

19<sup>th</sup> September 2011

Dear Colleague

Further to my letters earlier this year, which set out the efficiency savings to be made by the Research Councils over this spending review period and the ways in which the savings would be made, please find below further information on the top slice.

**Please can you ensure that the information contained in this letter is communicated to your accounts payable department so that they are aware they will be receiving the invoices for payment.**

The phase 1 top slice has been applied to payments due from 1 July 2011 on your research organisation's Research Council grants that were active on 31<sup>st</sup> August. It has not been applied retrospectively to payments received before that date.

The indexation top slice methodology is best illustrated in a simple example. The first part of the table shows how indexation is applied to a grant, with the second half detailing how the top slice removes the embedded indexation from the indexed grant value.

		2011/12	2012/13	2013/14	2014/15	
<b>To add indexation to a grant:</b>						
Unindexed Grant Value	a	£1,000	£1,000	£1,000	£1,000	
Indexation Rates	b	1.50%	2.50%	2.75%	2.75%	
Compound Indexation	c	1.50%	4.04%	6.90%	9.84%	
Indexation	d = a * c	£15	£40	£69	£98	
Indexed Grant	e = a + d	£1,015	£1,040	£1,069	£1,098	
<b>To remove indexation:</b>						
%age to reduce Grant by:	f = 1 - (1/(1+c))	1.48%	3.88%	6.45%	8.96%	
<b>Amount to reduce Grant by</b>	<b>g = e * f</b>	<b>£15</b>	<b>£40</b>	<b>£69</b>	<b>£98</b>	<b>Top Slice</b>
Non Indexed Grant Remaining	h = e - g	£1,000	£1,000	£1,000	£1,000	

When applying the top slice, indexation is deemed to start in 2011 and as such the cumulative impact of indexation added before then has not been removed. The compounding effect of indexation will therefore only be seen in the top slice from 2012.

The phase 1 top slice uses assumes an indexation rate of 1.5% per annum for those grants that were awarded before 01/04/2010: this is the rate used in the 2009/10 reindexation of grants and for any new grants awarded in the remainder of that year. For grants awarded on and after 01/04/2010, the top slice assumes the new indexation rates introduced at that time. As such the indexation rates to be used in the phase 1 top slice calculation are:

	2011/12	2012/13	2013/14	2014/15
Grants awarded before 01/04/2010	1.50%	1.50%	1.50%	1.50%
Grants awarded on or after 01/04/2010	1.50%	2.50%	2.75%	2.75%

The phase 1 top slice, which covers all payments due from July 2011 (irrelevant of start date), has therefore been calculated assuming an indexation rate of 1.5%. We recognise that, in some cases, actual indexation may be lower than this, so a cap has been placed on the indexation top slice to ensure the top slice is capped at the level of indexation recorded in the Research Councils' Grants system.

The efficiency factor component of the phase 1 top slice has been calculated as per the original guidance note which can be viewed online at:

<http://www.rcuk.ac.uk/documents/publications/TopSliceGuidanceFinal.pdf>

As the phase 1 top slice invoice has only been calculated to include payments due this financial year, payments due in subsequent years will be covered with further invoices in the appropriate financial year. There will also be a further phase of top slice in 2011/12 to capture all grants awarded that were not captured in the data set on which this top slice was based.

In line with feedback that we have received from the sector, we have attached as much detail as we can. Although we have provided grant by grant data, it should be recognised that the methodology used requires some high level assumptions which, when analysed on an individual grant basis, may cause discrepancies. Grant payments will continue as planned, with final reconciliation taking place as normal. Therefore, grant budgets should not be reduced in response to the top slicing.

A de minimis of £1,000, covering the combined indexation and efficiency factor top slice, will be applied to each invoice by Council. This means that the data supplied with this letter may contain some grant detail by Council that you will not be invoiced for.

We are working to have all invoices sent out by the end of October. Payment terms will be 60 days from the invoice date.

If you have any queries, please do not hesitate to contact me. Correspondence can be sent to [communications@rcuk.ac.uk](mailto:communications@rcuk.ac.uk).

Yours sincerely



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