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20 December 2010

Dear Tim

## **HIGHER EDUCATION FUNDING FOR 2011-12 AND BEYOND**

### **Introduction**

- 1) This letter provides details of the allocations that the Coalition Government will make to the Higher Education Funding Council for England (HEFCE) for 2011-12 and the priorities we are setting. It also gives indicative funding totals for 2012-13 and the main budget aggregates for the remaining years of the Spending Review, with confirmed allocations for science and research resource funding for four years. We are providing these indicative future figures in order to assist the sector with forward planning, and to show how increased tuition income routed through students will substitute for reduced HEFCE grant funding over the period. Allocations are made subject to the financial delegations and information requirements that will be set out in a Management Letter to the Council in early 2011, and the Secretary of State's approval of HEFCE's Key Performance Targets by spring 2011.
- 2) Our universities and colleges are hugely important to this country, and our world class HE system is a great asset. We affirm our commitment to some of the key features of that system; in particular, the independence and autonomy of institutions. We need higher education to flourish, in the interests of economic growth, social mobility and of course because of its inherent worth.
- 3) This is the first full Grant Letter this government has sent you. We are setting some new directions for higher education, signalled in the Comprehensive Spending Review, and our response to Lord Browne's report on Higher Education Funding and Student Finance. We will set out our overall thinking and plans for HE in more detail in a White Paper, and will value your advice in preparing it. Taken together, this grant letter and the White Paper will supersede all previous directions to the Council about policy objectives. In particular, the White Paper will set out our intentions for the future powers and functions of the Council. For 2011-12 and 2012-13 though, we expect the Council will continue to perform its current role on its existing statutory basis.

## Preparing for change in 2012/13

- 4) Since taking office, our overriding priority has been to reduce the fiscal deficit. Higher Education, like other areas of public spending, has had to take its share of savings, and this will continue in 2011-12. Nevertheless, it will continue to receive significant public funding during this CSR period, with the new feature that more funding will be provided directly to students, including part-time students, as up-front tuition loans, which higher earning graduates will over time repay. Less funding will be routed to institutions as grants via the Funding Council. These changes will contribute to eliminating the structural deficit over the lifetime of this Parliament. They will also support a more diverse sector, where the choices of informed students provide a constant drive towards high quality teaching and efficient use of resources.
- 5) These new arrangements will come into force from the academic year 2012/13. This means that 2011-12 will be a year of transition, where institutions will be preparing for change. In allocating resources for the 2011/12 academic year, we would like you to focus in particular on supporting a smooth transition for all institutions to the new arrangements. There are a number of areas that we think are particularly important.
- 6) Social mobility, fair access and widening participation should be a key strategic objective and you should continue to require an annual Widening Participation Strategic Assessment (WPSA) from all institutions. This should cover not only young people from low income backgrounds but all those from groups under-represented in HE, taking into account issues facing disabled students, ethnic minorities, part-time and mature students. Your continued support to the sector on widening participation will be particularly important as you manage the move away from the Aimhigher programme towards a new and improved approach to outreach, disseminating lessons learned from that programme and looking at improved targeting of outreach. You should continue to work closely with the Office for Fair Access to ensure that the WPSA and the Access Agreements are as integrated as is possible. New guidance is being issued to the Director of Fair Access, setting out tough conditions for institutions wishing to set graduate contribution charges above £6,000 from autumn 2012, including an agreed programme of progress each year against a university's access measures and benchmarks. Your work with the sector on improving the Performance Indicators and the institutional benchmarks takes on even greater importance in this context. I also look forward to working with the Council and others to develop and implement the new National Scholarship Programme.
- 7) A renewed emphasis on teaching quality is fundamental to our vision for Higher Education. Your work with the sector and the Quality Assurance Agency, to ensure strong quality assurance arrangements are in place for the start of the 2011/12 academic year, will be very important. We need a regime that is built around assuring and improving the experience of the

student. Student choice will be a key long term driver of quality, and to support that choice we have committed to improving the information available to prospective students, so that applicants can make well informed choices between the range of programmes and institutions, and students can hold institutions to account for the quality and cost-effectiveness of what they provide. The Council is leading on key work strands in this area, including the consultation on the required publication by institutions of a standard set of information for each course. We want the Council to give this work a high priority, encouraging institutions to publish full information about their courses as soon as they can and pursuing the publication of information about graduate salaries as a matter of urgency.

- 8) Universities and colleges will need to become even more responsive to the changing demands of students and employers for high level skills and employability, to ensure they remain competitive as providers in the new funding environment. We very much welcome the Council's recent report setting out the challenges and opportunities for flexible and innovative provision. We hope it will be widely studied in the sector and published in due course. Two year degrees, and other intensive forms of degree, offer an attractive option for many students, as does flexibly delivered provision that allows students to achieve Higher Education qualifications in the workplace. Universities will also want to reflect the importance of enhancing progression opportunities for learners within the FE sector, or in employment as Apprentices or otherwise.

### **Research and Economic Growth**

- 9) Our world class science and research base is inherently valuable, as well as being crucial in supporting the economy to recover from the downturn. The UK research base has excellent capabilities in higher education institutions with the critical mass to compete globally and the expertise to work closely with business, charities and public services. Your research funding is particularly significant in sustaining capability in the arts and humanities and in social science, which currently amounts to around a third of total mainstream QR research funding. The ring fenced settlement for Science and Research resource means that we can continue to support those subjects throughout the four years of the spending review period. Funding allocations for HEFCE for research, knowledge exchange and research capital for the period 2011-2015 are set out in the Annex. This funding over four years will enable you to deliver our agenda for research and economic growth. Research capital is not ring fenced. Research capital allocations are indicative for 2012-13 onwards.
- 10) You should 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. You should work with Research Councils and the National Academies to address collectively issues such as health of disciplines and research careers.

11) It continues to be important that universities and business work more closely together. We welcome the Council's commitment to HEIF which we would expect to continue at current levels. This means that the total funding of HEIF will continue at £150 million per year over the four years of the spending review period including £113 million per year specifically included from within the Science and Research budget. This will allow you to take forward reforms of HEIF rapidly, based on the current formulaic approach, which will provide greater incentives to HEIs to increase interaction with business and other users, through a focus on performance (moving away from capacity); and will also incentivise the highest performing institutions further and ensure that only the most effective performers are supported, through introducing a minimum qualifying level of external income necessary to gain an allocation. The Government is also committed to provide incentives which enhance the economic and social impact of research. The progress that you have made with developing the Research Excellence Framework is most welcome. You should continue to implement the REF over the next four years to recognise impact only from excellent research. You should work with the Research Councils to ensure that the overall impact agenda is delivered coherently.

### **Funding and Student Numbers**

12) The annex to this letter gives details of the confirmed funding we are providing for science and research resource for the whole of this Spending Review period. It provides confirmed figures for the Council's teaching budgets for 2011-12 and indicative figures for 2012-13. The Council's administration budget will be notified separately. The Council's overall settlement for 2011-12 represents around a 6% reduction in teaching grant against the comparable figure for 2010-11. However our funding reforms mean that, by 2014-15, the BIS loans outlay to HEIs for the up front costs of graduate contributions is projected to rise by some £4 billion in total (from around £3 billion in 2010-11 to around £7 billion by 2014-15). Meanwhile, HEFCE's revenue teaching grant is projected to reduce in cash terms to around £2 billion. Putting together funding for recurrent grant for Teaching and Research and the BIS loans outlay to HEIs on the upfront costs of graduate contributions, the aggregate effect could be that this total BIS investment in HEIs in England would rise in cash terms from around £9 billion in 2010-11 to around £9.5 billion in 2013-14 and £10 billion in 2014-15, whilst broadly maintaining existing levels of participation, an increase of nearly 10% in cash terms. Figures for 2012-13 to 2014-15 are indicative and subject to refinement as the student and HEI response to the new HE funding package unfolds.

13) Over the past decade, the sector has benefited greatly from public investment in closing capital backlogs. Given this, and the public spending climate, we are now reducing the amount we invest in teaching capital, to a figure of £96 million in 2011-12, as set out in the Annex. It will be for you to allocate this budget, in line with priorities you identify, and we are

grateful for your work in developing a new approach to its allocation. Our steer to you is that this settlement requires resources to be focused on achieving key strategic priorities. We are also making £128 million available for research capital for 2011-12, with indicative allocations for subsequent years shown in the table. You should ensure that research capital is focussed on maintaining excellent departments with the critical mass to compete globally and the expertise to work closely with business, charities and public services.

- 14) We want to ensure that students who have the ability and motivation to gain a higher education qualification can do so. We believe that the changes we are making from autumn 2012 will facilitate this, by reducing the overall costs of higher education that fall directly on the public purse. However, for 2011-12 the system is unchanged and we face extremely challenging public spending constraints. So we have to control public expenditure costs by controlling student numbers. Even so, our budget assumptions, including funding for student support, are that entrant places into higher education for autumn 2011 remain at the level on offer in autumn 2010. This means continuing to make provision for the 10,000 additional entrant places made available to the sector through the University Modernisation Fund in May 2010, so that those additional places can be carried forward for a further year. It is for you to decide whether a reallocation of places between institutions is appropriate, given that very specific conditions were tied to the UMF places, and these conditions applied to them alone. As a provisional planning assumption, universities and colleges should work on the basis that this pulse of additional entrant places will not be repeated in 2012/13 and so the 10,000 extra places will not be repeated.
- 15) For 2011/12 we must ask you to keep in place your mechanisms to minimise and preferably eliminate over-recruitment. Any over-recruitment in the coming year could result in a transfer of HEFCE grant back to this Department in that or future years, in order to meet the consequent unanticipated student support costs. You should also make appropriate adjustments to the allocations of any institutions that have over recruited in 2010/11 at a rate of £3,750 per full time, under graduate and PGCE student recruited above the permitted level. This figure represents the average cost to the Government of providing student support.
- 16) Our policies for the long term lay stress on choice for students. In the forthcoming HE White Paper, we will discuss proposals to enable universities to respond flexibly to demand. Institutions which are chosen by students because they offer better quality, responsiveness and value for money should be able to grow if they wish and - if necessary - at the expense of those that perform less well. We expect new providers to enter the sector, provided they can offer cost-effective teaching to the high standards students will want. Similarly, we see potential for further education colleges to contribute to the diverse provision of cost-effective, locally accessible programmes. There will, of course, be an overriding need to manage within public expenditure constraints, given that the

student finance regime will continue to be subsidised from public funds. This will require developing a new approach to constraining Government financial exposure at the sector level, without restricting student choice of institutions. Lord Browne offered one imaginative solution; we are considering other possibilities and will say more in the White Paper. Meanwhile, we would welcome the Council's active engagement and ideas for how our policy goal can be achieved in 2012/13 and beyond.

- 17) Within its overall settlement, we want the Council to re-examine the balance of funding between what is allocated through general formula funding and what is allocated through more targeted allocations. Our aim is that, taken in the round, special grant should be targeted on promoting policy priorities and meeting unavoidable costs. For 2011-12 the top policy priorities for targeted funding should be supporting widening participation and fair access, and ensuring adequate provision of Strategically Important and Vulnerable subjects. During 2011-12 we would like you to consider what subjects, including arts, humanities and social sciences subjects, should in future be within scope. There may continue to be a need to support the additional costs of specialist provision including that delivered in small and specialist institutions, and to recognise that efficient part time provision may nevertheless have some additional costs. Whilst it is for the Council to take decisions on the detail of its allocations, we would hope that it will continue to make dedicated funding available in all of these areas for the foreseeable future, while recognising that the Council's future methods for allocating grant will need to be fundamentally reviewed and revised as a consequence of the wider funding reforms being introduced from autumn 2012. We will say more in the White Paper about our priorities for targeted funding and would welcome the Council's advice on the focus and extent of targeted funding over time and on the mechanisms for supporting institutions to adapt to any changes. Subject to these priorities, we look to the Council to continue to allocate grant funds in such a way as to maximise the proportion of funds allocated to front line delivery of teaching and learning.
- 18) To ensure the maximum possible resource goes to providing public services, this Department is not retaining any departmental unallocated provision for 2011-12. So it is essential that you continue to manage the Council's activities within existing budgets, including the knock-on consequences of over-recruitment for the student finance budgets.

### **Efficiency and Sustainability**

- 19) The public sector is facing an extremely challenging spending environment. We welcome the action the Council has already taken on efficiency and particularly the £2 million saving it is delivering in its own administration costs for 2010-11 to meet the efficiency targets being applied across the public sector. As you will be aware, institutions in receipt of public funding are being asked to make efficiency savings. The Spending Review set challenging efficiency targets for all departments and public sector bodies over the next four years, with spending on

administration and back office costs falling significantly across Government.

- 20) It is right that the HE sector should secure comparable efficiencies and I am sure that the Council will build on its constructive work to date with institutions to maximise the proportion of grant reductions which are achieved through efficiency savings, including those from sharing services. We are continuing to look at ways to incentivise greater use of such arrangements.
- 21) We expect universities and colleges to continue to deliver efficiencies, in all elements of teaching, research and administrative activity, over the coming years. Students and the public have a right to expect that the HE sector will be rigorous in controlling its costs and improving value for money, as one important way of holding down the graduate contribution charges that institutions set. Last year, we made specific funding available to support efficiency savings through the University Modernisation Fund. We look to the Council to ensure that those savings are delivered in full, and that good practice lessons are learnt across the sector.
- 22) The action that the University Superannuation Scheme is proposing to control pension costs is a good first step. It is also essential that the sector exercises pay restraint, at a time when there is a pay freeze in place across other sectors in receipt of public funding.
- 23) On research, you should deliver efficiency savings from Quality Related (QR) recurrent research funding of £16 million in 2011-12, £45 million in 2012-13, £73 million in 2013-14 and £104 million in 2014-15 to be reinvested within QR. You should 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 incentivise HEIs to collaborate for example through greater sharing of research equipment and infrastructure.
- 24) We support the voluntary giving scheme, which has seen Government funding being used as an effective lever to generate additional income and the sector taking responsibility for prioritising and utilising these funds. This was always meant to be a time-limited scheme in order to build capacity within the sector. We are fully honouring the commitments previously given for this initiative and would like to see the Council continue to work with the sector to put in place sustainable systems for the longer term. Ministers have announced a cross-Government review of incentives for philanthropic activity, reporting in spring 2011.
- 25) We welcome the positive engagement of the sector over recent years in environmental sustainability. Even in fiscally challenging times, we remain committed to achieving the targets for carbon reduction and making progress on the wider sustainable development agenda. We hope you will continue to support the sector in its efforts here.

## Managing expenditure and commitments throughout SR10

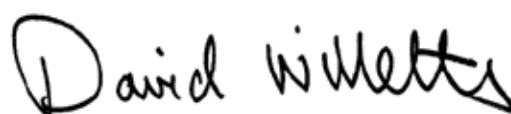
- 26) In light of the tightening fiscal environment over the next four years, the Council itself must expect to comply with more stringent spending controls in relation to its own expenditure, including continuation of those in place in 2010-11. You will need to monitor carefully the legal and financial commitments you enter into during the SR and provide regular commitment information to the Department. Further guidance will follow on this.
- 27) The whole of the ring-fenced science and research resource funding has now been allocated by Ministers for the 4 years of the SR10 period. We will continue to look to you, together with the Research Councils and the UK Space Agency, to work co-operatively with BIS to manage any pressures within the Science and Research budget which might arise where it is neither appropriate nor reasonable to expect the pressure to be contained within the allocation of an individual partner organisation. We would expect such situations to be exceptional but they could, for example, arise in relation to the uncovered exposure to currency movements.

## Condition of Grant on Regulated Tuition Fees

- 28) Under Section 23 of the Higher Education Act 2004, the Secretary of State has imposed a condition on grants to HEFCE, and to the Training and Development Agency for Schools (TDA), requiring them in turn to impose a condition on financial support given to the governing body of a relevant institution. This condition requires the governing body of each institution to ensure that the fees payable for a course of higher education by a student who is eligible for financial support under the Student Support Regulations do not exceed either the basic amount specified in the Education (Student Fees) (Amounts) (England) Regulations 2004, as amended (being £1,310 for the 2010/11 academic year) – or, where the institution has in force an Access Agreement approved by the Office for Fair Access (OFFA), the higher amount specified in those Regulations as amended. Regulation setting the amounts for 11/12 will be laid before Parliament for approval in the usual way. As you know, we have also decided the new basic and higher amounts for students starting courses in the following academic year, that is 2012/13: the basic amount will be £6,000 and the higher amount £9,000.



VINCE CABLE



DAVID WILLETTS





**Annex: Funding for the HE sector via HEFCE and BIS Loans for 2011-12 and 2012-13**

All figures in £m	This table shows the funding allocations for the HE sector for 2011-12 and Science and Research funding allocations for period up to 2014-15	Revised allocation	Budget	<i>Indicative allocations except for Science resource, which are funding figures</i>
		2010-11	2011-12	2012-13
a	Recurrent grant for Teaching	4,949	4,645	3,815
b	Recurrent grant for Research	1,618	1,549	1,587
c	<u>Recurrent Grants sub-total for HE (a+b)</u>	<u>6,567</u>	<u>6,194</u>	<u>5,402</u>
d	BIS Loans to HEIs on the upfront costs of graduate contributions	2500	2600	3600
e	HEIF	113	113	113
f	Total support for English HEIs (c+d+e)	9,180	8,907	9,115

Additional Funding				
g	Voluntary Matched Giving	62	63	52
h	Access to Learning Fund	45	40	tbc

Capital funding to HEIs				
i	Teaching capital	207	95	90
j	Research Capital England (formerly Research capital)	167	75	91
k	HEI Research Capital – England (formerly SRIF/RCIF)	158	53	64
l	Total Capital Grants (i+j+k)	532	223	245

m	Total funding for HE via HEFCE and loans (f+g+h+l)	9,819	9,233	9,412
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**Notes**

- 1) The amounts set out above are the Council's resource and capital budgets. They represent the maximum amount of resource and capital that the Council may consume in pursuance of the priorities agreed with the Department for the Spending Review period. Figures may not sum due to rounding. Funding must not be moved between the recurrent, capital and non-cash resource lines, without explicit agreement from BIS.

- 2) Recurrent grant for teaching excludes £132 million one-off funding provided for 2010-11 through the University Modernisation Fund. This is because the funding was allocated as a single sum in 10-11 covering the full duration of the additional courses. The government expects entrant numbers to be maintained at 2010-11 levels (which included UMF places); however, the UMF funding was provided for 2010-11 only. It also excludes £24 million representing the administrative budget of the Council after allowing for the additional savings in 2010-11 and the reclassification to administrative budgets of expenditure previously charged to programme budgets.
- 3) See note 2 above for explanation of the Council's administrative budget. HEFCE will receive a separate letter detailing their administrative budget for 2011-12 but they should expect to make further contributions in subsequent financial years to the Department's overall real terms reductions in administrative budgets by 2014-15.
- 4) Arrangements for the FE ITT Bursary budget for 2011-12 will be notified separately.
- 5) The Access to Learning Fund is to provide financial assistance to those students experiencing hardship whilst at university. This fund will be administered by HEIs and a separate letter to HEIs will make clear the priorities and operation of this fund for the next financial year. Future years funding will be confirmed in subsequent years grant letters.
- 6) The settlement provides for the Voluntary Giving scheme to be funded in full with the residual £115 million of the £200 million scheme provided over the 2012/13 academic year.
- 7) Although it is not part of the Council's settlement, the figures also show the anticipated level of BIS loans outlay in each of the financial years in question on the up front costs of graduate contributions arising from regulated tuition fees for full-time UK/EU undergraduates whose fee support is provided through the Student Loans Company.

- 8) The table below shows the 4 year allocations for Science and Research resource along with indicative allocations for Science and Research capital for 2012-13 onwards.

	<b>Baseline</b>					<b>SR Period</b>
<b>£ Millions</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>Total</b>
Science and Research Funding	2,056	1,790	1,855	1,840	1,860	7,345
o/w Recurrent grant for Research	1,618	1,549	1,587	1,573	1,573	6,282
o/w HEIF	113	113	113	113	113	452
o/w Research Capital England	167	75	91	90	102	358
o/w HEI Research Capital England	158	53	64	64	72	253

- 9) HEFCE will maintain total funding for HEIF at £150 million per year over the four years of the spending review period, including £113 million per year specifically from within the Science and Research funding.