

HEFCE 02/11

March

Report

Recurrent grants for 2002-03

Recurrent grants for 2002-03

To	Heads of HEFCE-funded institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, planning
Reference	02/11
Publication date	March 2002
Enquiries to	HEFCE higher education advisers

Executive summary

Purpose

1. This document summarises our provisional allocations of recurrent funding to institutions for the academic year 2002-03.
2. The HEFCE Board agreed the allocations on 27 February 2002. We wrote to all institutions individually on 5 March 2002.

Key points

General

3. All years relate to academic years – that is, 1 August to 31 July.
4. We are distributing £5,076 million in 2002-03, an increase of 6.8 per cent compared with 2001-02. Funding for teaching has increased by 3.6 per cent (1.1 per cent in real terms), allowing us to fund an additional 23,000 full-time equivalent (FTE) places for 2002-03. Funding for research has increased by 5.9 per cent. We are also providing an additional £62 million for earmarked capital funding and £40 million extra for rewarding and developing staff in higher education, compared with the allocations for 2001-02. The overall unit of resource for teaching (including fee income and a pro rata share of funds for rewarding and developing staff) has increased by 3.5 per cent compared with 2001-02.
5. The total comprises £3,271 million for teaching, £940 million for research, £443 million for special funding, £302 million for earmarked capital funding, and £120 million for rewarding and developing staff.

Teaching

6. The total of £3,271 million for teaching for 2002-03 includes the following:
 - a. £22 million for additional funded students, allocated in response to the new bids invited in HEFCE 01/54, 'Additional student places and funds 2002-03'.

- b. £23 million for additional funded students in 2002-03, allocated in response to earlier bidding exercises.
- c. £13 million for increases in medical student numbers.
- d. £47 million to support widening participation for those from under-represented groups and disabled students.

Research

7. A total of £940 million is allocated for research. This is an increase of 5.9 per cent compared with 2001-02, but is sufficient to maintain the average unit of resource only for departments with the highest quality rating of 5* in the 2001 Research Assessment Exercise (RAE). For all other departments, it means a reduction in the average unit of resource, because of the overall improvement in research quality that institutions have achieved.

Moderation of teaching and research

8. We have continued our policy of phasing in changes by moderating the allocations. Institutions will not in general receive a reduction in resource (teaching and research grant, plus regulated fee income) of more than 2 per cent in real terms compared with the equivalent figure for 2001-02. However, for 2002-03, moderation will be against unmoderated funding totals for 2001-02.

Special funding and earmarked capital

9. Most of our grants for teaching and research are allocated by formula. In addition, we distribute special funding for specific purposes. In 2002-03, this funding totals £443 million. We will also allocate £302 million for earmarked capital grants, and £120 million for rewarding and developing staff in higher education.

Student numbers

10. We have provided for an additional 23,000 FTE students for 2002-03. Of these, 6,100 have been allocated through the most recent bidding exercise announced in HEFCE 01/54.

11. The Department for Education and Skills has agreed that we should no longer set maximum student numbers for each institution. This was the mechanism by which we ensured that the actual number of full-time and sandwich undergraduate students did not exceed the Government's target. Our general funding method does, however, still limit the total student numbers that institutions can recruit, so that institutions seeking significant expansion can do so only by bidding successfully for fully funded additional places.

12. For institutions securing additional places in the additional student numbers competition, we set targets for FTE student numbers to ensure that they deliver the overall growth in recruitment expected of them arising from their successful bids.

13. We will continue to monitor recruitment to foundation and sub-degree courses, to ensure that planned increases are delivered.

Action required

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

Elements of grant

15. The total distribution to institutions in 2002-03 is £5,076 million, allocated as follows:

	£M
Funding for teaching	3,271
Funding for research	940
Special funding	443
Earmarked capital funding	302
Rewarding and developing staff in HE	120
Total	5,076

16. Our funding methods for teaching and research, as they applied in 2001-02, are described in HEFCE 01/14, 'Funding higher education in England: how the HEFCE allocates its funds'. An updated version of this document will be available shortly. Our funding methods are designed to operate at the sector level and in broad terms. It is not necessarily appropriate for individual institutions to replicate them when allocating funds internally.

17. The allocations announced in this document are provisional. We will finalise them by July 2002, when we issue each institution's funding agreement. There may be rounding differences between individual figures and totals.

Funding for teaching

18. The funding for teaching of £3,271 million is higher than the amount originally announced in December 2001. This results from the transfer of £12 million from special funding (as reported in HEFCE Electronic Publication 02/02, 'Funding for universities and colleges in 2002-03'), and £11 million made available from the holdback of grant in 2001-02. The allocations for teaching shown in Table 1 total £3,264 million, made up as follows:

	£M
Core funding	3,149
Adjustments to core funding	2
Additional funded places	66
Widening access and participation	47
Total	3,264

19. A full explanation of the data in Table 1 is at Annex A. The balance of £7 million covers provision for allocations to be announced later in the year, such as for Ufi (learndirect) activity.

20. Funding for additional funded places includes £22 million allocated in response to the bids for 2002-03, invited in HEFCE 01/54. We notified institutions of the additional places offered in February. The balance of £44 million comprises:

- funding for phased allocations arising from earlier bidding exercises (£23 million)
- additional funding for increases in medical intakes (£13 million)
- funding for prototype foundation degrees, for which bids were invited in HEFCE 00/27 (£6 million)
- funding for diversification out of initial teacher training (ITT) (£2 million).

21. Funding for widening access and participation includes £38 million to recognise the additional costs of recruiting and supporting students from disadvantaged groups that are under-represented in higher education; and £9 million to recognise the additional costs of recruiting and supporting disabled students. Total funding for widening access and participation has increased by £10 million compared with 2001-02. This increase has been targeted at students from areas with the lowest participation in higher education, but has been possible only through the re-allocation of funding held back as a result of under-recruitment by some institutions in 2001-02. The continuation of this level of widening participation funding in 2003-04 will depend on the outcome of the Government's 2002 spending review.

22. The overall unit of resource for teaching (including fee income and the share of funds for rewarding and developing staff attributable to teaching rather than research – see paragraph 29) has increased by 3.5 per cent compared with 2001-02. This is a real terms increase of 1 per cent. If capital funds are included, then the teaching unit of resource has increased by 4.2 per cent.

Funding for research

23. The total funding for research is £940 million. This includes the additional £30 million announced by the Government in January, and which is for one year only. Details of the funding method for research were originally described in HEFCE Circular 4/97, 'Funding method for research from 1997-98' and, more recently, in HEFCE 01/14. These publications explain how the total amounts for each subject (the subject quanta) are set, and how these amounts are distributed between institutions, taking account of the quality and volume of their research.

24. We have reviewed the cost weights that we use in determining the total research funding for each subject, on the basis of recent expenditure and staff data from the Higher Education Statistics Agency (HESA). These data show that the relativities between the costs of research in different subjects have narrowed. As a result we have reset the cost weights as follows:

	Cost weight for:	
	2001-02	2002-03
High cost laboratory and clinical subjects	1.7	1.6
Intermediate cost subjects	1.3	1.3
Other subjects	1.0	1.0

25. Following the significantly improved results from the 2001 RAE, and taking into account the funding available, the Board's priority has been to maintain the average unit of resource for departments rated 5* (five star). In January it also decided to provide £20 million for departments rated 3a, but not to fund those rated 3b. The effect of these decisions on the quality weightings used to distribute funding within units of assessment, and on average units of resource per quality rating, are as follows:

RAE rating	Funding weights for:			Change in average unit of resource
	2001-02	2001-02 divided by 1.5 for comparison with 2002-03	2002-03	
5*	4.05	2.71	2.71	+2.5%
5	3.375	2.26	1.89	-12.3%
4	2.25	1.50	1.00	-29.2%
3a	1.5	1.00	0.31	-67.2%
3b	1	0.67	0	-100.0%
2	0	0	0	Not applicable
1	0	0	0	Not applicable

26. The changes in units of resource shown above (including the maintenance of resource levels for 5* departments in real terms) are averages across all units of assessment. They do not necessarily hold for individual units, because of the influence of volume and cost weight changes between units of assessment.

27. We are no longer allocating funding for generic research. The £20 million allocated for this is now included in the total of £940 million distributed on the basis of research quality identified in the 2001 RAE.

28. The Board will decide the basis for distributing research funding for 2003-04 and beyond once the outcome of the Government's 2002 spending review is known. The Board has already signalled that its priority for any funding increase secured for research will be the restoration of the average unit of resource for 5 and 4-rated departments.

Rewarding and developing staff in higher education

29. HEFCE 01/16, 'Rewarding and developing staff in higher education', announced indicative allocations of funding for 2001-02 to 2003-04 to support the development and implementation of human resource strategies. The total HEFCE funding for this in 2002-03 is £120 million, with a further £6 million from the Teacher Training Agency (TTA). We have recalculated the allocations for institutions, as HEFCE 01/16 explained we would, to use more up-to-date funding data. For most institutions, these allocations are conditional upon the submission and acceptability of full strategies by 1 June 2002.

Special funding and earmarked capital

30. Most of our funding is allocated by formula as recurrent funding for teaching and research. However, we also allocate a small proportion of our total funding to support special funding programmes, to promote specific policies (such as widening participation) or to

contribute towards additional costs for institutions that are not recognised through our recurrent funding methods (such as support for national facilities). For 2002-03, we are allocating £443 million for special funding, and a further £302 million for earmarked capital grants. The distribution of this funding to institutions is not shown in this publication. We will publish in due course a separate report detailing the allocation of special funding to institutions.

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

Moderation

32. As in previous years, we are providing moderation funding to help phase in significant changes in funding. However, where institutions have to restructure their provision in the light of changing student demand, there should be incentives to act quickly, without excessive cushioning. We have therefore changed the basis on which we calculate moderation. We provide moderation funding as a short-term measure. It is not intended to be an entitlement or general subsidy, but to support action that will enable institutions to secure change and manage the transition to lower funding levels. As reported in Electronic Publication 02/02, the Board has decided that, for 2002-03, we should moderate against the previous year's unmoderated resources. This means that where a significant reduction in funding is due, we do not provide moderation for more than one year.

33. The Board further decided in February that the threshold for moderation should be set at a cash increase of 0.5 per cent (a reduction in real terms of 2 per cent) compared with the equivalent figures for 2001-02, but that we should not provide moderation where it amounts to less than £100,000. No moderation will be provided in 2002-03 for those institutions which have already received substantial moderation in 2000-01 or 2001-02. We warned institutions in December that where the outcomes of the 2001 RAE led to a significant increase in overall resources, then such increases could be capped. In the event, it has not proved necessary to cap the increases in resource at any institution.

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

Student numbers

35. We have provided for an additional 23,000 FTE students in 2002-03. The distribution of these places is in the table below.

Additional places for 2002-03	Full-time	Part-time	Total FTE
		headcount	
New places awarded for 2002-03:			
Foundation and sub-degree	3,600	14,800	6,800
Degree and postgraduate	8,800	2,800	9,900
Sub-total	12,400	17,600	16,700
Places rolled forward from 2001-02:			
Foundation and sub-degree	700	9,900	3,300
Degree and postgraduate	2200	1,900	3,100
Sub-total	3,000	11,800	6,300
Total	15,400	29,400	23,000

36. The new places awarded for 2002-03 comprise: 6,100 FTEs awarded through our most recent bidding exercise announced in HEFCE 01/54; 7,100 FTEs awarded through phased allocations from earlier bidding exercises; 1,400 FTEs for prototype foundation degrees; 1,400 FTEs for increases in medical student numbers; and 600 FTEs to support diversification out of ITT. The 6,300 places rolled forward from 2001-02 were allocated through earlier bidding exercises.

37. In previous years, we have set maximum student numbers (MaSNs) for institutions, in order to ensure that the Government's planned number of students subject to overall control is not exceeded. The Secretary of State for Education and Skills has accepted our recommendation that we should dispense with the MaSN control for 2002-03. In doing so, she expects institutions to use the increased flexibility afforded by the removal of the MaSN responsibly. We have assured the Department that, if its removal has undesirable effects, we would re-introduce the MaSN in a subsequent year at a level consistent with the Government's plans.

38. Institutions are still subject to the requirement to remain within ± 5 per cent of standard funding levels. This means that there is a limit to which institutions can recruit students without securing additional grant, and institutions wishing to expand recruitment significantly should do so by bidding through our annual additional student number bidding exercises. In HEFCE 01/33, 'Holdback of HEFCE grant 2001-02', we warned institutions (in paragraph 38) that we might introduce measures for 2002-03 which could involve financial or other penalties for institutions that come below their contract range. We will publish later in the year the rules governing holdback of grant for 2002-03.

39. Last year, we introduced overall targets of FTE student numbers for institutions that had been awarded additional funded places through our general bidding exercises. We have again set such targets for 2002-03 to ensure that, where we have provided additional funding, institutions deliver the expected increases in their overall student numbers. The grant letters to individual institutions specify overall FTE targets if either the growth in 2001-02 has not yet been delivered, or we have awarded additional places for 2002-03. The grant letters also identify the funding that is contingent upon those FTEs being delivered.

40. We give institutions two opportunities to deliver the growth expected from their successful bids for additional places. Institutions that did not deliver the growth expected of them in 2001-02 will have had funding for their additional places reduced in that year. They will be able to recover the funding deducted in 2002-03 if they make good the shortfalls from the previous year. Similarly, institutions that do not deliver all the additional places for which we have provided funding in 2002-03 will have some or all of that funding withheld. They will have an opportunity to recover the funding withheld in 2003-04, subject to sufficient recruitment.

41. We wish to ensure that planned increases in the number of students on foundation degrees or courses below degree level are delivered. We have therefore set separate foundation and sub-degree targets for institutions that have been allocated additional funded places for such courses in 2002-03. These targets are also specified in institutions' individual grant letters.

Conditions of grant

42. Our grants to institutions are conditional on the funds being used for the eligible activities set out in section 65(2) of the Further and Higher Education Act 1992. The conditions of grant that apply to funding are given in the model Financial Memorandum between the HEFCE and institutions (HEFCE 00/25), published in June 2000.

43. In July we will send institutions their funding agreement for 2002-03. This will form Part 2 of the Financial Memorandum between the HEFCE and each institution. It will specify the conditions, in terms of the levels of teaching activity, which we attach to our teaching funding.

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

45. The Secretary of State has made it clear that she expects institutions not to charge students, who have been assessed as eligible for support, more than a prescribed amount in fees. The prescribed amounts are given in Electronic Publication 01/02, 'Tuition fees for 2002-03', as:

- a. £1,100 for students on full-time undergraduate courses.
- b. £540 for students on courses, including sandwich courses, where the student spends a significant time during the year away from their institution (that is, where periods of full-time study are in aggregate less than 10 weeks).
- c. £540 for part-time courses of ITT.

46. Where the Secretary of State specifies an institution, we will be required to impose a condition on our grant to that institution to ensure that the fees payable by students assessed as eligible for fee support on designated courses are equal to the prescribed amount.

47. Our Financial Memorandum with institutions contains sections on providing information. These information requirements are part of the terms and conditions attached to the funding for 2002-03. Details are contained in the letters to institutions, dated 5 March 2002.

Audit of funding data

48. The allocations of funds for teaching and research are informed by the data we collect from institutions. We will continue to audit these data selectively in this and future funding exercises. We will make a number of audit visits, covering the full range of data provided by institutions to inform the 2002-03 funding allocations.

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

Further information

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