

July 2010/22

**Core funding/operations**

**Framework for accountability**

This report is for information

We have a funding agreement with each institution that we fund, which specifies targets relating to student numbers. This document explains what action we will take if institutions do not meet their targets for 2010-11.

# HEFCE grant adjustments 2010-11

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To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Finance, Student data, Planning
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## Executive summary

### Purpose

1. We have a funding agreement with each institution that we fund, which specifies targets relating to student numbers. This document explains what action we will take if institutions do not meet their targets for 2010-11.

### Key points

2. Within our funding agreements with institutions, we specify four targets that apply to student numbers funded through our mainstream teaching funding, although these targets will not all apply to every institution. They are:

- a. **The contract range.** Under our funding method for teaching, we calculate a standard level of resource for each institution, and an assumed resource (actual HEFCE teaching grant plus an assumption of income from fees). The percentage difference between assumed and standard resource for the academic year 2010-11 should be within a given range – known as the ‘contract range’.
- b. **The student number control.** Our allocations for 2010-11 make provision for growth in the sector that is consistent with the Government’s plans. To help manage the risk of over-recruitment, we have introduced a new student number control. We have specified a limit for each institution of HEFCE-fundable and employer co-funded students starting full-time (FT) undergraduate (UG) and Postgraduate/Professional Graduate Certificate in Education (PGCE) study in academic year 2010-11. Institutions recruiting above this limit will incur a reduction in grant.
- c. **Funding conditional upon delivery of growth.** This applies to institutions that are expected to increase student numbers in 2010-11, as a result of being awarded

mainstream additional student numbers (ASNs) or additional new entrant places through the University Modernisation Fund (UMF). Funding for those places is contingent upon institutions actually recruiting additional students to fill the places.

d. **The contract full-time equivalent (CFTE).** This is a minimum number for students on UG medical and dental courses to which a quota applies.

3. These measures are designed, respectively:

a. To maintain broadly comparable resource levels per student so that the quality of the student experience is not put at risk.

b. To reduce the risk of HEFCE's grant being reduced by Government in order to meet unplanned student support costs.

c. To ensure that funds allocated for expansion do indeed deliver additional places.

d. To ensure that the intended number of medical and dental students required to meet national needs is delivered, in return for the exceptionally high level of funding provided for such students.

4. To achieve these objectives we will withhold grant from an institution which meets one or more of the following criteria:

a. The institution is found to have a level of assumed resource which takes it above its contract range.

b. The institution exceeds its permitted level of HEFCE-fundable and co-funded students starting FT UG or PGCE study in the academic year 2010-11 (the student number control).

c. The institution does not deliver the growth expected in 2010-11 – arising from an award of mainstream ASNs or additional new entrant places through the UMF.

d. The institution under-recruits against its CFTEs for medicine and dentistry.

5. In addition to the targets and monitoring arrangements that apply to our mainstream teaching grant, we also fund some student numbers outside our mainstream teaching allocations. These include allocations for co-funded employer engagement. These allocations are subject to separate arrangements for monitoring and grant adjustments.

6. In relation to paragraphs 4-5, before taking any action we will give institutions an opportunity to tell us about any material changes in definitions or mitigating factors that may have influenced the calculated level of grant adjustment.

7. We have allocated £4 million to support the movement of FT UG students to strategically important and vulnerable subjects in 2010-11. The subjects in question are certain science, technology, engineering and mathematics subjects and modern foreign languages. We reserve the right to withdraw funds in the event that the proposed movement of student numbers is not undertaken.

8. The Secretary of State's letter to HEFCE of 24 June 2010 required the higher education sector to deliver savings of £82 million in financial year 2010-11. The savings comprise a £30 million reduction to capital and a £52 million reduction to recurrent teaching grant, the latter affecting both 2009-10 and 2010-11 academic years.

9. The saving for the 2010-11 academic year has been applied as a reduction to total teaching grant of approximately 1.09 per cent. This saving has been applied pro rata to all elements of recurrent teaching grant, after incorporating other changes to the allocations since March. We will also apply the same saving to any grant adjustment (whether positive or negative) arising from data submitted by institutions to the 2010 Higher Education Students Early Statistics and Higher Education in Further Education: Student Survey, or any other separate monitoring (such as employer co-funded allocations, or following data audit or reconciliation), but with the exception of grant reductions relating to recruitment against the student number control limit. This is necessary to ensure the saving applies in equal measure to all institutions for the year, including where adjustments to teaching grant are subsequently necessary.

10. If an institution does not recruit any students in 2010-11 then all funding for teaching allocated for 2010-11 will be held back.

### **Action required**

11. No response is required.

## Background: the funding agreement

12. We expect each institution to provide a certain level of teaching activity in return for our funding. Each July we issue a funding agreement, which specifies targets that we expect the institution to meet in the coming academic year. These targets set overall controls on student numbers. In most cases, the targets apply to our mainstream teaching grant: that is, the funding included in our calculations of standard and assumed resource. However, some additional student numbers (ASNs) are allocated outside the mainstream teaching grant and are therefore subject to separate monitoring arrangements.

13. Within the mainstream teaching grant, there are up to four separate targets specified in the funding agreement for 2010-11, although not all apply to every institution. These are shown in Table 1.

**Table 1 Targets for student recruitment**

<b>Target</b>	<b>Applies to:</b>
Contract range	All higher and further education institutions directly funded by HEFCE (see paragraphs 44-58)
Student number control	All higher and further education institutions directly funded by HEFCE (see paragraphs 59-64)
Funding conditional upon delivery of growth	Those higher and further education institutions that are expected to increase student numbers in 2010-11 as a result of allocations of mainstream ASNs or additional places awarded through the University Modernisation Fund (see paragraphs 28-41)
Medical and dental contract full-time equivalent	Only those higher education institutions with medical or dental schools (see paragraphs 42-43)

14. If an institution does not meet one or more of its targets, we may withhold some of its grant. This is known as holdback.

15. The contract range, funding conditional upon delivery of growth and medical and dental contract full-time equivalent (CFTE) targets are minimum levels that each institution must meet.

16. The student number control target represents a maximum level; recruitment above this level will result in holdback. It applies both to students funded through the mainstream teaching grant and to others funded outside the mainstream who are co-funded by employers.

17. Institutions should read this publication alongside their individual funding agreement for 2010-11, issued in July 2010. The funding agreement explains how we monitor whether institutions are meeting their targets, and the students who may count towards them.

18. Individual students may count towards more than one target, which means that there is an interaction between the different targets. To take account of this interaction, we will monitor against three of the targets in the following order:

- a. Funding conditional upon delivery of growth.

- b. Medical and dental CFTE.
- c. Contract range.

19. Where appropriate, we will take account of adjustments to funding arising from institutions' recruitment against one target, before we make further adjustments because of their recruitment against a subsequent target.

20. Independently, we will monitor each institution's compliance with the student number control that we have specified for them. Where we find that an institution has exceeded its limit, this will result in a reduction to grant, which may be applied in the 2010-11 and/or 2011-12 academic year. In addition, where in 2010-11 an institution has not sufficiently offset any over-recruitment that arose in 2009-10, this will also result in a reduction to grant.

21. We will give institutions an opportunity to appeal for mitigation before finalising any such grant adjustment. Institutions should assume that no margin above the limit specified for 2010-11 will apply before we seek to apply grant reductions.

22. Co-funded employer engagement ASNs are awarded outside the mainstream teaching grant. The monitoring and grant adjustment arrangements for this initiative are described in paragraphs 68-72.

### **Implementation of savings to 2010-11 teaching grant**

23. The Secretary of State's letter to HEFCE of 24 June 2010<sup>1</sup> required the higher education sector to deliver savings of £82 million as part of £6.2 billion savings to be made in financial year 2010-11. The £82 million savings comprise a £30 million reduction to capital and a £52 million reduction to recurrent teaching grant, the latter affecting both the 2009-10 and the 2010-11 academic years.

24. The £52 million reduction has been applied pro rata to all elements of recurrent teaching grant, after incorporating other changes to the allocations since March. The adjustment for the 2010-11 academic year is 1.09 per cent<sup>2</sup> of total teaching funding.

25. In implementing this, we have sought to keep the presentation of the saving as simple as possible. We have therefore avoided recalculating the existing teaching model parameters that were used in the March 2010 grant announcement, such as the base price, fee assumptions and rates of funding for ASNs, and their consequent effects on institutions' positions in or outside the tolerance band and any requirements for migration funding.

26. In taking this approach, institutions should note that we will also apply the same pro rata saving to any grant adjustment (whether positive or negative) arising from data submitted by institutions to the 2010 Higher Education Students Early Statistics (HESES) survey or Higher Education in Further Education: Student Survey, or any other separate monitoring (such as of employer co-funded allocations, or following data audit or reconciliation), but with the exception

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<sup>1</sup> The letter can be read in full at [www.hefce.ac.uk/news/HEFCE/2010/grant1011/revise.htm](http://www.hefce.ac.uk/news/HEFCE/2010/grant1011/revise.htm)

<sup>2</sup> Throughout this document, we refer to adjusting figures to take account of a 1.09 per cent efficiency saving being applied for 2010-11. The figure of 1.09 per cent, wherever it occurs, has been rounded to aid reading of this document, but in adjusting figures in our actual calculations we will use an unrounded figure, which is 1.08868 per cent.

of grant reductions for exceeding the student number control or not sufficiently offsetting over-recruitment that arose in 2009-10. This is necessary to ensure the saving applies in equal measure to all institutions for the year, including where adjustments to teaching grant are subsequently necessary.

27. If an institution does not recruit any students in 2010-11, then all funding for teaching allocated for 2010-11 will be held back.

## **Funding conditional upon delivery of growth**

28. Most allocations of ASNs form part of institutions' mainstream teaching grant. These include allocations awarded through historic bidding exercises, those to support major projects that have secured funding through our Strategic Development Fund, and those to support growth that meets national or regional needs. The process for allocating ASNs for 2010-11 was set out in 'Allocation of funds for additional student numbers in 2009-10 and 2010-11' (HEFCE Circular letter 05/2008) and 'Additional student numbers for 2010-11' (HEFCE Circular letter 22/2009)<sup>3</sup>.

29. The University Modernisation Fund (UMF) was announced by the Secretary of State following the Budget statement on 24 March 2010. It was set up to enable more young people to enter higher education to gain skills that the economy needs, while also supporting universities and colleges to take the robust action needed to increase efficiency and reduce cost over the medium term.

30. On 24 June 2010 the Secretary of State confirmed a reduction of the UMF fund to £152 million as part of £6.2 billion efficiency savings across all publicly funded sectors. The revised fund comprises £44 million in teaching funding for 10,000 additional full-time equivalent (FTE) new entrant places in 2010-11, £86 million for efficiency activities in 2010-11 and £20 million for a shared services pilot scheme<sup>4</sup>. It is expected that institutions will use the savings arising from the investment in efficiency activities to support the future costs of the additional new entrants in their subsequent years of study.

31. We have prioritised the allocation of additional places on economic priority areas such as science, technology, engineering and maths (STEM) subjects and the higher skills priorities identified in the UK Commission for Employment and Skills National Strategic Skills Audit.

32. Where we have awarded either ASNs as part of mainstream teaching grant or additional new entrant places through the UMF, we expect institutions to deliver corresponding growth in their overall student numbers. If they do not, they will be liable to holdback. Growth in individual programmes offset by reductions in recruitment to other programmes is not sufficient: the growth must be additional to the institution's previous total student numbers.

33. In assessing whether institutions have delivered the overall growth expected, we count any growth achieved firstly against the ASNs awarded for the previous year – that is, growth delivered at the second opportunity. Any remaining growth is then counted towards delivery, at

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<sup>3</sup> All HEFCE publications can be read at [www.hefce.ac.uk/pubs/](http://www.hefce.ac.uk/pubs/)

<sup>4</sup> For more information see 'Higher education funding for academic years 2009-10 and 2010-11 including new student entrants' (HEFCE Circular letter 14/2010).

the first attempt, of any fully funded ASNs for the current year and then towards delivery of additional new entrant places awarded through the UMF.

34. The funding agreement therefore specifies a baseline FTE figure and three FTE targets for institutions that are expected to deliver growth through fully funded ASNs or the UMF in 2010-11. Also shown are the total funding and the funding rates per FTE associated with each of the FTE targets. The baseline and targets, which relate to funding conditional upon delivery of growth, comprise:

- a. **A baseline FTE.** Unless institutions reach the baseline FTE figure, they will not be able to recover any 2010-11 funding deducted for not delivering expected growth in 2009-10. They will also have all the funding held back for any 2010-11 ASNs and their UMF teaching grant allocation.
- b. **A first FTE target representing the numbers required to deliver fully funded growth at the second attempt** (generally, allocations of ASNs awarded for 2009-10, still to be delivered in 2010-11). Institutions awarded mainstream ASNs for 2009-10 will already have had some of their funding held back if they did not deliver sufficient overall growth in that year. That holdback of grant will have been consolidated into the baseline funding that rolls forward into the allocations for 2010-11. Institutions can recover the funding deducted in 2010-11, if they make good the previous year's shortfall in recruitment. The associated funding figures have not been adjusted to reflect the saving being implemented for 2010-11. The recovery of grant for recruitment above the baseline FTE figure will be at the rate per FTE, reduced by 1.09 per cent to reflect the pro rata saving, and up to the maximum level specified in the funding agreement, similarly reduced by 1.09 per cent.
- c. **A second (higher) FTE target representing the numbers required to deliver fully funded growth at the first attempt** (new ASN allocations for 2010-11 or student number allocations that are being brought within mainstream teaching grant from 2010-11). Institutions with such allocations for 2010-11 will have grant held back if they do not deliver sufficient overall growth. This holdback will be consolidated into the baseline funding level that rolls forward into the allocations for 2011-12. Institutions will be able to recover the funding deducted in 2011-12, if they make good the previous year's shortfall in recruitment. The associated funding figures have not been adjusted to reflect the saving being implemented for 2010-11. Any shortfall against this second FTE target will lead to holdback of grant at the rate per FTE, reduced by 1.09 per cent to reflect the pro rata saving, and up to the maximum level specified in the funding agreement, similarly reduced by 1.09 per cent.
- d. **A third (highest) FTE target representing the numbers required to deliver fully the places awarded through the UMF.** Institutions that do not meet the target will have their 2010-11 teaching grant associated with the UMF places reduced. There is no teaching grant associated with the UMF places for 2011-12 because the cost of supporting the students' continuing study is to be met through savings arising from efficiency projects. The associated teaching funding figures have not been adjusted to reflect the saving being implemented for 2010-11. Any shortfall against this third FTE target will lead to holdback of grant at the rate per FTE, reduced by 1.09 per cent to reflect the pro rata saving, and up to the maximum level specified in the funding agreement, similarly reduced by 1.09 per cent.



35. Further information about these FTE targets is provided in the technical guidance that accompanied the grant letter to institutions of 12 March 2010, in 'Allocation of funding for additional new entrants and efficiency activities in 2010-11 through the University Modernisation Fund' (HEFCE Circular letter 08/2010) and in institutions' funding agreements.
36. In the event of under-recruitment of new entrants funded through the UMF, and subject to discussion with the institution, we may consider withdrawing a proportion of the efficiency-saving UMF funding proportionate to the shortfall of new entrants.
37. For two institutions (Birkbeck, University of London; and the Conservatoire for Dance and Drama) further FTE targets are also specified. These show the minimum FTEs required to avoid holdback of ASN funding that has been allocated, either in 2009-10 or 2010-11, in place of safety net funding arising from the policy of not counting for funding purposes students studying for equivalent or lower qualifications (ELQs) compared to those they already hold. Details about this were provided in the technical guidance for HEIs that accompanied the provisional recurrent grant letter of 12 March 2010.
38. These further targets also show the total funding that may be held back, and the rate of holdback per FTE although these have not been adjusted to reflect the pro rata saving being implemented for 2010-11.
39. Any shortfall against these further FTE targets will lead to holdback of grant at the rates per FTE, reduced by 1.09 per cent to reflect the pro rata saving and up to the maximum level specified in the funding agreement, similarly reduced by 1.09 per cent.
40. However, in the event of such holdback, funding may instead be provided for 2010-11 as ELQ safety net funding to reflect what the institution would otherwise have been allocated for the year. The level of such ELQ safety net funding may not necessarily offset in full any holdback for shortfalls against these further FTE targets. This reflects differences in how the associated ASNs are being phased and the levels of ELQ safety net funding that would have been provided in the absence of such ASNs.
41. Any holdback or recovery of funds will be applied in 2010-11 and, with the exception of the UMF funding, consolidated into the following year's baseline allocation. The teaching funding allocated through the UMF will be withdrawn in full in 2011-12 for all institutions, because the teaching costs of the continuing students are to be met through savings arising from institutions' efficiency projects. The baseline FTE targets for funding conditional upon delivery of growth from 2011-12 will be increased to reflect the extent to which additional new entrant places funded through the UMF have been delivered in 2010-11, but FTE targets will not otherwise be set for them from 2011-12.

## **The medical and dental CFTE**

42. The Government expects HEFCE to control student numbers in medicine and dentistry because of the exceptionally high cost of the programmes. For this reason, we will continue to set a separate target for students on quota-controlled undergraduate (UG) medical and dental courses. This is expressed as a minimum FTE; recruitment below this level will lead to holdback of grant.
43. Any shortfalls against the medical and dental CFTE will be subject to holdback at an average rate based on the standard five-year medical course. This is calculated as two-fifths of

the standard price for price group B, and three-fifths of the standard price for price group A, minus £1,310 assumed fee income (giving £10,859) and then adjusted for the 1.09 per cent pro rata saving being implemented for 2010-11. Any holdback will not be consolidated into institutions' baseline funding for 2011-12, since we would not expect the shortfall against the medical and dental CFTE to recur the following year.

## **The contract range**

44. Our mainstream funding method for teaching is designed to fund similar activities at similar rates across the universities and colleges we fund. To do so, we calculate a standard level of resource for each institution and compare it with the 'assumed resource' that the institution receives (actual HEFCE teaching grant plus an assumption of income from fees). The method is designed to ensure, for all institutions, that assumed resource comes within a 'tolerance band' of  $\pm 5$  per cent of the standard resource. Where institutions fall above the band, they are expected to move within it over an agreed period. The funding agreement seeks to support this objective.

45. The funding method regulates the resource per student. Resources will vary according to the mix of students between subject, mode and level of study. This means that we cannot ensure similar levels of resources for similar activities merely by setting a minimum number of FTEs to be taught by each institution.

46. Instead, we set a target that specifies an acceptable percentage difference between an institution's assumed and standard resource. This is known as the 'contract range'. For most institutions, this will be the same as the tolerance band; that is, between -5 per cent and +5 per cent of the standard resource. However it may be extended for those institutions that are moving towards the band.

47. To monitor institutions' positions against their contract range, we will recalculate assumed and standard resource for each institution, using 2010-11 FTE data returned in our December 2010 aggregate student number surveys. The funding agreement explains in detail how we calculate these resource figures, and which students are counted towards them. We express assumed resource as a percentage of standard resource. We expect this percentage difference to come within the institution's contract range.

48. The electronic versions of the grant tables for individual institutions include worksheets that can be used to recalculate standard and assumed resource for 2010-11, and may help institutions to assess the effects of different recruitment patterns. The electronic grant tables for 2010-11 can be found on the HEFCE extranet at <https://extranet.hedata.ac.uk>. The organisation and group keys for 2010-11 grant tables were provided in Caroline Charlton's letter to heads of institutions of 2 February 2010.

49. In recalculating assumed resource, we will incorporate any holdback, or any recovery of funds, arising from institutions' recruitment against their FTE targets for funding conditional upon delivery of growth, or against their medical and dental CFTE.

50. These figures for holdback or recovery of grant will not be adjusted at this point for the 1.09 per cent pro rata saving that we are applying for 2010-11, because the parameters we use in monitoring compliance with the contract range (such as the base price and fee assumptions) have similarly not been adjusted for this saving. We incorporate the holdback or recovery of funds arising from these other targets to ensure that we do not penalise institutions twice for a

single instance of under-recruitment, and that an institution's ability to meet its contract range is not affected by the growth that we expect it to deliver to recover funding previously withheld.

### **Institutions above their contract range**

51. If, when we recalculate assumed and standard resource using 2010-11 FTE data, the percentage difference is above the contract range, institutions will be liable to holdback. This will be calculated as the variance between the percentage difference and the contract range, multiplied by the recalculated standard resource. For example:

- an institution has a contract range between -5 and +5 per cent
- its assumed resource is found to be 6.3 per cent above the standard resource (the percentage difference is +6.3 per cent)
- therefore holdback equals the difference between 6.3 and 5 = 1.3 per cent of recalculated standard resource (the variance multiplied by the institution's recalculated standard resource).

52. Any such holdback will be applied in 2010-11 and consolidated into baseline funding levels for 2011-12. Institutions will have the opportunity to recover some or all of the 2010-11 holdback consolidated into 2011-12, to the extent that the reinstatement of the funding keeps the institution within its 2011-12 contract range. The amount to be held back in 2010-11 and the amount recoverable in 2011-12 will both be adjusted to reflect the 1.09 per cent saving being implemented in 2010-11. See paragraph 57 for an example of how such recovery will operate.

### **Institutions below their contract range**

53. We will not apply holdback in 2010-11 to institutions for coming below their contract range.

54. The teaching element of UMF will be included as part of recurrent mainstream teaching grant for 2010-11 only. Institutions will, however, need to include the associated students as HEFCE-fundable (assuming they meet all criteria for that status) in their HESSES returns while they remain at the institution.

55. The UMF may therefore result in some institutions being positioned below the  $\pm 5$  per cent tolerance band in 2010-11 and particularly in subsequent years. We will suspend the conditions that apply to the lower limit of the tolerance band in order to accommodate these students, recognising that institutions are being required to secure efficiency savings as part of this process.

56. We will not expect institutions to migrate back within the tolerance band in 2011-12, and any subsequent implications for 2012-13 and beyond will depend on the outcome of the review of funding for teaching, for which an initial consultation is in progress ('Review of the teaching funding method: consultation on key principles and features', HEFCE 2010/10).

### **Consolidated 2009-10 contract range holdback recoverable in 2010-11**

57. Some institutions will have had holdback for failing to meet their 2009-10 contract range consolidated into 2010-11. They will have a chance to recover some or all of the funding that has been deducted in 2010-11, depending on their position relative to their contract range in this year. Any recovery of funds will be applied in 2010-11 and consolidated into the following year's

allocation. Funding will be repaid to the extent that its reinstatement keeps an institution within its 2010-11 contract range. For example:

- an institution had a contract range between -5 and +5 per cent in 2009-10
- its assumed resource was found to be 6.3 per cent above the standard resource so holdback of 1.3 per cent of the 2009-10 recalculated standard resource was applied and consolidated into 2010-11 grant
- in 2010-11 assumed resource is found to be 4.5 per cent above the standard resource (the percentage difference is +4.5 per cent), within its contract range for 2010-11 of  $\pm 5$  per cent
- the institution therefore recovers some or all of the consolidated holdback in 2010-11. The amount recovered is the lesser of the cash sum held back in 2009-10 and 0.5 per cent of 2010-11 recalculated standard resource (the difference between the institution's percentage difference of +4.5 per cent and the top of its contract range).

58. We will adjust any amount recovered to reflect the 2010-11 pro rata saving, to ensure that institutions recovering grant are treated in the same way as institutions not subject to holdback in 2009-10. This means that the amount repayable, as calculated using the method described in paragraph 57, will be reduced by 1.09 per cent to reflect the pro rata saving.

## **The student number control**

59. For 2010-11 we have introduced for each institution a specific number indicating the maximum number of HEFCE-fundable and employer co-funded students starting full-time (FT) UG and PGCE study in the academic year 2010-11.

60. This new student number control has been derived using a baseline taken from 2008-09 individualised student data returned to the Higher Education Statistics Agency (HESA), and the Data Service's individualised learner record (ILR) plus other adjustments, including allocations of ASNs and transfers between institutions that have subsequently been implemented. Institutions that exceed their student number control limit for 2010-11 will be liable for a reduction in HEFCE grant.

61. We wrote to institutions on 24 February 2010 to announce the specification of the new student number control relating to FT UG and PGCE students for 2010-11 and provide the provisional limit for institutions for the year. The provisional limits have been revised for individual institutions in the light of any appeals, corrections to underlying HESA or Data Service individualised student data, the award of additional new entrant places through the UMF or other changes to grant. Updated student number control limits are specified in institutions' funding agreements.

62. We will monitor each institution's compliance with the student number control specified in the funding agreement, or as subsequently amended. Where we find that an institution has exceeded its limit, this will result in a reduction to grant, which may be applied in the 2010-11 and/or 2011-12 academic year. This will be at a rate of £3,700 for each student above the limit, or such other rate as may be separately specified by the Department for Business, Innovation and Skills (BIS). This reduction may be repeated in subsequent years to the extent that the institution continues to contribute to excess student support costs. We will give institutions an opportunity to appeal for mitigation before finalising any such grant adjustment.

63. Institutions should assume that no margin above the limit specified for 2010-11 will apply before we seek to apply grant reductions.

64. In addition, where we are adjusting funding for institutions for over-recruiting FT UG and PGCE entrants in 2009-10, those adjustments may be repeated, in whole or in part, in subsequent years unless the institution takes action to offset the over-recruitment in 2009-10 by recruiting below its 2010-11 student number control limit. In doing so, we will take the following approach:

a. We will monitor the extent to which institutions take action in 2010-11 to offset their over-recruitment in 2009-10 and, as necessary, adjust funding accordingly. We will not normally continue to monitor this in further years, but reserve the right to do so and to take further action if we believe institutions are not taking appropriate steps to control their recruitment.

b. The extent to which an institution might need to offset 2009-10 over-recruitment in 2010-11 to avoid a further HEFCE grant reduction will reflect the proportion of the excess student numbers recruited in 2009-10 that we estimate will still be continuing their studies on similar programmes in that following year. We will calculate this proportion using individualised HESA or ILR data.

c. Where institutions do not sufficiently offset their over-recruitment from the previous year, we will reduce their grant. This will be at a rate of £3,700 for each excess student recruited, or such other rate as may be separately specified by BIS. This will not be adjusted for the 1.09 per cent pro rata saving that is being applied to 2010-11 teaching grant, because the rate reflects the average cost to the public purse of student support, rather than, for example, reflecting a rate of HEFCE teaching grant.

Further information on this was provided in 'Student number control for 2010-11: issues for institutions that over-recruited in 2009-10' (HEFCE Circular letter 11/2010).

## **Moderation**

65. We have revised our moderation threshold because of the need to incorporate further savings from 2010-11 teaching grant. This has been necessary to ensure that the total funding for moderation remains affordable and does not exceed the £20 million that we originally set aside for this purpose in March.

66. We have therefore decided for 2010-11 that moderation should be provided so that no institution sees a reduction in its recurrent teaching and research grant of more than 1.2 per cent in cash terms compared with the equivalent, unmoderated figure for 2009-10, but that we should not provide moderation funding if it amounts to less than £100,000.

67. Any reduction in core funding for 2010-11 due to institutions exceeding their contract range will be subject to these moderation rules. We will not moderate other forms of holdback or grant adjustments arising from recruitment against the student number control.

## **Monitoring ASNs for co-funded employer engagement**

68. Where we have awarded ASNs for 2010-11 that are to be co-funded with employers, the ASN FTEs, the associated HEFCE grant and the rate of grant per FTE are confirmed in

institutions' funding agreements. These amounts have not been adjusted to reflect the saving being implemented for 2010-11.

69. We will monitor achievement of these FTEs through a separate monitoring return at the end of the 2010-11 academic year.

70. From 2010-11 onwards we are changing our treatment of co-funded places where institutions do not deliver the places required. Co-funding will follow the principles of mainstream ASN funding – each institution will be allocated a co-funding 'core', and funding will be adjusted in subsequent years on the basis of any under-recruitment against target and whether the institution has successfully bid for co-funded ASNs.

71. For 2010-11, we will present funding and targets for co-funding in the usual way. If institutions do not achieve their co-funding target in 2010-11, funding will be clawed back at the end of 2010-11 and this reduction consolidated into funding for 2011-12. Institutions will then be set an FTE target to recover the funding removed from core for 2011-12. If this target is not met there will be no further opportunity to recover the funding.

72. Further details about the arrangements for monitoring and grant adjustments relating to co-funded ASNs are provided in 'Employer co-funded additional student numbers for 2010-11' (HEFCE Circular letter 03/2010).

### **Funding for widening participation and other targeted allocations**

73. Funding for teaching in 2010-11 includes formula funding for widening participation (WP), teaching enhancement and student success (TESS), and other variable targeted allocations. These are allocated in 2010-11 to reflect adjusted FTE student numbers at each institution in 2009-10. We will not recalculate this funding to reflect actual FTEs recruited in 2010-11.

### **Other conditions of recurrent grant**

74. The funding agreement also specifies particular conditions that apply to certain elements of recurrent grant, including:

- a. Additional funding for very high cost and vulnerable science subjects.
- b. Funding for research degree programme (RDP) supervision. We require all institutions to comply with the revised Section 1 of the Quality Assurance Agency for Higher Education code of practice on postgraduate research programmes<sup>5</sup> in respect of those departments that attract RDP supervision grant.
- c. Additional funding to support institutions that are shifting the balance of their FT UG provision towards strategically important and vulnerable subjects in 2010-11. The subjects in question are certain STEM subjects and modern foreign languages.
- d. Funding for efficiency projects supported through the UMF.

In each case, we will withdraw some or all of the funding if the associated conditions of grant, specified in the funding agreements or elsewhere, are not met.

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<sup>5</sup> The 'Code of practice for the assurance of academic quality and standards in higher education' is available from [www.qaa.ac.uk/academicinfrastructure/codeOfPractice/](http://www.qaa.ac.uk/academicinfrastructure/codeOfPractice/)

## Conditions of recurrent grant relating to tuition fees and access agreements

75. The Secretary of State expects institutions not to charge qualifying persons on qualifying courses more than a prescribed amount in tuition fees.

76. The prescribed amounts for 2010-11 reflect provisions in the Higher Education Act 2004 and are subject to overall limits that are set out in the Student Fees (Amounts) (England) (Amendment) Regulations 2009<sup>6</sup>. Qualifying courses and persons have the meaning prescribed in the Student Fees (Qualifying Courses and Persons) (England) Regulations 2007, as amended<sup>7</sup>.

77. 'New condition of grant about tuition fees and access agreements' (HEFCE Circular letter 15/2006) describes:

- the arrangements for 2006-07, which also apply in 2010-11 subject to the updated prescribed fee limits and the revised definitions of qualifying persons and qualifying courses set out in legislation
- how institutions are required to comply with the provisions of any access agreement ('approved plan') in force, as approved by the Director of Fair Access
- the action that HEFCE will take on its own account or on behalf of the Director of Fair Access if conditions of grant are breached. Any financial requirements may be applied in-year.

## Institutions with no HEFCE-fundable students

78. If an institution fails to recruit any HEFCE-fundable students, all its funding for teaching will be held back. This includes mainstream teaching funding and funding for WP and other targeted allocations. We will not provide moderation funding in these circumstances.

## Verification

79. Where our calculations suggest that grant should be withheld, we will notify institutions of the amount. We will give them the opportunity to verify the data used, and to tell us about any material changes in definitions or mitigating factors that may have influenced the calculated level of holdback.

## Data audit and reconciliation

80. Data collected from institutions inform our allocation of funds for teaching and research. We will continue to audit these data selectively in this and future funding exercises, through audit visits. We will also use data that institutions provide to HESA or the Data Service to verify the data institutions send directly to us.

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<sup>6</sup> Statutory Instrument 2009/3113, available from [www.opsi.gov.uk/si/si-2009-index](http://www.opsi.gov.uk/si/si-2009-index)

<sup>7</sup> Statutory Instrument 2007/78, as amended by Statutory Instruments 2007/2263 and 2008/1640, available from [www.opsi.gov.uk/si/si-2007-index](http://www.opsi.gov.uk/si/si-2007-index)

81. We will use the outcomes of these data audits and reconciliations to review funding allocations both for the year in question and all subsequent years. We reserve the right to review funding allocations for the most recent seven-year period.

82. If we find, either through reconciliations with HESA or Data Service data, or any data audit, that erroneous data have resulted in institutions receiving incorrect funding allocations (including for WP, TESS and other targeted allocations), we will adjust their funding accordingly (subject to the appeals process and the availability of our funds).



## List of abbreviations

<b>ASNs</b>	Additional student numbers
<b>BIS</b>	Department for Business, Innovation and Skills
<b>CFTE</b>	Contract full-time equivalent
<b>ELQs</b>	Equivalent and lower qualifications
<b>FT</b>	Full-time
<b>FTE</b>	Full-time equivalent
<b>HESA</b>	Higher Education Statistics Agency
<b>ILR</b>	Individualised learner record
<b>PGCE</b>	Postgraduate/Professional Graduate Certificate of Education
<b>STEM</b>	Science, technology, engineering and maths
<b>TESS</b>	Teaching enhancement and student success
<b>UG</b>	Undergraduate
<b>UMF</b>	University Modernisation Fund
<b>WP</b>	Widening participation