

Explanatory notes on the simulation of teaching grant

1. The table in the workbook 'Simulation of teaching grant 2003-04' illustrates the effect of changes to the main teaching funding method, as proposed in HEFCE 2003/42, 'Developing the funding method for teaching from 2004-05'. They show what institutions' positions relative to their standard resource might have been in 2003-04 if the proposals on which we are now consulting had been implemented for that year.
2. The simulation is for illustrative purposes only. It is based on the student numbers that institutions reported for 2002-03 in their HESES and HEIFES surveys; information on the attributions of students derived from HESA and ILR data for 2001-02; and any additional student numbers awarded for 2003-04.
3. Institutions' positions in 2004-05 are likely to differ from those shown in the simulation for many reasons. These include:
 - changes to institutions' student numbers in 2003-04
 - changes in the attribution of students derived from HESA and ILR data for 2002-03
 - any additional student numbers awarded for 2004-05
 - changes to the proposed funding method following responses to the consultation
 - changes to parameters, such as fee assumptions and the base price (see below).
4. The assumptions and parameters used in the simulation are:
 - a. Activity (determined by academic cost centres for HE institutions and learndirect codes for FE colleges) is assigned to price groups as set out in the consultation. The weightings for the five price groups are:

Price group A	4
Price group B1	2
Price group B2	1.6
Price group C	1.3
Price group D	1
 - b. All sandwich year-out students are assigned to price group C.
 - c. Assumed fee rates per full-time equivalent (FTE) student are:

Full-time undergraduate	£1,125 (no change)
Postgraduate research (PGR)	£2,940 (no change)
Part-time undergraduate	£1,125
Full-time postgraduate taught	£3,400
Part-time postgraduate taught	£3,740
 - d. There is a 10 per cent premium for part-time students.

- e. There is a 10 per cent premium for students on foundation degree courses.
 - f. £184 million of funding attributable to rewarding and developing staff is allocated as part of teaching grant. The actual allocations for 2003-04 have been transferred into each institution's main teaching grant: there has been no redistribution of grant. We are presenting this scenario, which differs to the proposal set out in the teaching funding consultation, as it was put forward by institutions at the teaching funding consultation seminars in September and in responses to the consultation in HEFCE 2003/33 'Rewarding and developing staff in HE – round 2: Consultation on funding from 2004-05'. The method to be adopted for incorporating this funding into teaching grant will be decided by the Board later this year.
 - g. £47.5 million of funding allocated to compensate for increases in employers' contributions to the Teachers' Pension Scheme (TPS) has been added to institutions' teaching grant as it has been allocated for 2003-04. This does not fully reflect the proposals in the consultation. These were that there should be some transfers between HEFCE and other funding bodies so that each can reflect the increased TPS costs in their units of resource. This means that the final amount that transfers to teaching grant may differ from £47.5 million, and its distribution between institutions will also vary.
 - h. The Universities Superannuation Scheme (USS) pensions premium of 1.5 per cent has been removed.
 - i. There are no changes to other institutional premiums. Nevertheless we will be prepared to review the size of premiums for specialist institutions to take account of any effects on their resource levels of the changes proposed in the consultation.
 - j. The base price (the unit of resource per weighted FTE) is £3,458.
5. The simulation does not take account of the proposed transfer, from 2005-06, of funding for PGR students into teaching grant. HEFCE 2003/42 (paragraph 49) states that this transfer will be financially neutral for all institutions in the year of transfer.
6. The simulation shows, for each institution, their percentage difference **compared to standard resource** under two scenarios:
- a. The first percentage shows the current position taken from institutions' grant tables issued in July 2003 or as subsequently updated. This uses the existing funding method and its parameters.
 - b. The second percentage shows the position that would have arisen in 2003-04 if the assumptions and parameters set out in paragraph 4 had been adopted.
7. For institutions whose percentage difference from standard resource differs by more than 5 per cent, there are likely to be migration implications. Migration back within the ± 5 per

cent tolerance band can be achieved by changing student numbers or by changing funding. In the past, we have commonly expected full migration to be achieved over a period of three years, although this has been extended in individual cases. We will also be prepared to consider, on a case by case basis, deferring the start of any migration period until 2006-07.

Further information for institutions

8. HEFCE higher education advisers will e-mail to the head of each institution an Excel workbook providing more detail on the underlying calculations in the simulation for their institution. The workbook will include a simulation of recurrent grant Tables B to E, which show the calculations of assumed and standard resource and the student numbers that underpin them. The workbook will reflect the simulation described in paragraph 6b.

Simulations of funding for widening access and improving retention and research funding

9. The simulation does not include any modelling of possible changes to the methods for funding widening access and improving retention. We are not able to produce a full simulation of these allocations, because we do not yet have data on the schools that students attended at age 16, and have further analysis to complete on 2001 census data, which would provide information on average educational achievement by ward. This means that any simulation we provided now would give only a partial, and therefore potentially misleading, illustration of the effects of the proposed changes to the funding methods.

10. Similarly, we are not providing a simulation of research funding, as this too could only provide a partial, and potentially misleading, picture. We do not yet know what total funding for PGR supervision should be, as this will be informed by a separate costing study, so we cannot reliably model the effects of the proposed changes to the funding of PGR students. Nor do we yet know how the subject quanta might change or the impact of the next research assessment. Any modelling that we attempted would have to make assumptions about these factors that would be fairly arbitrary, and which might be perceived as having more credibility than could be justified at this time.