

## **Annex 1: Funding Priorities**

### **Introduction**

1. The Chancellor's Autumn Statement provided some positive outcomes for higher education. But public finances remain stretched and there is an increasing need to deliver efficiencies. BIS must continue to contribute to overall savings across Government and Higher Education, like other areas of public spending, has to take its share of savings.

2. The financial table (annex 2) sets out the funding figures for 2014-15 and indicative allocations for 2015-16. The pressures on BIS mean that it has been necessary to make reductions to the recurrent teaching grant budget in 2014-15 and in 2015-16. To give HEFCE as much flexibility as possible in managing these reductions we are mainstreaming into HEFCE budgets, government contributions of £62m to access and student success in 2014-15. After accounting for this mainstreaming and funding provided at the Autumn Statement for additional student places, there is a net reduction of £45m on the indicative 14-15 allocation for recurrent teaching grant in last year's grant letter. £20m of this will be compensated with extra capital funding. We are making £185m available, over four years, from 2015-16, to allow HEFCE to increase the unit of funding, supporting institutions to deliver high quality STEM provision. It is for you to take decisions on how you allocate the revised figures. But you should deliver savings in ways that protect as far as possible, high cost subjects (including STEM), widening participation and small and specialist institutions.

3. In September, we announced a new, £200 million, capital investment in 2015-16 fund for high cost subjects like Science Engineering and Technology. Matched by equal investment from institutions, this will invest some £400m in the creation and upgrading of teaching facilities to ensure students receive a high quality HE experience that fully equips them for the economy of the future. We will look to the Council to administer this fund and will write to you separately to provide further detail of the approach we want you to follow.

### **Social Mobility**

4. Government remains committed to improving access to higher education through a new framework that places increased responsibility on institutions to widen participation. We continue to support the Council's joint work with OFFA to help focus activity and funding where the evidence of positive impact is greatest. This includes HEFCE support for the development of a country-wide collaborative outreach network (for which we have provided funding, refocused from the National Scholarship Programme). However, in view of the forthcoming changes to student number controls (set out in the paragraph below), and evidence from recent application and admission data, you may wish to reconsider what you require from institutions by way of their widening participation strategies in 2014/15 and 2015/16.

5. The new funding system places greater responsibility on institutions to fund access and retention activities, including supporting students in cases of hardship. Spending by institutions with access agreements over the next two years is planned to exceed £680m and £690m consecutively. We expect the Council to continue to use the

best available evidence to maximise the impact of its funding and to simplify funding streams where they seek to deliver a similar objective. We therefore want you to bring together funding which supports student retention and success, specifically the Student Opportunity fund and the Access to Learning Fund. As you continue to support institutions to improve access for students with disabilities we want you to work with the Department in 2014-15 to review the way in which they use disability funding.

6. In 2015/16 government will invest an additional £50 million (refocused from the National Scholarship Programme as announced in the Spending Review) to help remove barriers to participation in postgraduate education. We want HEFCE to direct and administer this investment. We have agreed in principle that HEFCE will also assume responsibility for Professional and Career Development Loans subject to the outcome of due diligence activity from January 2014. Depending on the outcome of this work, the Council should work closely with the Skills Funding Agency and BIS to agree the date to take control of the scheme and develop options for managing this activity in future.

### **Teaching Quality and Enhancing the Student Experience**

7. Students clearly have the right to expect the highest quality learning opportunities. We want the Council to develop mechanisms that protect and assure the quality of the academic student experience when we remove student number controls in 2015/16.

8. The Council's review of public information on higher education should consider whether there are better indicators, such as measures of student engagement, to provide information on what a high quality student experience looks like. We expect the Council to continue to identify improvements through pilot studies over the coming year as well as setting in train longer term improvements for the benefit of future cohorts. The work should include providing students with greater transparency on how institutions use income and how we can maximise the impact of the QAA's guidance to institutions on publishing staff teaching qualifications, student evaluations, class size and student workload.

### **Science and Research**

9. The ring fenced settlement for Science and Research resource means that we can continue to support research and related training through to 2015-16 through the Dual Support framework. You should continue to work with the Research Councils to sustain the international competitiveness of the UK research base, to ensure that the overall impact agenda is delivered coherently. You should work with Research Councils and the National Academies to address collectively issues such as health of disciplines and research careers. Funding allocations for HEFCE for research, knowledge exchange and research capital for 2014-2015 and 2015-2016 are set out in the attached finance table.

10. You should continue to take forward funding both for research and for support for the next generation of researchers, by selectively funding on the basis of only internationally excellent research, and protecting funding leveraged from external sources such as the charitable and business sectors.

11. We are providing further allocations for the UK Research Partnership Investment

Fund of £100million pa for years 2015-16 and 2016-17 to support major research infrastructure projects in universities and colleges undertaking world-leading research and stimulating university/business collaboration in key industries. You should ensure that research projects supported must lever committed private co-investment amounting to at least £2 for every £1 from the Fund.

### **Progress on Research Excellence and Knowledge Exchange**

12. The Government is committed to providing incentives which enhance the economic and social impact of research and looks forward to the publication of the outcomes of the Research Excellence Framework 2014 by the end of 2014. You should use these outcomes to inform research allocations from 2015 onwards. Increasing Open Access (OA) to research outputs is a key Government objective which should be supported by research assessment methodology and by the QR research funding stream in due course.

13. University collaboration with industry provides a notable competitive advantage for the UK. The Government is committed to a long-term and fully rounded approach to funding all forms of knowledge exchange with all forms of partner through HEIF. In this context, the Council has committed to continue to support Knowledge Exchange funding through HEIF, for which £113m pa is specifically included from within the Science and Research budget, and to provide additional support for high knowledge exchange performance through HEIF where affordable. In allocating these funds, the Council should consider the issues raised in Sir Andrew Witty's review of Universities and Growth and should balance as far as possible our key priorities. These are:

- To make sure that the system of allocation is reasonably dynamic and rewards up-to-date performance
- To incentivise and give additional reward for measurable performance with SMEs
- To have an element of long-term predictability in the funding, including a de minimis cut-off at an appropriate level.

14. The Council is funding and supporting the development of the National Centre for Universities and Business (NCUB) which we see as a key driver of enhanced university/business activity, for example through its work to investigate improved brokerage services between business (especially SMEs) and universities.

15. Building on the work which HEFCE has done with TSB, RCUK and UUK we want HEFCE to further support universities engagement with Local Enterprise Partnerships and Local Authorities, particularly taking account of smart specialisation priorities where universities can make a distinctive contribution.

### **Efficiency**

16. There is an onus on institutions to demonstrate that they offer value for the fees students pay. At the same time, there remains a cross Government imperative to ensure that public money is spent efficiently. We are concerned about the substantial upward drift of salaries of some top management. We want to see leaders in the sector exercise much greater restraint here as part of continuing to hold down increases in pay generally. On research, you should deliver efficiency savings from Quality Related (QR)

recurrent research funding of at least £238 million over the period 2011-15 to be reinvested within QR. You should continue to work with the Research Councils to ensure that institutions take forward actions recommended by the Wakeham review to reduce indirect costs associated with research and related postgraduate training. In achieving these efficiencies you should encourage HEIs to collaborate, this includes through greater sharing of research equipment and infrastructure. We note your contributions to the work of the sector in implementing the recommendations of the Diamond review. We think it essential that the sector makes greater progress. So we would like the Council to work with BIS and Treasury Ministers, the Research Councils and Vice Chancellors to build on the Diamond and Wakeham reviews to drive further and faster improvements in efficiency, for example, considering pension costs and ways to reduce regulatory and bureaucratic burden. Ministers from this Department and HM Treasury have also asked Professor Sir Ian Diamond to carry out a further review of efficiency in Higher Education Institutions. We want the Council to work with Professor Diamond's review, which aims to produce an interim report in Summer and present final conclusions by February 2015.

## **Regulation**

17. The sector has a long tradition of independent regulation and co-regulation. Before introducing new regulations the Government wants HEFCE to continue working with sector representative bodies to develop a regulatory agreement that the sector will consult on shortly. We will ask HEFCE to monitor compliance with this agreement on behalf of Government, and expect you to act in a proportionate manner in promoting adherence to the agreement. If the sector embraces the agreement the new regulations may prove unnecessary.

## **Funding and Student Numbers**

18. The Chancellor announced in the Autumn Statement that Government will provide a maximum of 30,000 additional full-time student places in 2014/15 for HEFCE funded institutions and remove student number controls altogether in 2015/16 for publicly funded institutions. The Autumn Statement provided additional grant funding to ensure that institutions choosing to expand can maintain the quality of their provision for high cost subjects, and can continue to support widening participation and retention. In allocating student places in 2014/15, the Council should retain our high grades policy and the new flexibilities described in the outcomes of your consultation on student number controls for 2014/15 and beyond, which you published in September. In particular, we endorse your proposals to give greater flexibility to institutions which demonstrated strong recruitment in 2013/14. We want all popular universities and colleges to be able to expand and would like to see institutions in franchising arrangements allowing their FE partners to expand their provision to meet demand. We do not expect you to continue to monitor average fees at institutions which gained places from the core and margin process, though the Council should assure itself that those institutions are meeting their commitments in relation to the fees being charged to the relevant cohorts of students from 2012/13 and 2013/14. To support the removal of student number controls in 2015/16, the Council should develop mechanisms and corrective actions to ensure institutions maintain the quality of the student experience even when the size of their student population changes rapidly.

19. We remain committed to supporting high quality alternative providers in the HE

sector. We have made clear our intention to introduce student number controls for alternative providers in 2014/15, based on 2012/13 recruitment levels overall and reasonable, evidenced expansion plans. Our policy intent from 2015/16 is to replicate, as far as possible, for alternative providers, the arrangements for HEFCE funded institutions but we will retain controls for high risk providers.

20. We are removing student number controls to promote individual opportunity, support long term economic growth and promote social mobility. However, there remains a need to ensure that public funds are spent effectively and we continue to look to the Council to take action, where necessary, to ensure this. So, we are asking the Council to recoup unanticipated student support costs from over recruitment, in 2013/14, by publicly funded institutions. As we set out in our last grant letter to the Council, we would like this to be on the basis of cost recovery in 2013/14. To achieve this, grant adjustments should reflect both the average life time and the upfront outlay cost to Government of providing student support, recognising this latter is particularly influenced by the different fees institutions charge. So, we are asking you to make adjustments to institutions' allocations for each full time under-graduate and PGCE student recruited above the permitted level in 2013/14 as follows:

- a. by £5,000 for institutions charging average fees after fee waivers of up to £6,000; and
- b. by £1,000 less than the average fee after fee waivers charged by institutions that, on the basis of an OFFA Access Agreement, make an average charge exceeding £6,000.

The arrangements for recouping grant for unanticipated student support costs from previous years remain unchanged. We will confirm the arrangements for over recruitment should it occur in 2014/15, in the normal way, in our grant letter to the Council for 2015-16. But, you should plan on the basis that our approach will be similar to that set out above.

21. At this point we wish to retain intake targets for undergraduate courses in medicine and dentistry, reflecting the need to manage the supply of newly qualified doctors and dentists and the high costs of their training. It remains important that institutions do not exceed their intake targets to these courses and we therefore ask the Council to impose further sanctions on institutions that continue to over-recruit, including reductions to grant that reflect the cost to Government of providing student support for the excess numbers recruited (set out in paragraph above).

### **Condition of Grant on Regulated Fees**

22. In accordance with the Secretary of State's duty under Section 23 of the Higher Education Act 2004, the Secretary of State is hereby imposing a condition on this grant to HEFCE for the Academic Year 2014/15, requiring them in turn to impose a condition, in accordance with section 24, on financial support given to the governing body of a relevant institution. The details of this condition of grant are set out in annex 3 attached.

