

May 2004/23

Guide

This guide describes the principles that underpin HEFCE's allocations of grants to universities and colleges. It is intended for those working in higher education, and for others who wish to understand HEFCE's funding methods.

Funding higher education in England

How HEFCE allocates its funds

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Introduction

1. Every March we announce the grant for the following academic year to each university and college we fund. The academic year runs from 1 August to 31 July.
2. This guide describes the principles that underpin the allocation of funding and explains the components of an institution's grant. It is intended for those working in higher education and for others who wish to understand our funding methods.
3. We use formulae to determine how most of the money is allocated between institutions. These take account of certain factors for each institution, including the number and type of students, the subjects taught, and the amount and quality of research undertaken there. After we determine the amount of funding, it is provided in the form of a 'block grant' which institutions are free to spend according to their own priorities within our broad guidelines. We do not expect institutions to model their internal allocations on our own funding method.
4. In 1996-97 we consulted widely and reviewed our funding methods for teaching and research. The present funding method for research was first used to allocate grants for 1997-98. We consulted on changes to the research funding method in August 2003 (HEFCE 2003/38 'Review of research funding method') and will be implementing changes from 2005-06 and after the next Research Assessment Exercise (RAE). The funding method for teaching was introduced for 1998-99 for higher education institutions (HEIs) and for 1999-2000 for those further education colleges (FECs) that we fund. We consulted on changes to the teaching funding method in August 2003 (HEFCE 2003/42 'Developing the funding method for teaching from 2004-05'). In light of the responses to this consultation, changes were incorporated into the funding method for teaching in 2004.
5. It is our policy, and has been our practice, to be open about our allocation methods and policies, and this guide is intended to explain them. Our web-site (www.hefce.ac.uk) provides further information.

Background

6. Periodically we advise the Secretary of State for Education and Skills on the funding needs of higher education in England. The actual funding for higher education is decided by the Government and voted by Parliament.

7. We are responsible for distributing this money within broad policy guidelines provided by the Secretary of State. In 2004-05 we are directly funding 131 HEIs and 159 FECs that provide higher education courses.

8. Institutions are accountable to HEFCE, and ultimately to Parliament, for the way they use HEFCE funds. They are independent bodies and are free to raise money from other sources. This gives them scope to pursue activities alongside those for which they receive HEFCE funds.

9. We allocate funds to each university or college to support teaching, research and related activities. In doing so, we aim to:

- increase opportunities for students from all types of backgrounds to benefit from higher education
- maintain and enhance the quality of teaching and research
- encourage universities and colleges to work with business and the community
- support diversity
- encourage efficiency in the use of public funding
- provide stability in funding from year to year.

10. Funds for teaching and research are provided as a block grant. Institutions are free to distribute this grant internally at their discretion, as long as it is used to support teaching, research and related activities.

11. HEIs receive funding from many different public and private sources. HEFCE is the largest single source of income for the higher education sector as a whole. The proportion of an individual institution's total income allocated by HEFCE will depend on its activities and money raised from other sources.

12. After HEFCE grant, tuition fees are usually the other major source of funding for teaching. Since 1998-99, UK or European Union (EU) students starting full-time undergraduate courses have been liable to pay an annual tuition fee. The fee level (£1,150 for 2004-05) represents about a quarter of the average cost of tuition. Fees are means-tested by students' local education authorities (LEAs) so that those from poorer families are exempt, or pay only a proportion. The Student Loans Company pays any public contribution towards the fee.

13. We are the single largest provider to HEIs of public funds for research. Public funds for research in universities and colleges are also provided by the Office of Science and Technology. These are distributed by the Research Councils, and support research projects

and some postgraduate students. The Arts and Humanities Research Board (AHRB) similarly supports research projects and some postgraduate students in the arts and humanities. In the rest of this publication, reference to 'Research Councils' includes the AHRB.

Medical and dental education and research

14. Government funding of medical and dental education and research is distributed through a partnership between HEFCE and the National Health Service (NHS). HEFCE-allocated funds underpin teaching and research in university medical schools, while NHS funds support the clinical facilities needed to carry out these activities in hospitals and other parts of the health service. Funding for students in health-related subjects such as nursing and midwifery generally comes from the NHS.

Teacher education and training

15. The Teacher Training Agency (TTA) provides funding for education and training courses aimed at school teachers. In particular, it funds initial teacher training courses leading to qualified teacher status (QTS), and in-service education and training courses for teachers who hold QTS. HEFCE funds other teacher education and training provision outside the schools sector.

Higher education in further education colleges

16. We are responsible for funding courses at FECs on which the students are aiming for certain higher education qualifications. These are: higher degrees (such as Masters qualifications); Postgraduate Certificate in Education (PGCE); first degrees (BA, BSc, BEd and foundation degrees); foundation degree bridging courses; Higher National Diploma and Certificate (HND and HNC); Diploma in Higher Education (DipHE); Diploma in Social Work (DipSW); and Certificate in Education (CertEd). Other higher education courses at FECs, such as some professional courses, are fundable by the Learning and Skills Council (LSC).

The annual funding cycle

17. The Government operates a rolling three-year process to set public expenditure across all departments. This has developed into biennial spending reviews to review and re-set expenditure levels. The last spending review was in 2002 and set public expenditure for 2003-04 to 2005-06. The next review is in 2004 to cover 2005-06 to 2007-08.

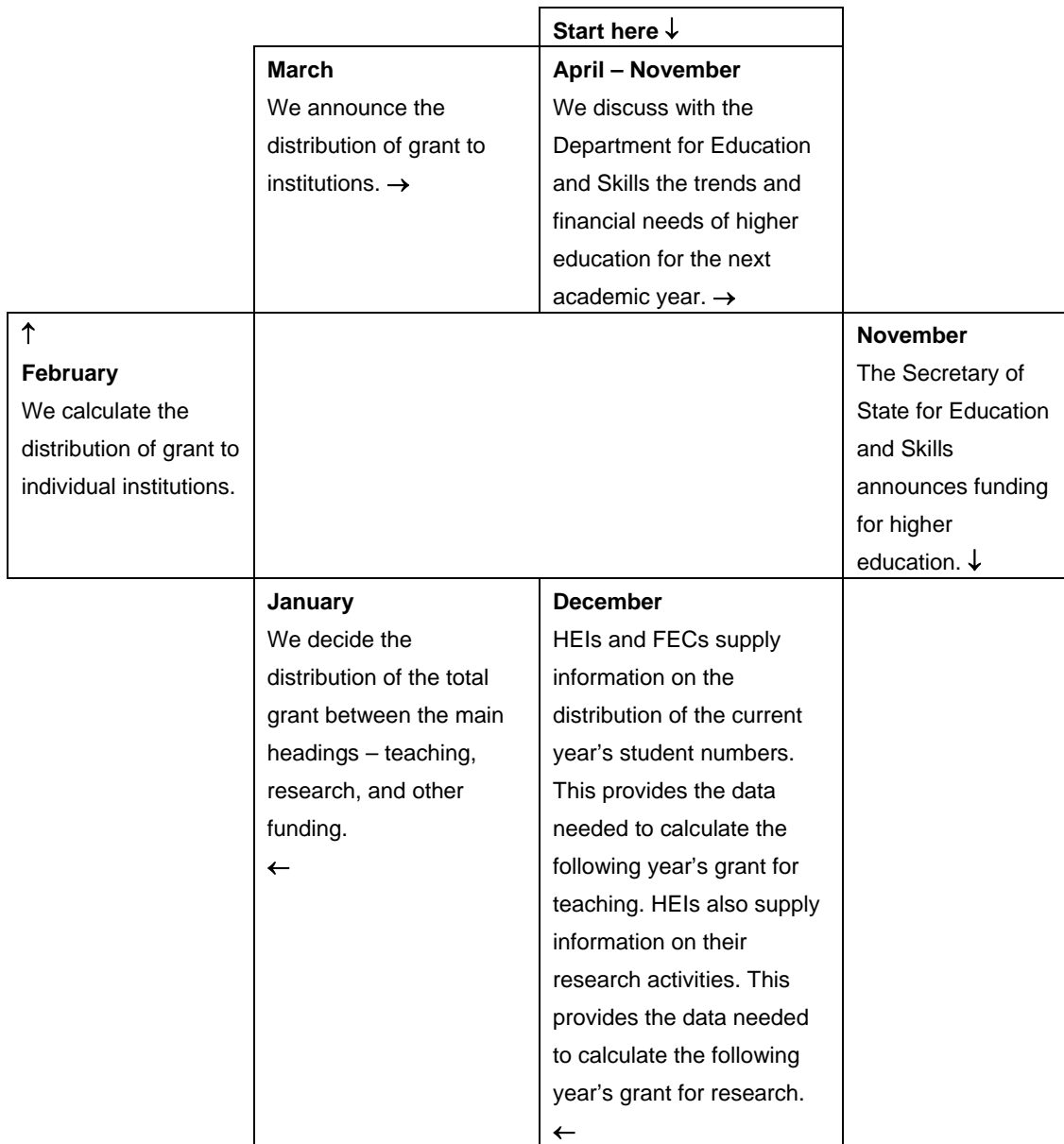
18. Each year we divide the total funds between teaching, research and other funding. The breakdown for 2004-05 is shown in Figure 1.

Figure 1 Breakdown of HEFCE funding in 2004-05: total £5,993 million

Teaching	£3,826 million
Research	£1,081 million
Special funding	£486 million
Earmarked capital funding	£584 million
Provision for transfers and flexibility	£16 million

19. Most of these funds are distributed by formulae, which take account of the volume and mix of individual institutions' teaching and research. We publish the data on which calculations are based, so that institutions can check the outcomes each year.

Figure 2 The annual funding cycle



20. Every year the Secretary of State for Education and Skills informs HEFCE of the funding available for the following year. The total grant to be allocated is usually confirmed each autumn and guidance is given on spending priorities. We then determine the grants to individual institutions between December and February each year (see Figure 2).

21. Each December, universities and colleges provide us with a breakdown of their student numbers, together with information on research activities. The main data return, the Higher Education Students Early Statistics (HESES) survey, collects information about the number of students studying at each HEI. A similar return is provided by FECs – the Higher Education in Further Education: Students (HEIFES) survey.

Funds for teaching

This part of the guide is divided into three sections:

- general funding principles
- overview of the funding method
- detailed description of the method.

General funding principles

22. In distributing the funds, we aim to meet the needs of students, employers and the nation by promoting high quality teaching. Our overall budget is set by the government so the funding method does not affect the total sum available for distribution to institutions.

23. We introduced our method to allocate funds for teaching in 1998-99. The previous method provided stability for institutions but in some cases gave differing levels of funding to different institutions for historical rather than educational reasons. With our current method we aim to provide fairer funding per student.

24. The method was developed in consultation with universities and colleges. It funds similar activities at similar rates for all institutions, and ensures that any variations are for explicit and justifiable reasons. It takes account of the extra costs of certain types of provision such as part-time courses and foundation degrees, and supports diversity by recognising the extra costs of specialist institutions. In addition, funding for widening participation recognises the additional costs of recruiting and supporting particular types of student.

25. The core funding for institutions was changed in January 2004 to reflect changes to the teaching funding method following the consultation in HEFCE 2003/42. It includes the incorporation within the teaching grant of some previously separate streams of funding:

- compensation for increases in employers' contributions to the Teachers' Pensions Scheme (TPS)
- funding for rewarding and developing staff (R&DS). For information on R&DS see paragraphs 63 to 67.

26. The method allows institutions to bid for additional funded student places according to criteria that we determine each year. The most recent bidding exercises were restricted to foundation degrees and social work courses, which are areas of priority for the Government. We are reviewing how to allocate additional student places in the future.

Overview of the funding method

27. Institutions receive teaching funds in the form of HEFCE grant and tuition fees. Full-time undergraduate students may receive assistance with their fees from the Government, based on their financial circumstances. Postgraduate students on taught courses pay fees to institutions mostly from their own funds. Fees for many postgraduate research students are paid by the Research Councils. Students from outside the EU are generally expected to meet the full costs of their courses.

28. The combined total of grant and tuition fees is referred to as teaching resource or simply as resource.

Resource = HEFCE grant + tuition fees

Calculating the grant

29. There are four main stages in calculating the main element of HEFCE teaching funds for each university and college:

Stage 1 We calculate a **standard resource** for the institution. This is a notional calculation of what the institution would get if grant was calculated afresh each year. It is based on each institution's profile of students, and takes into account:

- the number of students
- subject-related factors
- student-related factors
- institution-related factors.

Stage 2 We calculate the **assumed resource** for the institution. This is based on the teaching grant that we actually paid to the institution for the previous year, adjusted for various factors such as inflation, plus our assumptions of student tuition fee income.

Stage 3 We compare the **standard resource** with the **assumed resource** and work out the percentage difference between them.

Stage 4 If the difference between the standard resource and the assumed resource is no more than 5 per cent (whether that is plus 5 per cent or minus 5 per cent), then the HEFCE grant will be carried forward from one year to the next. For institutions outside the plus or minus 5 per cent **tolerance band**, their grant and/or student numbers need to be adjusted so that they move to within the tolerance band.

30. Each stage is described in more detail below.

31. In addition to our main teaching funding method, we have made separate allocations to recognise the additional costs of recruiting and supporting students from disadvantaged and non-traditional backgrounds, and students with disabilities. These allocations to widen

participation in higher education, which are described further in paragraphs 51 to 57, recognise institutions' success in recruiting and retaining these categories of students. These allocations total £273 million for 2004-05.

Detailed description of the method

Stage 1 Calculating the standard resource

Student numbers and volume of teaching activity

32. The students who count towards our teaching grant calculations are, broadly, those home and EU students who are on higher education courses open to any suitably qualified candidate and who are not funded from other public sources. Categories of students which we do not fund through our allocations for teaching include overseas students from outside the EU, and students whose funding is provided from public sources such as the NHS or the TTA. In addition, full-time postgraduate research students in years 2 and 3, and part-time postgraduate research students in years 3 to 6, are funded only through our funding method for research.

33. Student numbers are counted in full-time equivalent (FTE) terms. A part-time student is measured by comparing their learning activity with that of a full-time student, so that each will count as a variable proportion of one FTE. Students who undertake practical work or industrial experience for a year outside the university or college (known as sandwich year-out students) are counted at the rate of 0.5 FTE per student for that year.

34. In determining an institution's standard resource for the coming year, we count the students recruited the previous year and add on any student numbers awarded in the competition for additional places for the coming year.

Premiums

35. Clearly there are factors such as the types of student, and the nature of the subject, that call for different levels of resource. To take account of these factors, we attach funding premiums when we calculate the standard resource for each institution. They relate to:

- the subject
- the student
- the institution.

Subject-related factors

36. Different subjects require different levels of resource: some subjects need laboratories and workshops while others are taught wholly in lecture theatres and seminar rooms. We have defined four broad groups of subjects (price groups) for funding, and have set relative cost weights for each based on expenditure and student FTE data by cost centre. For 2004-05 these weights were changed to reflect responses to the consultation in HEFCE 2003/42.

Price group	Description	Cost weight
A	The clinical stages of medicine and dentistry courses and veterinary science	4
B	Laboratory-based subjects (science, pre-clinical stages of medicine and dentistry, engineering and technology)	1.7
C	Subjects with a studio, laboratory or fieldwork element	1.3
D	All other subjects	1

Student and institutional premiums

37. Having weighted the student numbers by their subject price group, we then apply further weightings to take account of student or institutional factors. These are described below, and there is further information at Annex A, step 3.

38. The student premiums which apply for 2004-05 are:

Students on long courses Some courses are taught over longer periods than others within the year and so cost more. Courses that last for 45 weeks or more within one academic year attract a premium. This does not apply to courses in price group A, where the course length has already been taken into account within the cost weight.

Part-time students There are extra costs associated with part-time students. For example, the institution's administration costs for two part-time students, each equivalent to 0.5 FTE, will be higher than for one full-time student.

Foundation degrees There are usually higher costs for foundation degrees associated with partnerships between institutions and employers.

39. The institutional premiums which apply for 2004-05 are as follows.

London weighting We pay a premium towards the higher costs of operating in London.

Institution-specific premium Some specialist institutions (defined as having 60 per cent or more of their courses in one or two subjects only) have higher costs.

Small institutions Small institutions (defined as having 1,000 FTEs or fewer) often carry disproportionately high central and administrative costs.

Old and historic buildings Institutions with old and historic buildings (constructed before 1914) have higher costs to cover, such as maintenance, refurbishment and heating.

40. The following table shows the way we apply the student and institutional premiums.

	Calculated as:	Qualifying institutions
Student premiums		
Students on long courses	25% of the FTE weighted by price group	HEIs and FECs
Part-time students	10% of the unweighted FTE	HEIs and FECs
Foundation degree students	10% of the unweighted FTE	HEIs and FECs
Institutional premiums		
London weighting	8% (inner London) or 5% (outer London) of the FTE weighted by price group	HEIs and FECs
Institution-specific premium	Variable percentage (commonly 10%) of the FTE weighted by price group	HEIs only
Small institutions	Variable percentage of the unweighted FTE	HEIs only
Old and historic buildings	Variable percentage of the unweighted FTE	HEIs only

Calculating the standard resource

41. We calculate a basic amount of resource for a full-time equivalent student by dividing the money available to fund teaching (our grant plus assumed tuition fees) by the total number of weighted FTE students in the sector. This basic rate of resource (grant plus fee) is called the base price and is the basic rate (that is, the rate for a standard FTE) in price group D. For 2004-05, the base price is £3,484. The base price therefore implies resource rates for each price group as follows: £13,936 for price group A; £5,923 for price group B; £4,529 for price group C; and £3,484 for price group D.

42. The total weighted FTEs for an institution are the sum of the FTEs weighted by price group, plus the student and institutional premiums.

43. The standard resource for an individual institution is its total weighted student FTEs multiplied by the base price.

Stage 2 Calculating the assumed resource

44. For each institution, we start with the mainstream HEFCE grant for teaching they received the previous year. Then we make the following adjustments.

Grant adjustments

Adjust funding where institutions have failed to meet the requirements of their funding agreement (see paragraphs 58 to 62). This usually arises because institutions are unable to recruit or retain the numbers of students for which the previous year's grant was allocated.

Adjust for increases due to inflation within the total funds provided by the Government.

Add any funding for additional students. The Government wants to expand the higher education sector. Each year, over the next few years, we will be providing funds to the sector for extra students. Subject to the outcomes of the Government's Spending Review we will be reviewing how to allocate additional places to institutions.

Adjust for other changes to grant including any transfers between institutions.

Fee adjustment

Add an assumed income from tuition fees paid by students, Research Councils, local education authorities, employers and others.

45. For 2004-05 the assumed fee income per FTE is as follows:

Full-time undergraduates	£1,150 per FTE
Sandwich year-out undergraduates	£1,120 per FTE
Part-time undergraduates on courses with regulated fees	£1,120 per FTE
Other part-time undergraduates	£1,150 per FTE
Taught postgraduates on courses with regulated fees (these are courses such as PGCEs and some architecture courses)	£1,150 per FTE
Other full-time and sandwich taught postgraduates	£3,484 per FTE
Other part-time taught postgraduates	£3,832 per FTE
All research postgraduates	£3,010 per FTE

Stage 3 Calculating the percentage difference

46. The next step is to compare the results of Stage 1, the standard resource, with the results of Stage 2, the assumed resource. The percentage difference is calculated as follows:

$$\frac{\text{assumed resource} - \text{standard resource}}{\text{standard resource}} \times 100$$

47. The funding method aims to ensure that similar activities are funded at similar rates in all universities and colleges. Therefore we do not want to give individual institutions much more or much less money than their standard resource. At the same time we do not want to apply a completely standardised flat rate, but rather to allow some variation around the standard resource to give institutions flexibility in the nature of the provision they offer to students within broad subject areas (for example, in terms of course content, staffing structures and methods of delivery) and in allowing some changes in student numbers without funding implications. We therefore allow a 'tolerance band' or difference of 5 per cent above or below the standard resource. This broad-brush approach to funding helps to keep the accountability burden lower than might otherwise be the case.

Stage 4 Calculating the teaching grant

48. If an institution is within the tolerance band, our funding will roll forward from the previous year. In other words, we will pay the amount calculated in Stage 2, less the assumed income from tuition fees. This applies to most universities and colleges.

49. For institutions which fall outside the tolerance band, we take action to bring them within the band. This may be by increasing or reducing student numbers, or by adjusting funding.

50. Annex A gives more detailed descriptions of the calculations of standard resource, assumed fee income, and the comparison between standard and assumed resource.

Funds for widening participation

51. Outside our main funding method for teaching, we also allocate funding each year to recognise the additional costs of recruiting and supporting students from disadvantaged and non-traditional backgrounds or students who have disabilities. These allocations are not a form of individual student support, but rather are allocations to institutions that reflect the additional costs they may face because of the broad mix of students that they recruit.

52. Following the consultation in HEFCE 2003/42, we have made some changes to the funding methods for widening participation. A total of almost £273 million is being allocated to support widening participation. This comprises:

- £37 million to widen access for full-time undergraduates
- £12 million to widen access for part-time undergraduates
- £159 million to improve retention of full-time undergraduates
- £54 million to improve retention of part-time students
- £10 million to improve support and facilities for disabled students.

53. For 2004-05 we have revised our method of allocating funds for widening access. Funding for widening access for full-time and part-time undergraduates is allocated using a method that reflects levels of relative educational disadvantage in census wards. It is calculated pro rata to 2004-05 weighted FTEs, where the weightings reflect the broad institutional mix of students from different census wards as well as a London cost weighting. To calculate the institutional weighting we use postcode information from the individual student records provided to the Higher Education Statistics Agency (HESA) and the LSC to assign undergraduate new entrants to a census ward. We weight these students according to young HE participation by ward (for full-time undergraduates under 21); and average educational achievement by ward (for part-time and mature full-time undergraduates). Students from the most educationally disadvantaged wards receive the highest weightings, while other students may receive a weighting of zero. As the funding is for widening access to HE, students who already hold an HE qualification at the same level as, or higher than, their current qualification aim are given a weighting of zero, irrespective of their ward. The

overall institutional weighting reflects the number of new entrants weighted by ward, divided by the unweighted new entrants.

54. The £159 million for improving the retention of full-time undergraduates is allocated on the basis of pre-entry qualifications and age. It is calculated pro rata to 2004-05 weighted FTEs, where the weightings reflect the broad institutional mix of students according to their risk of dropping out and also incorporate London weighting. To calculate this institutional weighting we assign full-time undergraduate students (from HESA and LSC individual student records) to six categories on the basis of their age and pre-entry qualifications.

55. There are two age categories ('young' and 'mature'), each of which has three associated risk categories of non-continuation (low, medium and high). Those in the low-risk category may have achieved high grades at A-level, or already have a higher education qualification; those in the high-risk category may have non-traditional entry qualifications, or low grades at A-level. These six categories are then weighted to reflect the sector-average risk of such students not continuing their studies. The overall institutional weighting applied to 2004-05 FTE student numbers reflects the students weighted according to the six age and entry qualification categories, divided by the unweighted student numbers. Only students who complete their year of study are included in these calculations.

56. The £54 million allocated to improve the retention of part-time students has been allocated pro rata to the equivalent funding in 2003-04. This reflected the standard resource for part-time students and the numbers of unweighted part-time FTEs.

57. The £10 million allocated for disabled students is calculated pro rata to 2004-05 weighted FTEs, where the weightings reflect institutions' success in recruiting and retaining students with disabilities, and London weighting. We assign each institution to one of four weighting bands according to the proportion of their students who receive the Disabled Students Allowance (DSA), based on HESA and LSC individual student data. The DSA is an allowance paid by LEAs to assist students who can show that they have a disability or medical condition that affects their ability to study.

The funding agreement

58. We draw up a funding agreement each year, also referred to as Part 2 of the Financial Memorandum, with each of the institutions we fund.

59. The funding agreement is constructed in broad terms. It implies a weighted volume of activity which is being funded against the resource being allocated.

60. Institutions can vary their recruitment as long as the weighted volume of activity is maintained within certain implied limits. So, for example, they may vary the balance of recruitment between full-time and part-time students or between different price groups. When the funding announcements are made, well ahead of the start of the relevant academic year, institutions cannot be sure about their recruitment in that year. This may be less than expected, the balance between subjects may vary, or the number of students not

completing the academic year may differ from expectations. In most cases this does not affect their grant. However, if recruitment results in the assumed resource differing by more than 5 per cent from standard resource, then action is taken to draw the institution back within that tolerance band. This would be achieved by adjusting student numbers or funding in the current and/or subsequent years.

61. When we provide funding for additional places in response to bids from institutions, we expect them to increase their student numbers. We therefore set them a target for their overall FTE students. If they recruit below the target, we reduce the funding we have provided for their bid. However, we give institutions a second chance to deliver the expected increases, recognising that start-up difficulties may prevent full recruitment in the first year.

62. We set minimum numbers for students on some medical and dental courses. If institutions fall short of the minimum numbers, their grant is reduced.

Rewarding and developing staff in HE

63. The pay levels and terms and conditions of employment for academic and other staff employed by HEIs are matters for the HEIs themselves to determine. They are expected to follow public sector pay policy by taking account of fairness, affordability, and the need to recruit, motivate and retain staff. Staff salaries are paid for from HEIs' total resources, including the HEFCE block grant.

64. The funding for higher education announced following the Government's 2000 spending review included additional specific funding over 2001-02 to 2003-04 to reward and develop staff in higher education. The allocation in 2003-04 totalled £170 million. These funds were to be used to recruit and retain high quality staff, to improve human resources (HR) management practice, and to modernise HR systems and processes in the sector. Further funding has been made available following the 2002 spending review for round 2 of this initiative (amounting to £48 million in 2004-05 and £112 million in 2005-06) to continue this process of modernisation.

65. For 2004-05, allocations for both rounds of the R&DS initiative have been consolidated within funding for teaching. Round 1 consists of the actual allocations for 2003-04 which were calculated as a proportion of an HEI's total assumed resource for teaching and research. The round 2 allocation is proportional to an institution's grant for teaching only.

66. Funding for the staff recruitment and retention initiative known as golden hellos, and for the Promising Researcher Fellowship Scheme, has been incorporated into R&DS funds for 2004-05. Six million pounds for R&DS in FECs, previously allocated through the HE in FE Development Fund, is also being consolidated into the teaching grant for each directly-funded FEC.

67. R&DS funding is being identified separately in institutions' funding agreements for 2004-05, because it is subject to particular conditions of grant (see HEFCE 2004/03,

'Rewarding and developing staff in HE – round 2'). Further R&DS funding is allocated by the TTA from sums transferred from HEFCE.

Data monitoring

68. Every year we compare student data returned in HESES and HEIFES with that submitted to HESA and the LSC. The purpose of this is to identify any institutions that have received more or less than their funding entitlement. It also improves the quality of these data returns. The HESA and LSC data are submitted in November and contain details about all students in the most recently completed academic year. HESES and HEIFES are completed in December and relate to the current academic year. Consequently the comparison considers inconsistencies in data for the previous academic year. We also carry out selective audits of institutions' data returns. If we find that erroneous data have resulted in institutions receiving higher allocations than would otherwise have been the case, then the funding for those institutions is reduced accordingly.

Funds for research

69. Public research funds are provided under a dual support system. HEFCE provides funding to support the research infrastructure. Our funds go towards the cost of the salaries of permanent academic staff, premises, libraries and central computing costs. The Research Councils provide for direct project costs and contribute to indirect project costs.

70. The general funds we provide also support basic research in institutions and contribute to the cost of training new researchers. This basic research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.

71. We are committed to promoting excellent research. HEFCE research funds are distributed selectively to HEIs that have demonstrated the quality of their research by reference to national and international standards. Quality has been measured in a periodic Research Assessment Exercise (RAE). Information on the next RAE is available on the web at www.rae.ac.uk. FECs are not eligible for our research funding.

72. Our funding for research in 2004-05 is £1,081 million and is allocated under two main headings:

- quality-related research (QR) funding – with reference to both the quality and volume of research activity (£1,061.4 million)
- capability funding (£17.5 million).

73. The balance of £2 million has been set aside for veterinary research through a joint initiative with the Department for Environment, Food and Rural Affairs (DEFRA).

Quality-related research funding

74. The separate components of quality-related (QR) funding are shown below.

Mainstream QR allocated to reflect the quality and volume of research at institutions in different subjects	£932M
Funds for the supervision of postgraduate research students	£72.9M
London weighting allocated to reflect the additional costs of provision in London	£32.5M
'Best 5*' allocation (see paragraph 84 below)	£23.9M

Mainstream QR funding

75. There are two stages to the allocation of mainstream QR funds:

- Stage 1: determining the amount provided for each subject
- Stage 2: distributing the subject totals between institutions.

Stage 1 Determining the amount provided for each subject

76. Mainstream QR funds are divided between 68 subject areas (units of assessment). Each subject is assigned one of three cost weights, which have been calculated to reflect the **relative costs** of research in those subjects. These are multiplied by the **volume** of research in each subject to work out the total funding for that subject.

77. The three **cost** weights are:

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

78. We measure the **volume** of research in each unit of assessment using five separate components. These volume components apply for departments rated 4 or above in the RAE and are weighted as follows:

- **research-active academic staff** – 1 × number of FTE research-active academic staff funded from general funds (including NHS funding for nursing and other subjects allied to medicine) and selected for assessment in the RAE
- **research assistants** – 0.1 × number of FTE research assistants
- **research fellows** – 0.1 × number of FTE research fellows
- **postgraduate research students** – 0.15 × 1.75 × FTE number of postgraduate research students in their second and third years of full-time study, or third to sixth years of part-time study. The multiplier of 1.75 is used to scale up the 2 years counted for funding purposes to a total of 3.5 years, which represents an average period of study for a full-time research degree
- **research income from charities** – 0.177/25,000 × average of last two years' income from charities. Income from charities is divided by £25,000 (a researcher's notional average salary) to obtain a person equivalent.

79. The number of research-active academic staff is the most important measure of volume: it accounts for about two-thirds of the total. Research-active staff numbers are fixed between RAEs. We update other volume measures annually.

Stage 2 Distribution of the subject totals between institutions

80. The 68 subject totals are distributed to institutions in proportion to the **volume** of research multiplied by the **quality** of research in the subject for each institution.

81. The **volume** of research for each institution in each subject is measured in the same way as in Stage 1 above, but includes NHS-funded staff for all units of assessment.

82. The **quality** of research is assessed in the RAE. The last RAE was conducted in 2001 and has informed funding decisions from 2002-03.

83. In the last RAE, each institution was awarded a rating, on a scale of 1 to 5* (five star), for the quality of its research in each unit of assessment in which it was active. The table below shows how these ratings relate to funding multipliers. Ratings 1, 2, 3b and 3a attract no funding, while a rating of 5* attracts over three times as much funding as a rating of 4 for the same volume of research activity. As a result, our funding of research is highly selective.

RAE ratings converted into funding weights for each unit of assessment

2001 RAE rating	Funding weights in QR model
1	0
2	0
3b	0
3a	0
4	1
5	2.793
5*	3.362

84. The Government's White Paper 'The future of higher education' asked us to provide additional resources to the 'very best of the 5* departments'. In 2003-04, we distributed an additional £20 million for departments that achieved a 5* rating in both the 1996 and 2001 RAEs. For 2004-05 we have extended eligibility to include also those departments that achieved a rating of 5* for the first time in 2001, while maintaining or increasing the number of research-active staff submitted since the 1996 RAE. The allocation of £20 million is pro rata to London-weighted mainstream QR funding for the departments concerned. An additional £3.9 million has been allocated to ensure that no institution receives less overall through this stream of funding than in 2003-04.

Other elements of QR funding

85. As explained in paragraph 32, we fund postgraduate research students in years 2 and 3 (full-time) or years 3 to 6 (part-time) only through our funding method for research and not through funds for teaching. This ensures that we only provide funding for postgraduate research places in higher quality, well-equipped research departments, where supervisors are active in research and have time for supervision. We allocate these funds for the supervision of research students in proportion to the weighted FTE numbers in units of assessment rated 3a or higher. The weightings are the three research cost weights A to C, given in paragraph 77.

86. We also provide additional QR funding to recognise the extra costs of provision in London. These allocations equal 12 per cent (for inner London) or 8 per cent (for outer London) of the total of mainstream QR and funds for the supervision of research students.

Capability funding

87. For 2004-05 we are providing £17.5 million as a capability fund, to support research in emerging subject areas where the research base is currently not as strong as in more established subjects. Seven units of assessment (UoAs) are eligible for this funding, on the basis that they have low proportions of staff in departments rated 4, 5 or 5*, and had relatively high proportions of QR in 2002-03 attributable to 3a or 3b-rated departments.

88. The seven units of assessment eligible for this funding are:

- Nursing (UoA 10)
- Other studies and professions allied to medicine (UoA 11)
- Social work (UoA 41)
- Art and design (UoA 64)
- Communication, cultural and media studies (UoA 65)
- Drama, dance, and performing arts (UoA 66)
- Sports-related subjects (UoA 69).

89. This capability funding is distributed pro rata to the number of research-active academic staff in RAE submissions rated 3a or 3b, weighted according to the cost weight for the UoA. In order to receive this funding, institutions have been asked to submit three-year research strategies for each UoA for which funding has been allocated.

Other related funding

Special funding

90. We recognise that not all widening participation, learning and teaching, research and related activities can be adequately supported through formula funding. Each year we provide special funding for a wide range of purposes. These funds are reviewed regularly and, wherever appropriate, new initiatives are introduced or the funds are phased out or incorporated into formula-based allocations. For 2004-05 we are allocating £486 million for special funding, and a further £584 million for earmarked capital grants.

91. Special funding covers a variety of strategic areas as well as support for national facilities and inherited activities.

92. We provide special funding, in addition to core funding, to help deliver our strategic aims. The amounts by strategic aim are set out below.

2004-05 Special funding and earmarked capital grants by strategic aim

	Funding in £ millions
Widening participation	34
Learning and teaching	416
Research	290
Business and community	104
Building on institutions' strengths	73
Leadership, governance and management	10
Other	143
Total	1,070

93. These amounts are also focused on particular activities to deliver those strategic aims, as set out below.

2004-05 Special funding by type of activity

	Funding in £ millions
Special initiatives	220
National facilities	125
Earmarked capital	584
Other special funding	141
Total	1,070

94. Special initiatives include the Aimhigher programme, the Teaching Quality Enhancement Fund, National Teaching Fellowships and rewarding teaching excellence, the Higher Education Innovation Fund, and the Higher Education Active Community Fund.

95. The national facilities include funding for the Arts and Humanities Research Board and for investment in the national IT infrastructure, including the Joint Academic Network and national datasets, through the Joint Information Systems Committee of the UK funding bodies.

96. Earmarked capital is additional funding provided by the Government to address past under-investment in the sector. The two major programmes are the Science Research Investment Fund, and project capital funding for learning and teaching and IT. All HEIs that receive HEFCE recurrent funding for teaching or research receive an allocation under these programmes. In addition we provide capital funding to directly funded FECs through the HE in FE Development Fund. Capital funding for indirectly funded further education colleges is accessed through their lead HEI.

97. Other special funding includes amounts for inherited activities (those inherited from previous funding councils or to address inherited estates issues) and to support strategic change.

98. The amount of special funding that comes from the recurrent baseline continues to decline. In 2002-03 this was £318 million, or 6.2 per cent of total grant; for 2004-05 it is £284 million, or 4.7 per cent of total grant. A major component of these values is inherited activities and some national facilities. Our intention is to continue to reduce the demands placed by special funding on the recurrent baseline so that the funds can be released to other priority activities.

99. Increasingly, special funding programmes – particularly for capital projects – have moved away from bidding exercises. Instead we are determining allocations and outcomes against which HEIs can set their own priorities. This conditional allocation approach continues to reduce the burden of administration on HEIs.

Moderation

100. To help maintain stability, we phase in changes by moderating increases or decreases in teaching and research funding to institutions that would otherwise be affected by large fluctuations. For 2004-05, in general, no institution will receive a reduction in resource for teaching and research in real terms compared with the equivalent, unmoderated figure for 2003-04. We do not provide moderation funding if it amounts to less than £100,000 per institution. We review our moderation policy annually.

Annex A Funding for teaching – examples

Calculating the standard level of resource

There are five steps to calculating standard resource:

- Step 1 Collect FTE student data in each category
- Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights
- Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply
- Step 4 Calculate total weighted FTEs
- Step 5 Calculate standard resource.

Step 1 Collect FTE student data in each category

We disaggregate students according to 64 different categories (36 categories¹ for FECs):

- four price groups (subjects)
- × two modes (full-time and sandwich, or part-time)
- × four levels (foundation degree, other undergraduate, postgraduate taught or postgraduate research)
- × two lengths of study during the year (standard or long).

We perform the calculations of standard resource separately for each of these student categories.

Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights

Weighted FTEs = FTE from Step 1 × price group weight (4 for price group A, 1.7 for price group B, 1.3 for price group C and 1 for price group D).

Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply

The premiums are expressed as additional weighted FTEs, calculated in relation to either the unweighted FTEs (from Step 1) or the price group weighted FTEs (from Step 2), depending on whether the additional cost which the premium seeks to reflect varies according to the subjects being studied.

¹ FECs have three price groups (B, C and D), two modes, three levels (foundation degree, other undergraduate and postgraduate) and two lengths of study.

- *Part-time premium*

If the course is part-time, the additional FTEs = unweighted FTEs (Step 1) × 0.1. If the course is full-time or sandwich, the additional FTEs = zero.

- *Foundation degree premium*

If the course is a foundation degree, the additional FTEs = unweighted FTEs (Step 1) × 0.1. For all other courses, the additional FTEs = zero.

- *Long course premium*

If the course is long, and the student FTE is in price groups B, C or D, the additional FTEs = price group weighted FTEs (Step 2) × 0.25. If the course is standard length, and/or the student FTE is in price group A, the additional FTEs = zero.

- *London premium*

If the institution is based in London, the additional FTEs = price group weighted FTEs (Step 2) × either 0.08 (if in inner London) or 0.05 (if in outer London). For institutions outside London, the additional FTEs = zero.

- *Institution-specific premium (HEIs only)*

If the institution is eligible for the premium, the additional FTEs = price group weighted FTEs (Step 2) × a variable percentage. This percentage depends on the particular characteristics of the institution, but is commonly 10 per cent. For all other institutions, the additional FTEs = zero.

- *Small institution premium (HEIs only)*

If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) × a variable percentage. Institutions are eligible for the premium if, when we introduced it, they had no more than 1,000 FTEs in total (including any students on further education courses). It is not allocated to those small, specialist institutions that have an institution-specific weight of more than 10 per cent. The value of the premium in percentage terms is calculated on a sliding scale from 0 to 20 per cent, where the fewer FTEs an institution has, the larger its premium. For all other institutions, the additional FTEs = zero.

- *Old and historic buildings premium (HEIs only)*

If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) × a variable percentage. Institutions are eligible for the premium if they have buildings (excluding residences for students) constructed before 1914, which they have owned since at least 1 April 1998. The larger the floor space attributable to the old and historic buildings, the larger the value of the premium in percentage terms. For all other institutions, the additional FTEs = zero.

Step 4 Calculate total weighted FTEs

Total weighted FTEs = price group weighted FTEs (Step 2) + additional weighted FTEs for each student or institutional premium (total Step 3).

Step 5 Calculate standard resource

Standard resource in each category = total weighted FTEs in that category (Step 4) × the base price (£3,484 for 2004-05). Total standard resource is the sum of the standard resource calculated for each student category.

Having calculated standard resource, we compare it with assumed resource, and express the difference between them as a percentage. If the percentage difference is more than 5 per cent, action is taken to bring the institution within the ±5 per cent tolerance band by adjusting its student numbers and/or funding.

Worked examples of the teaching funding calculations for HEIs

Abbreviations used in the tables are defined after Example 3.

Example 1

University V and Higher Education College W both have 1,200 undergraduate student FTEs, with the same number of FTE students in each of the four price groups A, B, C and D. The HEFCE grant is £6,400,000. The table below shows the effect of premiums applying to the same institutions. In both institutions, all the students on price group D courses are studying for foundation degrees. The result of these calculations is that both institutions are within the tolerance band so no change in funding or student numbers will be needed.

Total weighted FTE calculation		(a)	(b)	(c)	(d)	(e)	(f)	
Institution	Price group	Mode	FTE	Price group weighted FTE	Part-time 10% × (a)	Foundation degree 10% × (a)	Total weighted FTE sum (e) × £3,484 (b) to (d)	Standard resource =
University V	A	FTS	200	× 4 = 800	0	0	= 800	£2,787,200
	B	FTS	300	× 1.7 = 510	0	0	= 510	£1,776,840
	C	FTS	400	× 1.3 = 520	0	0	= 520	£1,811,680
	D	FTS	300	× 1 = 300	0	30	= 330	£1,149,720
Total			1,200	2,130	0	30	2,160	£7,525,440
College W	A	PT	200	× 4 = 800	20	0	= 820	£2,856,880
	B	PT	300	× 1.7 = 510	30	0	= 540	£1,881,360
	C	PT	400	× 1.3 = 520	40	0	= 560	£1,951,040
	D	PT	300	× 1 = 300	30	30	= 360	£1,254,240
Total			1,200	2,130	120	30	2,280	£7,943,520

Resource comparison						
Institution	(g) HEFCE grant	(h) Assumed fee rate per FTE	(i) Assumed fees = (a) × (h)	(j) Assumed resource £s = (g) + (i)	Standard resource £s	Percentage difference
University V	£6,400,000	£1,150	£1,380,000	7,780,000	7,525,440	+3.4%
College W	£6,400,000	£1,150	£1,380,000	7,780,000	7,943,520	-2.1%

Example 2

University X and Higher Education College Y both receive £5,750,000 in HEFCE grant for teaching. Both have 1,000 FTEs, but they have different weightings. The table below shows the effect of the different weightings on the percentage difference from standard resource. University X is in outer London. HE College Y has a 10 per cent institution-specific premium. The result of these calculations is that University X is in the tolerance band, but College Y is above it. We will therefore take action to bring it within the tolerance band by adjusting its funding and/or student numbers.

Total weighted FTE calculation												
					(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Institution	Price group	Mode	Level	Length of course	FTE	Cost weighted FTE	Part-time 10% x (a)	Long courses 25% x (b)	London premium 5% x (b)	Institution-specific premium 10% x (b)	Total weighted FTE sum (b) to (f)	Standard resource = (g) x £3,484
University X	A	FTS	UG	L	200	800	0	0	40	0	840	£2,926,560
	B	FTS	UG	L	250	425	0	106.25	21.25	0	552.5	£1,924,910
	C	PT	UG	S	400	520	40	0	26	0	586	£2,041,624
	D	FTS	PGT	S	150	150	0	0	7.5	0	157.5	£548,730
Total					1,000	1,895	40	106.25	94.75	0	2,136	£7,441,824
College Y	B	FTS	UG	S	500	850	0	0	0	85	935	£3,257,540
	B	FTS	PGT	S	150	255	0	0	0	25.5	280.5	£977,262
	B	FTS	PGR	L	50	85	0	21.25	0	8.5	114.75	£399,789
	B	PT	UG	S	250	425	25	0	0	42.5	492.5	£1,715,870
	B	PT	PGT	S	50	85	5	0	0	8.5	98.5	£343,174
Total					1,000	1,700	30	21.25	0	170	1,921.25	£6,693,635

Example 2 (continued)

Assumed fee income calculation			(a)	(i)	
	Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) x (i)
University X	FTS	UG	450	£1,150	£517,500
	PT	UG	400	£1,150	£460,000
	FTS	PGT	150	£3,484	£522,600
Total			1,000		£1,500,100
College Y	FTS	UG	500	£1,150	£575,000
	FTS	PGT	150	£3,484	£522,600
	FTS	PGR	50	£3,010	£150,500
	PT	UG	250	£1,150	£287,500
	PT	PGT	50	£3,832	£191,600
Total			1,000		£1,727,200

**Resource
comparison**

Institution	HEFCE grant	(j) Assumed fee income	(k) Assumed resource (j) + (k)	Standard resource	Percentage difference
University X	£5,750,000	£1,500,100	£7,250,100	£7,441,824	-2.6%
College Y	£5,750,000	£1,727,200	£7,477,200	£6,693,635	11.7%

Worked example of the teaching funding calculations for FECs

Example 3

College P and College Q both have 200 undergraduate student FTEs on HE courses, although they have a different mix between price groups and modes of study. Both these further education colleges receive £650,000 in HEFCE funding for these students. In both institutions, all the students on part-time price group C courses are studying for foundation degrees.

The tables below show the calculation of their standard resource, their assumed fee income, and the comparison between their assumed and standard resource. The result of these calculations is that both colleges are outside the tolerance band. Adjustments to their student numbers and/or funding will bring them back within the tolerance band.

Standard resource calculation									
				(a)	(b)	(c)	(d)	(e)	(f)
Institution	Price group	Mode	Level	FTE	Cost weighted FTE	Part-time 10% x (a)	Foundation degree 10% x (a)	Total weighted FTE = sum of (b) to (d)	Standard resource = (e) x £3,484
College P	B	FTS	UG	50	$\times 1.7 = 85$	0	0	85	£296,140
	B	PT	UG	25	$\times 1.7 = 42.5$	2.5	0	45	£156,780
	C	FTS	UG	50	$\times 1.3 = 65$	0	0	65	£226,460
	C	PT	FD	25	$\times 1.3 = 32.5$	2.5	2.5	37.5	£130,650
	D	FTS	UG	50	$\times 1 = 50$	0	0	50	£174,200
Total				200	275	5	2.5	282.5	£984,230
College Q	C	FTS	UG	20	$\times 1.3 = 26$	0	0	26	£90,584
	C	PT	FD	60	$\times 1.3 = 78$	6	6	90	£313,560
	D	FTS	UG	40	$\times 1 = 40$	0	0	40	£139,360
	D	PT	UG	60	$\times 1 = 60$	6	0	66	£229,944
	D	FTS	PGT	20	$\times 1 = 20$	0	0	20	£69,680
Total				200	224	12	6	242	£843,128

Example 3 (continued)

Assumed fee income calculation			(a)	(g)	
	Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) × (g)
College P	FTS	UG	150	£1,150	£172,500
	PT	UG/FD	50	£1,150	£57,500
Total			200		£230,000
College Q	FTS	UG	60	£1,150	£69,000
	FTS	PGT	20	£3,484	£69,680
	PT	UG/FD	120	£1,150	£138,000
Total			200		£276,680

Resource comparison					
	(h)	(i)			
Institution	HEFCE grant	Assumed fee income	Assumed resource (h) + (i)	Standard resource	Percentage difference
College P	£650,000	£230,000	£880,000	£984,230	-10.6%
College Q	£650,000	£276,680	£926,680	£843,128	+9.9%

Key to abbreviations

- FTE = full-time equivalent
- FTS = full-time and sandwich
- PT = part-time
- FD = foundation degree
- UG = (other) undergraduate
- PGT = postgraduate taught
- PGR = postgraduate research
- L = long course
- S = standard length course

Glossary of terms

Assumed resource

HEFCE grant for teaching plus assumed income from tuition fees.

AHRB

The Arts and Humanities Research Board. Its role is similar to that of the Research Councils.

Block grant

The funding provided by HEFCE to an institution for teaching, research and related activities. This does not include special funding.

Dual support

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

FEC

Further education college.

FTE

Full-time equivalent. Full-time students count as 1 FTE. Students on their sandwich year-out count as 0.5 FTE. The FTE for part-time students is measured by comparing their learning activity with that for an equivalent full-time course.

HEFCE

Higher Education Funding Council for England.

HEI

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

HEIFES

Higher Education in Further Education: Students survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.

HESES

Higher Education Students Early Statistics survey. The annual aggregate recruitment survey completed by HEIs, which informs our funding for teaching.

LEA

Local education authority.

Level

Level of study refers to foundation degree (FD), other undergraduate (UG), postgraduate taught (PGT) and postgraduate research (PGR).

LSC

The Learning and Skills Council.

Mode

Mode of study refers to full-time (FT), part-time (PT) or sandwich. For funding purposes, full-time and sandwich (FTS) are combined.

Old and historic buildings

Non-residential buildings constructed before 1914, which have been owned by a higher education institution since at least 1 April 1998.

QR funding

Quality-related research funding. It is allocated according to research quality and the amount of research carried out.

Recurrent baseline

Recurrent funding which has not been earmarked for specific purposes.

Research Assessment Exercise (RAE)

An exercise carried out periodically to determine the quality of research in UK HEIs. The results are used by the higher education funding bodies for England, Scotland, Wales and Northern Ireland to allocate QR funding. The next one is in 2008.

Research Councils

There are six Research Councils. They are government-funded through the Office of Science and Technology to support research in their fields of interest, in both their own establishments and in higher education institutions. In this publication the term 'Research Councils' also includes the AHRB.

Rewarding and developing staff (R&DS)

Funding within the teaching grant to recruit and retain high quality staff, to improve human resources (HR) management practice, and to modernise HR systems and processes in the sector.

Sandwich course

A course of study which includes periods of practical work in organisations outside the university or college.

Small institution

A higher education institution with no more than 1,000 student FTEs. This includes students at all levels (including those on further education courses) and funded from any source (including overseas students).

Specialist institution

A higher education institution that has 60 per cent or more of its courses in one or two subjects only, such as music or art colleges.

Special initiatives

Special initiatives are funds for specific activities for a limited period not linked to formula funding allocations.

Standard resource

A notional calculation of what an institution would get if teaching grant was calculated afresh each year. It is proportional to each institution's FTEs weighted both by price group and by any student and institutional premiums which may apply.

TTA

Teacher Training Agency.

Tolerance band

This is the range from +5 per cent to -5 per cent of the standard resource.

Tuition fees

Fees paid to a university or college for a student to attend a course.

Further reading

HEFCE (www.hefce.ac.uk)

2004/12 Recurrent grants for 2004-05

2004/03 Rewarding and developing staff in HE – round 2: outcome of consultation on funding from 2004-05, and request to submit revised HR strategies

2003/54 Model financial memorandum between HEFCE and institutions

2003/49 Research activity survey 2003

2003/48 Foundation degrees: Invitation to bid for additional places and development funds 2004-05

2003/45 HEIFES03: Higher Education in Further Education: Students Survey 2003-04

2003/44 HESES03: Higher Education Students Early Statistics Survey 2003-04

2003/42 Developing the funding method for teaching from 2004-05

2003/38 Review of research funding method: consultation

2003/24 HEFCE grant adjustments 2003-04

RAE 2001 (www.hero.ac.uk/rae)

RAE 4/01 RAE 2001: The Outcome

A guide to the 2001 Research Assessment Exercise

RAE 2/99 Research Assessment Exercise 2001: Guidance on Submissions

RAE 2008 (www.rae.ac.uk)

RAE 01/2004 RAE 2008: Initial decisions by the UK funding bodies

RAE 02/2004 RAE 2008: Panel configuration and recruitment