proposals for funding teaching and controlling student numbers from 2013-14 onwards. Paragraphs 145 to 170 provide a brief summary of the issues that we expect to cover in that second stage.

Funding for high-cost subjects from 2013-14

145. The amount of funding that we have available to support high-cost subjects from 2013-14 will depend upon the total amount of teaching funding available to us. As noted in paragraph 17, this may depend in part upon the burden on the student support budget which, in turn, depends on the fee levels set by institutions. If the average fee expected

by the Government is exceeded, we may have less funding available, and this may affect the support that we can offer high-cost subjects.

146. Our first priority will be to provide funding for subjects where the average costs of teaching cannot legally be met through income from the Student Loans Company – that is, those that cost more on average to teach than the legal maximum for fees of £9,000 per year, such as clinical subjects.

147. A secondary priority will be to provide funding for other higher-cost subjects. This funding would be used to reduce the extent to which institutions offering high-cost subjects, such as sciences, might be disadvantaged by the new fee regime. We will also consider whether our funding should reflect the fee charged by the institution, because institutions charging higher fees arguably have less need of additional public funding.

148. We therefore anticipate consulting on a system of ‘funding supplements’ for high-cost subjects. This funding will probably be associated with individual subjects or small subject groupings, rather than our present broad price bands. Our information on the costs of subjects will be derived from Transparent Approach to Costing for Teaching (TRAC(T)) data and will contribute towards, rather than necessarily meet, the additional costs of high-cost subjects. It should not be assumed that all subjects presently in price groups A and B will receive a funding supplement, nor that funding supplements will be restricted to subjects presently in these price groups.

149. The Government is presently considering its approach towards postgraduate taught provision, through the postgraduate review led by Professor Sir Adrian Smith and responses to the White Paper. Our expectation at present is that we will provide funding supplements for both undergraduate and postgraduate provision in specific high-cost subjects, and that these will be provided at approximately the same rate.

150. At present, our highest teaching funding weightings relate to the subjects currently in price group A (clinical medicine, clinical dentistry and veterinary science). In order to ensure that the TRAC(T) data continue to be an adequate basis for our weightings for these subjects, we are conducting a review of clinical subject weightings during 2011. This will be guided by a steering group of experts drawn from the sector, and will involve working with stakeholders to ensure that the data they submit are robust and reliable. We expect this review to inform the clinical subject weightings we use in 2013-14.

Funding for widening participation, widening access and improving provision for disabled students, from 2013-14

151. We expect to continue to provide an allocation for widening participation in future years; however, we are working to develop a new method through which we can ensure that our investment is effectively targeted. We will ensure that it is compatible with institutions’ requirements under OFFA Access Agreements and the National Scholarship Programme.

152. The overarching purpose of our widening participation allocation will be to invest in institutions that facilitate the successful participation in HE of people from disadvantaged backgrounds. When we speak of successful participation, we consider the full student life-cycle – from effective outreach that adequately prepares people for entry to HE study, to successful student experience, including retention and completion, through to employment or further study. As such, the priority is to recognise that there are additional costs associated with this activity.

153. We envisage that the allocation for widening access and improving provision for disabled students will continue along similar lines as at present.

Institution-specific funding from 2013-14

154. A small number of institutions may have distinctive teaching costs that are not recognised in the standard formulaic funding method and cannot be met through the fee regime. Such costs are currently met through the institution-specific targeted allocation, whose 20 recipients include various performing arts conservatoires, specialist arts and agricultural colleges, other specialist HEIs and the Universities of Oxford and Cambridge.

155. We anticipate that some form of this funding will continue. However, a comprehensive review will be necessary to ensure that this funding stream continues to reflect our revised funding priorities in the changed funding context. This must first establish future criteria for receiving the allocation, and then determine which institutions meet these criteria. During the review we will work closely with the institutions currently receiving the institution-specific targeted allocation. The review will begin during 2011, and its conclusions will be incorporated in the method for funding teaching in 2013-14.

Other funding streams from 2013-14

156. As stated in paragraphs 84 to 88, some targeted allocations for non-mainstream funding will continue into 2012-13. This is also true of London weighting for teaching funding, as described in paragraphs 102 to 105. In the longer term, however, all of these elements of our funding will be subject to review, and we cannot be certain at present whether (and if so, how) they will continue from 2013-14.

157. The specific funding streams to which this applies are:

- London weighting
- accelerated and intensive provision
- additional funding for very high-cost and vulnerable science subjects
- clinical consultants' pay
- senior academic GPs' pay
- NHS pension scheme compensation
- the remaining portion of the part-time undergraduate targeted allocation.

158. In some cases, we may conclude that that this funding can be incorporated within other streams. In other cases, we may conclude that that there is no longer a valid case for HEFCE to provide this funding, given the potential for institutions to meet additional costs through income from the Student Loans Company.

159. We will need to pay particular attention to our additional funding for part-time students, given that part-time students aiming for a qualification and studying at an intensity of 0.25 FTE or greater will be able to access tuition loans and institutions will thus have a flow of funding from the Student Loans Company.

Monitoring and addressing vulnerabilities

160. HEFCE has been working to sustain SIVS since 2005¹⁵. As is clear from other aspects of this consultation, the level and purpose of HEFCE's teaching funding will be subject to fundamental change as a result of the Government's HE reforms. But the Government remains concerned to identify and support subjects that may be strategically important and vulnerable, and it has asked HEFCE to consider during 2011-12 which subjects should be within scope¹⁶.

161. This request provides two key challenges:

- to establish an approach to supporting high-cost subjects that mitigates the impact of costs on the demand for, and supply of, the highest-cost provision (see paragraphs 94 to 108)
- to identify those subjects where there is evidence that the new system for financing teaching – operating alongside HEFCE's teaching funding, the dual support system for research, and activities such as business engagement and international student recruitment – may not sustain a flow of graduates, supply of programmes and expertise, and level of research activity that meets the national interest.

162. At this point, it is difficult to predict how the reforms will influence student choices about whether and what to study, and to what level, and how their choices will in turn influence the decisions of universities and colleges with regard to subject provision.

163. We are, however, working with partner organisations to identify potential risks to any subject and the ways in which these could be mitigated. Our starting point, which is deliberately inclusive at this point, is to seek to identify those areas where there may be a risk of an insufficient or inappropriate flow of graduates from undergraduate or postgraduate programmes, and/or an insufficient level and range of the expertise

¹⁵ A full list of SIVS investments and an independent evaluation of the programme are available at www.hefce.ac.uk/aboutus/sis.

¹⁶ For more details see www.bis.gov.uk/assets/biscore/higher-education/docs/h/10-1359-hefce-grant-letter-20-dec-2010.pdf.

necessary to sustain the nation's research capacity and capabilities. Given the Government's desire to promote dynamism and excellence, we are also seeking to establish why any such areas may be considered strategically important and whether the risks may satisfactorily be addressed through the normal working of the teaching and research assessment and funding systems over the medium term.

Student number controls from 2013-14

164. The White Paper is clear in its ambitions for greater student choice and diversity of provision and it is likely that the Government will want to build on the initiatives proposed for 2012-13 in later years. It is unlikely that student number control changes introduced in 2012-13 will be sufficient to fulfil the policy ambitions. At the very least, controls will need to be extended to part-time students. The current system depends on counting numbers of entrants, but this will not necessarily be the way the cost of student funding and support is managed in any future system. Our actions here will depend on monitoring the new changes and government policy decisions. We will therefore consult on any further changes in the second stage of our consultation.

Probable use of data from 2013-14: implications for 2011-12 data returns

165. This section explains that we expect to propose changing our approach to the data we use to calculate funding for new-regime students. This change will not take place until 2013-14, but we are providing early warning now so that institutions can be mindful of this as they complete their data returns for 2011-12.

166. At present, our volume measure for teaching funding for institutions is based on early survey data collected through HESES and HEIFES. These data are then reconciled with the more detailed HESA and ILR data submitted by institutions after the end of each academic year. When necessary, grants are adjusted accordingly.

167. In the next stage of our consultation, we anticipate proposing that our funding be based primarily on HESA/ILR data. This would mean that an institution's funding for new-regime students in 2013-14 would be based on its HESA/ILR return for academic year 2011-12. We anticipate continuing with an early survey of students at the beginning of each academic year (this is likely to remain necessary for government and HEFCE planning purposes), but this will not be the primary driver of funding for new-regime students.

168. This approach would mean a more flexible approach to reflecting volume of study. The funding allocated to an institution would depend on the amount that its students actually study, rather than on their initial study intentions. This approach would remove the difficulties associated with estimating non-completions, and would give us a more transparent way of recognising flexible study patterns. Finding ways of supporting

flexible study and reducing complexity emerged as priorities through previous consultations on teaching funding¹⁷.

169. In the next consultation stage, we will explore whether our funding should reflect the credit awarded to each student (rather than, say, the credit attempted or completed). At present, this is our preferred option, as it clearly links our funding with student achievement. We may also consider whether there are more appropriate ways of measuring subject of study. For instance, we may propose moving towards funding on the basis of Joint Academic Coding System subject codes, rather than HESA cost centres.

170. We are not consulting on these possible changes from 2013-14 now. We anticipate including proposals on these topics in the second stage of our consultation, planned for the winter of 2011-12. We mention this issue now so that institutions can be mindful of it as they prepare for, and submit, their 2011-12 HESA/ILR return, because these are the data that we will use to calculate 2013-14 funding. In particular, if this proposal were to go ahead, we would expect all institutions to return full module details. In this context a module is a discrete block of learning; in some cases the smallest block of learning might be the whole of the year in which case this would be treated as a single module.

Equality and diversity

171. We have carried out an initial assessment of the impact on equality and diversity of the proposals in this consultation, and this will be published on our web-site in early July. However, we wish to gather further evidence through the consultation process. We are particularly interested in the impact of our proposals on the nine protected characteristics described in the Equality Act 2010: disability; race; sex; gender reassignment; sexual orientation; pregnancy and maternity; age; marriage and civil partnership; religion or belief¹⁸.

Consultation question 6: Do you have any comments on the impact(s), positive or negative, that the proposals in this consultation will have on equality and diversity?

Responding to this consultation

172. Responses to this consultation should be made by **Friday 2 September 2011** using the online form that can be accessed alongside this document at www.hefce.ac.uk/pubs.

¹⁷ For more information see www.hefce.ac.uk/learning/funding/review/teach/, in particular 'Summary of consultation responses'.

¹⁸ For more details on the Equality Act 2010, see the guidance on the Equality Challenge Unit web-site, www.ecu.ac.uk/subjects/equality-act-2010.

Freedom of information

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

Annex A: Calculation of funding rates for the phase-out of grant

1. We intend to calculate a rate of funding per FTE by funding cell (that is to say, by price group, mode and level) for each institution. Level will be categorised as either undergraduate (including foundation degree) (UG) or postgraduate taught (PGT). We will not distinguish between the lengths 'standard' and 'long'. The funding cells are shown in the table below:

Price group	Mode	Level
A*	Full-time	UG
A*	Full-time	PGT
A*	Part-time	UG
A*	Part-time	PGT
B	Full-time	UG
B	Full-time	PGT
B	Part-time	UG
B	Part-time	PGT
C	Full-time	UG
C	Full-time	PGT
C	Sandwich year-out	UG
C	Sandwich year-out	PGT
C	Part-time	UG
C	Part-time	PGT
D	Full-time	UG
D	Full-time	PGT
D	Part-time	UG
D	Part-time	PGT

*HEIs only

2. We will calculate two separate rates of funding per FTE by funding cell: one for mainstream funding and another for employer co-funded provision (where applicable).

Summary of intended methods

3. To calculate 2011-12 funding rates for mainstream teaching grant we intend to:

a. **Calculate standard resource per FTE per funding cell.** For any individual funding cell, the rates calculated will vary by institution according to their London and partial completion weightings.

b. **Calculate assumed resource per FTE per funding cell.** We will do this by scaling according to the institution's position in or outside the tolerance band. This tolerance band position will be determined by the institution's actual student numbers in 2011-12 and the mainstream teaching grant for the year **after** incorporation of any grant adjustments arising from compliance with funding agreement targets (which excludes grant adjustments arising from recruitment against the student number control limit).

c. **Calculate notional grant per FTE per funding cell and set any negative values to zero.** We calculate this by subtracting the institutional assumed fee rate per FTE for the funding cell. We also intend to make an adjustment where institutions receive Erasmus fee compensation, so that the funding rates do not include that element of grant.

i. Negative values may occur where an institution is below the middle of the tolerance band and has postgraduate provision in price group D. This is because the assumed resource per FTE for that funding cell may be less (depending on London and partial completion weightings) than the assumed fee. In setting any negative notional funding rates to zero, this means that in aggregate the notional grant implied by our funding rates may be slightly higher than the actual mainstream teaching grant, but we do not expect any differences to be significant.

ii. To adjust for Erasmus fee compensation, we will calculate the total notional grant in each funding cell (by multiplying by the associated unweighted student FTEs), subtract the Erasmus fee compensation allocated on the basis of the relevant student FTEs in that funding cell, then divide the remaining notional grant again by the total student FTEs in the cell.

4. To calculate 2011-12 funding rates for employer co-funded provision, we intend to:

a. **Calculate standard resource per FTE per funding cell.** For any individual funding cell, the rates calculated will vary by institution according to their London and partial completion weightings.

b. **Calculate notional standard grant per FTE per funding cell.** We calculate this by subtracting the assumed fee rate per FTE for the funding cell. There is no tolerance band that applies to employer co-funding, so no need to scale for this.

c. **Calculate notional employer co-funding rate per FTE per funding cell.** We will do this by:

- multiplying the total notional standard grant per FTE per funding cell by the associated FTEs

- scaling this down uniformly so that the total for all funding cells equals the total funding provided for employer co-funded provision (after any grant adjustments for under-recruitment in the year)
- dividing the resulting totals in each funding cell by the associated FTEs.

Data sources

5. For both mainstream and employer co-funding, we will calculate 2011-12 funding rates initially using HESES11 and HEIFES11 data. These surveys will include an expanded Table 4 (the fee table), so that we can calculate assumed fee rates for each price group, mode and level. The 2011-12 funding rates will use HEFCE-fundable student numbers, because this is consistent with the volume measures for 2012-13 onwards that we intend to use to determine the phase out of grant for each year.

6. The funding rates so calculated will be used in our initial allocations for 2012-13 to be announced in March 2012 and to inform grant payments between August 2012 and January 2013. The mainstream and employer co-funding rates will then be recalculated for all institutions using the HESA and ILR data for 2011-12, which we will receive in December 2012. We will use these revised rates to inform the adjusted allocations for 2012-13 and the initial allocations for 2013-14 that we announce in March 2013, and all subsequent calculations of the phase-out of mainstream and employer co-funded teaching grant for each year.

Illustrative calculation of funding rates

7. We are providing some illustrative calculations of 2011-12 funding rates for each funding cell at each institution for both mainstream and employer co-funded teaching grant. These are provided for indicative purposes only to show the broad methodology that we intend to use and to provide some illustrative funding rates for planning purposes. These funding rates should not be taken to be final. The main reasons for differences between these illustrative figures and the ones we will calculate subsequently are:

- a. For mainstream teaching grant, the illustrative figures are based on the March 2011-12 grant tables. This means that they:
 - i. use assumed HEFCE-funded, not reported HEFCE-fundable, student FTEs for 2011-12
 - ii. do not incorporate any subsequent changes to mainstream teaching grant, including grant adjustments arising from compliance with 2011-12 funding agreement targets
 - iii. use estimated fee assumptions for each funding cell, because we have not previously collected fee information separately by price group. We have assumed certain exceptional fee categories (such as for students on language years abroad and postgraduates subject to regulated tuition fees) apply only to price group C, when in fact some of them may apply in other

price groups. We will collect disaggregated fee information by price group in HESES11 and HEIFES11.

b. For employer co-funding, the illustrative figures are based on HESES10 and HEIFES10 employer co-funded student numbers, but scaled to reflect 2011-12 funding levels (by applying the pro rata reductions that have been implemented to 2010-11 and 2011-12 grant). This means that they:

- i. use forecast 2010-11 (not 2011-12) employer co-funded student FTEs
- ii. incorporate indicative 2010-11 grant adjustments to employer co-funding allocations, but do not incorporate any subsequent changes, including as a result of finalisation of grant adjustments for 2010-11, new allocations of additional student numbers for 2011-12, and any grant adjustments arising from compliance with 2011-12 funding agreement targets.

Mainstream funding rates

8. The calculation of the illustrative notional rates of funding per FTE by funding cell for mainstream funding is described in paragraphs 9 to 20 of this annex. This explains the derivation of the figures in the 'Mainstream' worksheet of Annex B.

2011-12 Full-time equivalent (FTE) students

9. These are the 2011-12 assumed FTEs taken from grant Table D, summed across the funding cells as described in paragraph 1.

2011-12 Standard resource

10. This is the 2011-12 standard resource taken from grant Table E, summed across the funding cells as described in paragraph 1 of this annex.

Scaling factor for tolerance band position

11. In order to reflect historic funding rates in the calculation we scale each institution's 2011-12 standard resource by its position in the tolerance band. The scaling factor shown is calculated as 1 plus the percentage difference shown on grant Table C.

Assumed resource

12. This is the standard resource multiplied by the scaling factor.

2011-12 Assumed resource per FTE

13. This is the assumed resource divided by the 2011-12 FTEs.

Fee level

14. To convert the rates of assumed resource into a funding rate we subtract a fee level. For price groups A, B and D these are the 2011-12 standard fee rates: £1,345 for full-time and part-time undergraduates and £3,670 for postgraduate taught. For price group C we use £1,330 for sandwich year-out undergraduates, but for other categories we have calculated an average fee to take account of the mix of fee rates (for example the regulated half-fee for undergraduates on a non-Erasmus year abroad, or zero for those on an Erasmus year abroad and, for postgraduate taught, the split between regulated and non-regulated fees).

Initial notional funding per FTE

15. This is the 2011-12 assumed resource per FTE minus the fee level. If the resulting rate of funding is negative it will be set to £0. This may happen if an institution is below the tolerance band and has postgraduate provision in price group D.

16. The next steps in the process take account of the fact that Erasmus fee compensation will be a targeted allocation from 2012-13. Therefore the rates of funding need to be adjusted in the relevant funding cell. For these calculations we have assumed that all Erasmus students are in price group C, although this will not necessarily always be the case.

2011-12 Total notional grant

17. This is the initial notional funding per FTE multiplied by the 2011-12 FTEs. For most institutions this will be equal to the 2011-12 mainstream teaching grant from grant Table C, but there may be differences where funding rates have been set to zero, as described in paragraph 15.

2011-12 Erasmus fee compensation

18. This is the 2011-12 Erasmus fee compensation from grant Table C, split by funding cell.

Total notional grant excluding Erasmus fee compensation

19. This is the 2011-12 Total notional grant minus the 2011-12 Erasmus fee compensation.

2011-12 Notional funding rate per FTE

20. This is the Total notional grant excluding Erasmus fee compensation divided by the 2011-12 FTEs.

21. In order to calculate the initial 2012-13 teaching funding allocations the rates of funding (calculated using HESES11 and HEIFES11 data) will then be multiplied by the

'old-regime' students recorded in the new HESES/HEIFES Table 7 and a scaling factor will be applied to ensure the available funding is not exceeded.

22. The rates of funding will be recalculated using HESA/ILR 2011-12 data in January 2013, and adjusted allocations calculated using the 'old-regime' students taken from HESES12/HEIFES12. A scaling factor will again be applied at this stage, which may differ from that previously used.

23. Final allocations for 2012-13 will be confirmed during 2014 once 2012-13 HESA/ILR data have been received.

Rates of funding for employer co-funded provision

24. The method for calculating the co-funded provision rates is described below. This explains the derivation of the figures in the 'Co-funded' worksheet of Annex B.

2010-11 Co-funded full-time equivalent (FTE) students

25. These FTEs are taken from HESES10/HEIFES10: column 5 (for full-time FTEs), column 5 divided by two (for sandwich year-out FTEs) and column 5a (for part-time FTEs).

2010-11 Co-funded standard resource

26. We then calculate standard resource associated with the 2010-11 FTEs, using the parameters of the mainstream teaching funding method.

2010-11 Co-funded standard resource per FTE

27. This is the 2010-11 standard resource divided by the 2010-11 FTEs.

Fee level

28. To convert the rates of standard resource into a funding rate we subtract a fee level. These are the 2010-11 standard fee rates for all price groups: £1,310 for full-time and part-time undergraduates, £1,300 for sandwich year-out undergraduates and £3,951 for postgraduate taught.

2010-11 Initial co-funded notional funding rate per FTE

29. This is the 2010-11 standard resource minus the fee level.

2010-11 Total co-funded notional grant

30. This is the initial co-funded rate of funding times the 2010-11 FTEs.

Derived total co-funded notional grant (scaled to 2011-12 grant)

31. In order to calculate rates for 2011-12 the 2010-11 notional grant is scaled up to the 2011-12 actual grant. In this instance the actual 2011-12 grant is the 2010-11 funding minus the indicative grant adjustments arising from HESES10/HEIFES10, scaled by the June 2010 and February 2011 pro rata reductions of 1.09 per cent and 2.81 per cent respectively applied to 2010-11 grant, and the March 2011 reduction of 4.28 per cent applied to 2011-12 funding. This is essentially how much an institution would notionally get in each funding cell in 2011-12 if the allocations were based on the co-funded student numbers reported in HESES10 and HEIFES10.

2011-12 Co-funded notional funding per FTE

32. This is the derived total co-funded notional grant (scaled to 2011-12 grant) divided by the 2010-11 FTEs.

33. In order to calculate the initial 2012-13 teaching funding allocations the rates of funding (calculated using HESES11 and HEIFES11 data) will then be multiplied by the 'old-regime' students recorded in the new Table 7 and a scaling factor will be applied to ensure the available funding is not exceeded.

34. The rates of funding will be recalculated using HESA/ILR 2011-12 data in January 2013, and adjusted allocations calculated using the 'old-regime' students taken from HESES12/HEIFES12. A scaling factor will again be applied at this stage, which may differ from that previously used.

35. Final allocations for 2012-13 will be confirmed during 2014 once 2012-13 HESA/ILR data have been received.

Annex B: Indicative funding rates for the phase-out of mainstream and co-funded grant

This annex is available to download as an Excel file alongside this document at www.hefce.ac.uk/pubs.

Annex C: AAB equivalences

Students holding at least one of the following qualification/grade combinations will be considered part of the AAB+ equivalent population.

- Best three A-levels (including VCE advanced), grades are either:
 - A*, A*, A*
 - A*, A*, A
 - A*, A, A
 - A*, A*, B
 - A, A, A
 - A*, A, B
 - A*, A*, C
 - A, A, B
 - A*, A*, D
 - A*, A, C
 - A*, B, B
 - A*, A* and an A* at AS-level
 - A*, A* and an A at AS-level.
- A BTEC National with a grade of:
 - Distinction*, Distinction*, Distinction*
 - Distinction*, Distinction*, Distinction
 - Distinction*, Distinction, Distinction
 - Distinction, Distinction, Distinction.
- Grade A from a CACHE Level 3 diploma in Child Care and Education.
- Grade D1 from an OCR National Extended Diploma.
- A distinction from a NPTC Level 3 Land Based Extended Diploma.
- Grade A* from a Progression Diploma.
- Best five Scottish Highers, grades are either:
 - A, A, A, A, A
 - A, A, A, A, B

- A, A, A, B, B
- A, A, A, A, C
- A, B, B, B, B
- A, A, B, B, C
- A, A, B, B, B
- A, A, A, A, D
- A, A, A, B, C
- A, A, A, C, C
- A, A, A, B, D.

- International Baccalaureate with 29 points or more.
- Best four Irish Leaving Certificates, grades are either:
 - A1, A1, A1, A1
 - A1, A1, A1, B1
 - A1, A1, A1, A2.
- A postgraduate research degree.
- A postgraduate taught degree.
- A first degree.

Annex D: Modelling of institutional impact of AAB proposal

This annex will be available shortly to download as an Excel file alongside this document at www.hefce.ac.uk/pubs.

Annex E Consultation questions

Consultation question 1: Following the changes to funding for higher education agreed by the Government, we need to phase out the mainstream teaching funding relating to old-regime students. Do you have any comments on our proposed approach? You may wish to suggest alternatives, with reference to the principles in paragraph 34.

Consultation question 2: Given the reductions to HEFCE's teaching grant from 2012-13, do you have any comments on our proposal that certain non-mainstream allocations should be phased out, and others continued as an interim measure in 2012-13, as described in paragraphs 62 to 92?

Consultation question 3: Following government changes to funding for higher education, we need to change the way HEFCE provides teaching grant for new-regime students. Do you have any comments on our proposed approach for 2012-13, as outlined in paragraphs 31 to 108?

Consultation question 4: We have been asked by the Government to remove students achieving AAB+ equivalent from the student number controls. Do you have any comments on our proposed method of implementing this, as outlined in paragraphs 116 to 128? Please identify any possible negative or positive impacts from this proposal.

Consultation question 5: The Government has asked us to consult on a core/margin approach to re-allocating places towards lower fee provision in order to increase choice, competition and fee diversity. Do you have any comments on our proposed method of implementation, as outlined in paragraphs 129 to 139? Please indicate any impacts you can identify, whether positive or negative.

Consultation question 6: Do you have any comments on the impact(s), positive or negative, that the proposals in this consultation will have on equality and diversity?

Annex F List of abbreviations

BIS	Department for Business, Innovation and Skills
ELQ	Equivalent or lower qualification
FEC	Further education college
FTE	Full-time equivalent
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIFES	Higher Education in Further Education: Student Survey
HESA	Higher Education Statistics Agency
HESES	Higher Education Students Early Statistics
ILR	Individualised learner record
OFFA	Office for Fair Access
SIVS	Strategically important and vulnerable subject(s)
TESS	Teaching enhancement and student success