

FUNDING HIGHER EDUCATION IN ENGLAND - HOW HEFCE ALLOCATES ITS FUNDS - A SUMMARY

(This information is taken from the HEFCE document May 2004/23 - Guide - Funding higher education in England. More detailed funding guidance, and more useful worked examples, can be found in this document, at

http://www.hefce.ac.uk/Pubs/hefce/2004/04_23/04_23.doc.)

THE ANNUAL FUNDING CYCLE

- 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.
- Each year HEFCE divide the total funds between teaching, research and other funding.
- Most of these funds are distributed by formulae, which take account of the volume and mix of individual institutions' teaching and research. HEFCE publish the data on which calculations are based, so that institutions can check the outcomes each year.
- 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. HEFCE then determine the grants to individual institutions between December and February each year.
- Each December, universities and colleges provide HEFCE 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.

OVERVIEW OF THE FUNDING METHOD

- 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.
- 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 HEFCE GRANT

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

STAGE 1

HEFCE 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

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

STAGE 3

HEFCE 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.

In addition to the main teaching funding method, HEFCE 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, recognise institutions' success in recruiting and retaining these categories of students.

DETAILED DESCRIPTION OF THE METHOD

STAGE 1 CALCULATING THE STANDARD RESOURCE

Student numbers and volume of teaching activity

The students who count towards the 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.

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.

In determining an institution's standard resource for the coming year, HEFCE 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

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, HEFCE attach funding premiums when they calculate the standard resource for each institution. They relate to:

- the subject
- the student
- the institution.

Subject-related factors

Different subjects require different levels of resource: some subjects need laboratories and workshops while others are taught wholly in lecture theatres and seminar rooms. HEFCE 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

Having weighted the student numbers by their subject price group, HEFCE then apply further weightings to take account of student or institutional factors. These are described below.

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.

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

- **London weighting** HEFCE 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.

The following table shows the way HEFCE 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

HEFCE calculate a basic amount of resource for a full-time equivalent student by dividing the money available to fund teaching (the 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.

- The total weighted FTEs for an institution are the sum of the FTEs weighted by price group, plus the student and institutional premiums.
- The standard resource for an individual institution is its total weighted student FTEs multiplied by the base price.

STAGE 2 CALCULATING THE ASSUMED RESOURCE

- For each institution, HEFCE start with the mainstream HEFCE grant for teaching they received the previous year. Then they 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, HEFCE will be providing funds to the sector for extra students. Subject to the outcomes of the Government's Spending Review HEFCE 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.
- 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

- 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:

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

- The funding method aims to ensure that similar activities are funded at similar rates in all universities and colleges. Therefore HEFCE do not want to give individual institutions much more or much less money than their standard resource. At the same time HEFCE 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. HEFCE 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

- If an institution is within the tolerance band, HEFCE funding will roll forward from the previous year. In other words, HEFCE will pay the amount calculated in Stage 2, less the assumed income from tuition fees. This applies to most universities and colleges.
- For institutions which fall outside the tolerance band, HEFCE take action to bring them within the band. This may be by increasing or reducing student numbers, or by adjusting funding.