

Non-Staff Budget Formula in Academic Departments – 2003/04

1. Introduction

Non-Staff budgets of Academic Departments are, in broad terms, dependant on the inherent cost of the discipline and the level of departmental activity. In the past, the link between budgets and activity was essentially determined by negotiation with Heads of Departments but, this year for the first time at Goldsmiths, a formula has been created to directly link changes in academic activity to changes in non-staff budgets. By creating a formulaic link to activity it is anticipated that, amongst other things, there will be more incentive to pursue the College's ambitious growth targets. This paper explains the calculations used to determine the 2003-04 Academic non-staff budgets.

A summary of the data used in the calculations is included in Annex A.

2. Structure of the formula

The budget approved by Planning Committee for Academic departments in 2003-04 is at the same level, in cash terms, as the previous year's budget. This total budget has been apportioned between the various Academic departments by formula. The bulk of the budget (90%) is calculated using measures of Departmental Need but an element is reserved for providing incentive payments for performance against agreed criteria.

The specific elements of the formula are as follows:

<u>Formula Component</u>	<u>Percentage</u>
Needs	90%
Incentives	10%

The Needs Component is further subdivided into: -

<u>Needs [90%]</u>	<u>Percentage of Needs component</u>
- Teaching Needs	70%
- Research Needs	25%
- Admin Needs	5%

And the Incentives component is further subdivided into:

Incentives [10%]

- Financial performance as measured by the Departmental Financial Analysis Model [90%]
- Departmental Non-Staff Reserves [10%]

All Departments receive a 'Needs' related budget each year but whether or not they receive an incentives allocation will depend on their performance against the agreed criteria. Departments may, therefore, get more than their needs related budget but never less.

3. Needs Component

Teaching Needs

In general, the teaching needs of departments are determined by:

- a) The cost of teaching the student.
- b) The number of students taught by the department
- c) The type of student

Departments are grouped into various cost bands by HEFCE. For example, HEFCE gives a cost weight of 1 to low cost Departments like English and a cost weight of 2 to high costs subject areas such as Computer Science. The Non Staff budget formula recognises the different cost of teaching students in different disciplines by using each departments' agreed HEFCE cost weight.

As postgraduates are more expensive to teach than undergraduates, for example, they are taught over 45 weeks rather than 30 and must be taught in smaller groups, they have been given a weighting of 1.5.

Research Needs

Research needs are correlated with the average cost of undertaking research in the discipline, staff numbers, the level of external research grants, and the quality (or QR level) of Research undertaken.

With this in mind, the Research related needs grant has been calculated pro rata to the following departmental measures.

<u>Research Activity measure</u>	<u>% of research grant</u>
Staff numbers (Full time equivalents, excluding VTs)	35%
Research grant turnover	15%
QR (as measured by QR weighting multiplied by Volume)	50%

In order to reflect the different costs of carrying out research in each discipline, the HEFCE cost weight has been applied to the number of staff and the QR measure in each department. No weight is applied to Turnover because it is assumed that the cost of the discipline is already reflected in grant income.

Admin needs

The Teaching and Research components of the grant include some funding for admin needs but the Formula also includes factors that have a specific and more direct bearing on the relative cost of each department's Admin. .

The Admin component has been calculated by allocating a sum for each:

- Members of staff (including VTs)
- Student registered in the department

Also included is a fixed grant of £2, 500 that recognises the diseconomies of scale of smaller Centres/Departments.

Incentives Grant

The Needs grant is calculated using statistics that are intended to be determinants of a department's basic needs for non-staff resources. As the needs grant varies with student numbers and Research activity etc it almost goes without saying that it creates an incentive to meet the College's overall objectives to increase student numbers and improve research performance. However, because the provision of incentives is not the primary purpose of the needs element of grant, the formula includes an explicit 'incentives' component, calculated with reference to the following pre-determined criteria:

- a) Financial performance, or overall surplus or deficit as measured by the departmental financial analysis model
- b) Budgetary performance, (i.e. size of a departments non-pay reserve).

Under the Incentives element of the formula, departments are awarded percentage increases in their Total Needs Related grant according to how well they perform under (a) and (b). For example, a department with a surplus of between zero and £200K could be awarded an additional 10% of their total needs grant, and the same department with a Non Pay reserves in excess of £50K may be awarded a further 10% of their total needs grant resulting in a total supplement of 35%

In theory variations in the Incentive element of the formula could be significant from one year to the next but in practice this is unlikely because departmental performance against each criteria is expected to be fairly steady overtime.

Moderation

Perhaps not unexpectedly the introduction of a more objective approach to non-staff budgeting in Academic departments has resulted in significant increases and decreases in individual non-staff budgets. As departments will find it difficult to cope with large changes, increases have been limited to 15% and reductions to 10% of the previous year's equivalent budget.

Future Developments

Withdrawal of moderation: - The overall aim will be to remove all restrictions entirely by the start of year three of the new system.

Introduction of bidding: - Next year depending on the outcome of consultation, a system of bidding will be introduced for certain categories expenditure. The extent to which bidding can be introduced will partly depend on the speed of changeover to the new methodology.

The addition of an additional incentive: - Depending on the outcome of consultation, it may be appropriate to factor in an additional criteria for the Incentives element of the grant.

The development of funding for Inter –Departmental Activity: - Formula funding should be used to determine the budgets of interdisciplinary Academic Centres where the Centre ‘owns’ the students being taught or Research grants or contracts generated. The approach is, however, less well suited to smaller, less formal, interdisciplinary groupings where the students or research activity remains part of the ‘parent’ department. Over the next year, it is proposed to develop a system whereby an interdisciplinary Unit’s budget is created by agreeing in advance an appropriate top-slice of the needs related budget of the participating Departments. It should be noted that if the new Unit generates additional activity, the effect of the top-slice on the budgets of the participating departments is likely to be neutral.

Conclusions

The effect of the introduction of the new formula approach to funding has been deliberately limited. However, even its limited introduction improves incentives and creates a more transparent process for allocating non- staff budgets.

Contact Details

For further information on the formula please contact Lakshmi Sri Murugan, Management Accountant – Academic or Una Quinn, Head of Management Accounting, in the first instance.

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Data used in formula

1. **2002-03 Student Data** extracted from HEMIS by Registry:
 - a) Full Time Equivalent Students, excluding visiting students
 - b) Student Count, excluding visiting students

2002-03 Visiting student data from International Office.

2. 2002-03 Full time equivalent **staff** and staff numbers per payroll
3. **Departmental Cost Weightings**: - the weightings used in the HEFCE grant calculation.
4. **QR Weighted Volume**: weighted volumes based on those in 2003-04 HEFCE grant letter.
5. **Research Turnover**: Research income from the latest available financial year (2001/02) extracted from Agresso.
6. **Departmental Financial Analysis Model**: Last published version used, i.e. estimated outturn for 2002-03.
7. **Departmental Non-Pay Reserve**: Cumulative non – pay balances as at 31 July 2003 calculated by comparing non-staff budgets to relevant expenditure since the introduction of the policy in 1999/2000. For the purposes of this exercise, and for this year only, overspending against VT budgets has not been taken into account.

Further information

Student data: Registry: Student records and Statistics Office

Financial Data: Paul Sloan, extn. 7925

Calculations: Paul Sloan, extn. 7925, Una Quinn 7936.