May 2011/ 16

Core funding/operations

Request for information

Strategies should be e-mailed to HEFCE by Friday 29 July 2011

This document gives Higher Education Innovation Funding (HEIF) allocations for higher education institutions exceeding a threshold for 2011-12 to 2014-15. It invites institutions with HEIF allocations to submit institutional strategies to release their funds, and includes a template for those strategies. It also describes the policy context and method for HEIF 2011-2015 and our future approach to monitoring and review.

Higher Education Innovation Funding 2011-12 to 2014-15

Policy, final allocations and request for institutional strategies

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

Contents

		Page
Executive summary		2
Policy context		5
Funding method		7
Allocations and guidance on strategies		11
Annexes		
Annex A	Final HEIF 2011-2015 allocations	See separate Word file
Annex B1	Word template for HEIF institutional strategies	See separate Word file
Annex B2	Excel template for HEIF institutional strategies	See separate Excel file
Annex C	Guidance notes for completion of institutional strategies	See separate Word file
Annex D	History, progress to date and international context to HEFCE knowledge exchange policy	17
Annex E	Detailed HEFCE and Government policies relevant to knowledge exchange and HEIF	19
Annex F	List of abbreviations	23

This document and its annexes can be downloaded at www.hefce.ac.uk/Pubs/hefce/2011/11_16/

Higher Education Innovation Funding 2011-12 to 2014-15

Policy, final allocations and request for institutional strategies

To	Heads of HEFCE-funded higher education institutions
Of interest to those responsible for	Knowledge exchange; Innovation; Enterprise and entrepreneurship; Interactions between higher education and business, public and third sectors; Contract and collaborative research; Continuing professional development; Workforce development; Public engagement; Strategic planning; Economic development
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Executive summary

Purpose

1. This document presents Higher Education Innovation Funding (HEIF) for 2011-2015 in the context of HEFCE's long-term strategic commitment to knowledge exchange and the Coalition Government's policies. It also:

- sets out details of method and funding for HEIF in 2011-2015
- gives final institutional allocations
- invites HEFCE-funded higher education institutions (HEIs) with HEIF allocations to submit institutional strategies to release their funds
- outlines our future approaches to monitoring and to review.

2. HEIF is designed to support the range of knowledge exchange activities that result in economic and social impact. The funding provides incentives for HEIs to work with businesses, public and third sector organisations, community bodies and the wider public. Activity that can help the country's economic growth is currently a high priority.

Key points

3. HEIF is supported from ring-fenced government science and research funding and from HEFCE funding, reflecting that knowledge exchange is linked with research and teaching. In 2010 the Government reviewed its policies in the context of the Spending Review and

considered reform of HEIF for 2011-2015. The Government is continuing HEIF at its cash level from 2010-11 over the next four years in the expectation that the higher education sector will use funds rapidly to support the growth of the country's economy.

4. Eligible English HEIs will share funding of £150 million per academic year from August 2011 to July 2015. Funds will be allocated by formula.

5. We will implement the new policy for HEIF, including the inclusion of a threshold to allocations related to external income earnings, as proposed in 'Higher Education Innovation Funding 2011-15: consultation on a threshold allocation; and indicative institutional allocations' (HEFCE Circular letter 06/2011). HEIs that do not exceed a £250,000 allocation threshold are not eligible to receive a HEIF allocation.

6. Final institutional allocations are given in Annex A.

7. Allocations are confirmed for 2011-12. We invite HEIs to submit institutional strategies to release funding for 2012-2015 (see paragraph 9).

8. HEIs will continue to have flexibility to use their HEIF allocations for the full range of knowledge exchange activities, and to make changes to their strategies and plans over the four-year funding period in response to demands from the economy and society. We outline in this document our future approaches to monitoring and review.

Action required

9. HEIs that are eligible for funding should complete a Word template and an Excel template, which are provided at Annexes B1 and B2 respectively. Guidance notes for their completion are at Annex C. These documents may be downloaded alongside this publication at www.hefce.ac.uk/Pubs/hefce/2011/11_16/ . Institutional strategies should be e-mailed to heifstrategy@hefce.ac.uk by **Friday 29 July 2011**.

Timetable for HEIF 2011-2015 funding allocations

December 2010	'Higher Education Innovation Funding (HEIF) 2011 to 2015 and Higher Education Business and Community Interaction (HE-BCI) survey reminder' (HEFCE EP 08/2010) was sent to heads of HEFCE-funded institutions reminding them of the submission deadline for HE-BCI data and confirmed that these data would be used in calculating HEIF for 2011-2015.
17 January 2011	Final deadline for signed-off HE-BCI data to be submitted to HESA.
February 2011	'Higher Education Innovation Fund 2011-2015: Board decisions on method and funding' (HEFCE Circular letter 04/2011) gave decisions on the method for HEIF 2011-2015.
February 2011	HEFCE Circular letter 06/2011 gave indicative allocations and consulted on a threshold allocation.

May 2011	This document provides: decisions on consultation; policy and funding guidance; final institutional allocations; and call for institutional strategies and plans for use of HEIF 2011-2015.
29 July 2011	Deadline for strategies to be submitted to HEFCE.
August 2011 onwards	2011-12 HEIF allocations begin. Expert analysis of institutional strategies conducted. HEFCE institutional contacts will notify each HEI on a rolling basis when their strategy is approved and funding for 2012-2015 released for profiling.
September 2011	Some HEIs may be asked to clarify their strategies or to make more substantial changes in a resubmitted strategy.
End November 2011	All eligible HEIs should have received confirmation of the approval of their strategy and release of 2011-2015 funding.
Spring 2012	Overview report of strategies published with details of institutional strategies that have been commended.

Policy context

Introduction

Knowledge exchange

10. Knowledge exchange (KE) is the range of interactions between higher education (HE) and businesses, public and third sectors, community bodies and the wider public. These interactions increase understanding between HE and the economy and society, raise awareness and use of HE knowledge and develop people outside HE to use this knowledge better. This all leads to positive impact on the world external to HE.

HEFCE strategy to date

11. HEFCE's 'third stream' of funding (the first two being the established streams for teaching and research) began in 1999 with the introduction of support for higher education institutions (HEIs) to foster culture change and increase capacity for knowledge exchange. The long-term aim was to embed knowledge exchange within HEIs' missions. Funding for knowledge exchange is distinct from that for teaching and research, although KE itself builds upon both.

12. HEFCE's third stream funding was initially made through the HE Reach-out to Business and the Community (HEROBC) initiative[1]; this was succeeded by Higher Education Innovation Funding (HEIF) from 2002 to the present.

13. Initially HEIF was awarded to projects, to support innovation and improve understanding of good practice. However from the outset our intention was to move towards formula-based funding so that knowledge exchange was driven forward by institutional mission and strategy, leadership, priorities and partnerships. This would enable a diversity of knowledge exchange activities to be delivered, reflecting the diverse economic and social needs of the country. In 1999 we began to measure knowledge exchange activity through the Higher Education-Business and Community Interaction (HE-BCI) Survey, to inform policy and eventually funding allocations.

14. The first formula-based HEIF allocations were made in HEIF 3 in 2006, together with a selective project element. From HEIF 4 in 2008, all HEIF has been allocated by formula.

15. Further information on the history, progress to date and international context to our KE policy and funding is given in Annex D.

The government view

16. The Government set out its views on reform and funding of HEIF in its grant letter to HEFCE of 20 December 2010[2] and in its allocation of science and research funding for 2011-2015[3]. The Government agreed to continue HEIF in cash terms from the last year of HEIF 4, and to commit funds for four years, 2011-2015. The maintenance of the cash level of HEIF over an extended period of commitment reflects the high priority given by Government to knowledge

[1] For more information on HEROBC see www.hefce.ac.uk/reachout/herobc.htm

[2] Grant letters may be read in full at www.hefce.ac.uk/finance/fundinghe/grant/

[3] For more information see www.bis.gov.uk/assets/biscore/science/docs/a/10-1356-allocation-of-science-and-research-funding-2011-2015.pdf

exchange, and to the importance attached to HEIs contributing rapidly to the country's economic growth. The Government's views on HEIF are set in the context of its wider policies, with particular focus on reducing the country's fiscal deficit and achieving economic growth and rebalancing, including rebalancing towards the private sector.

17. The Government asked that reform of HEIF should particularly focus on incentivising knowledge exchange performance.

18. The Government also stressed the importance of moving rapidly to implement this round of HEIF, and for HEIs to have their new allocations confirmed in autumn 2011, to address the immediate economic challenges.

Knowledge exchange funding policy

19. Reflecting HEFCE's long-term approach to knowledge exchange – as embedded within HEIs' missions and the Government's new policies and priorities for economic growth – HEIF 2011-2015 will be refined from previous rounds of KE investment in the following ways:

a. HEIF's primary focus will remain the support of knowledge exchange activities with all forms of external partners – businesses, public and third sectors, community bodies and the wider public – to achieve the maximum economic and social impact for this country. Partnerships may be local, national or international. This includes support of staff and student enterprise, enterprise education, and social enterprise.

b. We will continue to provide funding entirely by formula. This enables HEIs to: develop their own strategy for KE and link this to mission; invest in the most effective professional KE infrastructure; and target the most promising sustainable relationships with their external partners. The formula approach also minimises burden[4] and complements the approaches of other KE and innovation funders.

c. HEIs will have flexibility to use funds to maximise opportunities, responding to the needs of their external partners.

d. Given the maturity of KE within the missions of HEIs, we will move away from building capacity to focus on rewarding performance. The focus on performance helps us provide assurance to Government that public funds are being used most effectively in tighter fiscal times; it also incentivises and supports those HEIs that can make the greatest contribution to the economy and society. HEIF's success is now judged primarily in terms of the economic and social impact achieved (see paragraph 19f), rather than in terms of HEIs' internal development.

e. In tougher financial times, funds will be focused on the demonstrably most effective performers who can achieve most impact for the national interest. This is discussed further in paragraphs 21-23.

[4] For more information see the sector impact assessment at www.hefce.ac.uk/econsoc/buscom/heif/

f. Income remains the best proxy we have for the impact of KE activities on the economy and society; hence it is the best measure of performance and will be used in the formula allocation of HEIF. Income metrics can be collected in a fairly low-burden way and used in a fairly simple formula to allocate funding. The primary focus of HEIF is not income generation for the HEI, though we recognise that in tougher funding times institutions must have a close eye on the sustainability of their activities.

g. Where HEIs have demonstrated performance through income metrics, they will continue to have discretion to use funding for the range of KE activities beyond those counted in the formula. It will be of continuing importance that institutions innovate, improve and collaborate in KE, so that we expand our understanding of economic and social opportunities and of the most effective ways of satisfying these.

20. Further information on specific HEFCE and government policies that are relevant to KE and HEIF are at Annex E. This includes policies on: expected efficiency and effectiveness in use of public funds; joining up with other innovation funders (particularly the UK Research Councils), public engagement, enterprise and social enterprise, workforce development, local developments (such as Local Enterprise Partnerships) and the Government's growth reviews.

Introduction of a threshold to allocations

21. The Government asked us to ensure that only the most effective performers were funded through HEIF. As part of this, at the end of February we consulted on a new policy of applying a cut-off to allocations, whereby only HEIs that exceed a threshold allocation through their performance metrics would receive funding ('Higher Education Innovation Funding 2011-15: consultation on a threshold allocation; and indicative institutional allocations', HEFCE Circular letter 06/2011).

22. We received 104 responses to that consultation, and a summary of these is available at www.hefce.ac.uk/pubs/consult/outcomes/heif2011.htm. Respondents made important points about the need to improve the measures of performance in KE and we will take these into account in our future work on metrics, to inform policy development and funding. However, no responses provided an immediately workable alternative to our proposal, which was made in response to the Government's view, of a threshold to allocations based on external income.

23. We are therefore including a threshold to allocations in HEIF 2011-2015, and there are further details of this and all other elements of HEIF method in paragraphs 29-33.

Funding method

24. Funding of £150 million per annum is available for four years, from 2011-12 to 2014-15. Of this funding, £113 million comes from ring-fenced science and research funding, and £37 million from the HEFCE budget, reflecting that knowledge exchange links with both research and teaching.

Eligibility

25. HEFCE-funded HEIs in England are eligible to receive HEIF. But, as set out in paragraph 23 and following consultation, we are applying a threshold to allocations: HEIs receive no

allocation if they do not have external income earnings which generate, by applying the formula described in paragraphs 29-33, an institutional HEIF allocation of £250,000 or more (the threshold level).

26. HEIs that do not receive an allocation on this occasion may continue their embedded KE activity and must continue to return related data to the HE-BCI Survey, thereby contributing to future policy and funding (see paragraph 39).

Purpose of funds

27. HEIF is expected to support HEIs in the broad range of KE activities that result in economic and social impact to the UK. This includes support for enterprise education, as well as staff and social enterprise and entrepreneurship (see Annex E for more information on HEFCE and government policies relevant to KE and proper use of HEIF funds).

28. Although working with business to support economic growth is critically important, we note that a large proportion (50 per cent) of HE knowledge exchange income (which is included in the HEIF formula) comes from public and third sector organisations and community bodies. Through these kinds of interactions, the HE sector contributes to public policy delivery and the nation's quality of life, which is vitally important and indirectly assists economic growth.

Formula for allocating HEIF 2011-2015

29. Following receipt of the 20 December 2010 grant letter to us from Government, in January the HEFCE Board made decisions on the main elements of the formula and approach for allocating HEIF, and its decisions were published in 'Higher Education Innovation Fund 2011-2015: Board decisions on method and funding' (HEFCE Circular letter 04/2011).

30. The formula for HEIF 2011-2015 is based substantially on the method developed at the outset of formula funding for KE, used from 2006 (HEIF 3) and developed further in the formula for 2008 onwards (HEIF 4). The key features of the formula for 2011-2015, as previously announced in HEFCE Circular letters 04/2011 and 06/2011, are:

a. All funding is allocated on the basis of performance, using various measures of income as a proxy for impact on the economy and society. Income from small and medium-sized enterprises (SMEs) is double-weighted within this component. (Note that income related to SME engagement – rather than income from SMEs themselves – such as money that has come from Regional Development Agencies (RDAs) and EU Structural Funds, is not double-weighted because this funding already represents additional public support for SME engagement.) This double-weighting to SME income has been continued from HEIF 4 to signal the importance of working with SMEs and the higher costs involved.

b. Moderation factors continue to be used as in past rounds of HEIF. There is a maximum increase and a maximum decrease of 50 per cent between the final year of HEIF 4 allocations, 2010-11, and HEIF 2011-12 allocations. As part of the 50 per cent curb on increases in allocations, there is an absolute cap of £2.85 million on an individual HEI's formula allocation. Operating this approach to moderation in the first year of funding has

enabled us to respond rapidly to the Government's views on reform and performance; and we are able to provide considerable predictability in funding for HEIs to 2015.

c. The new policy of a threshold allocation ensures we fund only the most effective KE performers, as requested by Government.

d. Allocations in years 2012-13 to 2014-15 repeat the cash allocations for 2011-12.

31. Previously a component was allocated for capacity-building based on staff numbers. However the focus of funding has now shifted towards performance. This also reflects the much tougher public funding climate in which we must deliver evidence of higher value for money.

32. More details on the development of the HEIF method and metrics were set out in 'Higher Education Innovation Fund round 3: Invitation and guidance for institutional plans and competitive bids' (HEFCE 2005/46) and in 'Higher Education Innovation Fund round 4: invitation and guidance for institutional strategies' (HEFCE 2008/02).

33. Table 1 shows a detailed comparison of the method being used for 2011-2015 and that used for HEIF 4.

Table 1 Summary and comparison of HEIF 4 and HEIF 2011-2015 methods

HEIF 4 (2008-2011)	HEIF 2011-2015
Support for a broad range of KE activities across all subjects which result in economic and/or social impact.	Same as HEIF 4.
Formula funding released against a high-level strategy for KE and plan for use of HEIF.	Same as HEIF 4.
A first component (40 per cent) focused on capacity-building based on full-time equivalent academic staff numbers.	No capacity component.
A second component (60 per cent) based on performance – using a variety of income measures as a proxy for impact.	All funding based on performance (100 per cent) – using a variety of income measures as a proxy for impact.
Data sources for income: HE-BCI Contract Research HE-BCI Consultancy HE-BCI Equipment and facilities HE-BCI Regeneration HE-BCI Intellectual property income HESA Non-credit-bearing courses Knowledge Transfer Partnerships income provided by Technology Strategy Board.	Same as HEIF 4.
Absolute cap on maximum allocation per HEI – £1.9 million.	Absolute cap on maximum allocation per HEI – £2.85 million.
Moderation. Maximum allocation constrained to 150 per cent increase (250 per cent of the previous allocation). Transition so an HEI is guaranteed 80 per cent of its previous allocation.	Moderation. Maximum allocation constrained to 50 per cent increase. Transition so no HEI (subject to being above the threshold allocation) sees its allocation drop more than 50 per cent of its previous allocation.
Minimum allocation £100,000. All HEIs gain an allocation of at least £100,000.	Threshold allocation £250,000. HEIs that are not achieving an allocation of £250,000 get no allocation at all.
Year of data – 2006-07 (the intention to utilise all years of data was highlighted in our HEIF 4 guidance, HEFCE 2008/02).	Years of data – 2007-08, 2008-09, 2009-10 weighted 1:2:7.

Data

34. The data used to calculate formula allocations are drawn predominantly from the HE-BCI Survey and Higher Education Statistics Agency (HESA) returns and are summarised in Table 1.

35. We said in HEIF 4 that we would in future use all years of income data not previously used in funding, not just the latest available, in calculating new allocations. This rewards consistency in performance and consistency in data quality.

36. For the 2011-2015 period of funding the relevant data years we used in calculating the formula allocations are 2007-08, 2008-09, and 2009-10. As set out in HEFCE Circular letter 06/2011, we have weighted the three years 1:2:7 respectively, reflecting that we wish all years to have some influence on funding but that the last year of data gives the most up-to-date reflection of KE performance, to inform funding for four years into the future.

37. We expect to continue this approach of using all years of data in future funding periods. We would expect to weight years of data more evenly in future, reflecting that we have moved away from capacity building towards rewarding sustainable levels of performance.

38. We have used data from the 2009-10 HE-BCI Survey, recently provided to us by HESA, to calculate allocations. These data were formally signed off by institutions as part of the established HESA data collection process. All funds have now been allocated for HEIF 2011-2015, so we cannot now make changes to allocations if an HEI identifies an error in data submitted to HESA that has an impact on its HEIF qualifying income. It is important that published data are accurate, so HEIs should approach HESA if they wish records to be corrected.

39. Return of HE-BCI data in the annual HESA data collection process remains a condition of grant for all HEIs, whether or not they receive a HEIF allocation, reflecting that KE is embedded within the missions of HEIs. We will continue to use data to develop future policy and funding for knowledge exchange, and it is therefore important that all HEIs continue to provide accurate, complete data.

40. HESA will review the HE-BCI data set as part of its normal cycle. We will need to consider the up-to-date relevance of some data fields in the context of wider policy and funding changes, such as the wind-down of the RDAs. In the longer term, we will consider the relevance and commensurate burden of the HE-BCI data set, together with developing our approaches to overseas benchmarking and improving non-monetised metrics of KE.

Allocations and guidance on strategies

HEIF 2011-2015 allocations

41. Final institutional allocations are at Annex A. HEIF allocations for 2011-12 are confirmed and will be set out in HEI funding agreements in July 2011. Allocations for 2012-2015 are conditional on HEFCE's approval of institutional strategies.

HEIF 2011-2015 strategies

42. Eligible HEIs should each submit a HEIF 2011-2015 strategy to HEFCE setting out the institution's overall strategy for knowledge exchange and plans for the use of HEIF.

43. HEFCE's acceptance of this strategy is necessary to enable the institution's formula funding allocation for years 2012-2015 to be confirmed and released (although the strategy should cover all four years of funding, including 2011, to ensure we have a complete picture).

44. These strategies must meet the following criteria to be approved:

a. The HEI has a sound strategic approach to knowledge exchange, in line with its individual corporate strategies and core institutional mission, and linked with appropriate management systems.

b. The HEI provides assurance that management of its knowledge exchange activities is robust, including demonstrating that efficiency and effectiveness in KE activities is being actively sought.

c. HEIF is being spent in line with the overall objectives of the programme, and appropriately in the context of the institution's overall strategic approach to KE, and government and HEFCE policies and priorities.

45. Institutional strategies should be e-mailed to heifstrategy@hefce.ac.uk by **Friday 29 July 2011** using the Word template at Annex B1 and Excel template at Annex B2. Institutions should take account of the description of relevant policies given in Annex E as well as points given in this section in developing their strategies and plans. Detailed guidance for completing the templates is at Annex C.

46. The individual HEIF 4 strategies were used as part of our public funding case for HEIF to Government, and we stress therefore the importance of HEIs providing us with high-quality documents. This is partly about producing a strategy that is true to the particular institution, its mission, academic mix, KE activities and partners. We anticipate that different HEIs will produce quite different strategies to others; this is to be expected and welcomed, as the needs of our economy and society are also diverse.

47. The templates provided at Annexes B1 and B2 are based on that used for HEIF 4 strategies, but are more focused on the most important data needed to inform policy and public funding cases. A main objective is to compile a robust sector-wide evidence base from the strategies about the state of KE in the HE sector. We intend to commission researchers, as in HEIF 4[5], to help us assess strategies, and to synthesise these into an overview report to be published in early 2012.

48. In these templates we are asking for more detailed funding and outputs information. This information will enable us to respond, at sector-wide level, to the Government's agenda to improve efficiency and effectiveness and to demonstrate the value for money delivered by HEIF.

[5] See HEFCE 2008/35 for the overview of HEIF 4 strategies.

49. Data on funding and outputs are requested according to a framework developed by the HEIF evaluators. There is more information on this in Annex C. We recognise that HEIs may not collect data in precisely the form we request in the template. We ask HEIs to make estimates to complete the template as fully and accurately as they can. The experts we commission to synthesise the overview report will look at all the information provided in the template, to generate results that are as robust as possible, but also to explain any limits or caveats to sector-wide data. Other than in assessing a strategy in its entirety to release funding, we will not use these data at individual HEI level.

50. The evidence we request in the templates primarily focus on outputs from the HE-BCI Survey that are quantitative and collected consistently across the HE sector. We recognise that HEIs will use additional measures to judge their own institutional performance. We wish to expand our measures beyond those in the HE-BCI survey and hence the template allows HEIs to include, if they wish, information on other non-monetised benefits of KE.

51. To balance burden, we are asking HEIs to answer a simple assurance question on their management systems for knowledge exchange and use of HEIF, rather than asking for details of all aspects of management. We expect HEIs to have in place the appropriate policies and procedures for managing KE activity and public funding effectively: setting and monitoring against key performance targets; assessing impacts and outcomes, and feeding these back into future strategy; and pursuing continuous improvement, professional development of KE staff and ways to engage academics in KE activity. We may ask for further information to provide us with more detailed assurance that relevant KE management policies and procedures are in place, during the assessment and approval of strategies and in subsequent monitoring if we have any causes for concern.

52. Knowledge exchange is a newer element to the missions of HEIs than research or teaching, so we are likely to continue to have to provide more robust evidence to Government on KE performance and HEIF's value for money. We hope, though, to reduce future burden on HEIs because the data we are collecting now through the strategies should support future evaluations, public funding cases and our intended policy development work, meaning we expect to need to ask HEIs for less additional information over the funding period.

53. Also, HE-BCI and HEIF evidence helps us demonstrate the wider contributions that HE makes to the economy and society, including the impacts of research and teaching. Hence KE data supports the case for the public benefits and public funding of HE across research, teaching and KE.

Assessment of HEIF 2011-2015 strategies

54. HEFCE will assess all institutional strategies against the criteria listed in paragraph 44. Final decisions will be made by the HEFCE Chief Executive, advised by an internal group made up of the Business and Community policy team and HEFCE regional consultants, supported by the expert researchers who will be compiling the overview report.

55. HEFCE institutional teams will inform HEIs on a rolling basis that their strategy has been approved and their HEIF allocations for years 2012-2015 released for profiling (see paragraphs

58 and 68). Contact details for HEFCE institutional teams are available at www.hefce.ac.uk/aboutus/people/contacts/.

56. All HEIs had their HEIF 4 strategies approved, and we expect institutions to build on these past successful approaches; we expect to operate a lighter-touch assessment process than in HEIF 4.

57. We may withdraw, reduce or attach conditions to funding if, in HEFCE's judgement, a strategy does not adequately meet the criteria listed in paragraph 44. We anticipate that this would happen only in exceptional circumstances.

58. On the advice of our expert researchers, we may ask HEIs to expand or clarify their strategies, to enable these to be analysed and aggregated with others in the overview report. Exceptionally, we may advise an institution that its strategy does not meet the published criteria, and ask for a resubmission within reasonable time. We expect to have completed the process of requesting clarifications or resubmissions from HEIs by the end of September 2011.

Commending strategies

59. Working with other KE, innovation and enterprise agencies, we intend to continue our practice from HEIF 4 of commending a few strategies that demonstrate leadership and commitment from the HEI to address the challenges of economic growth and wider social development of the country through knowledge exchange. We will include information on the strategies commended, with citations for aspects of good practice in KE, in our published overview report.

60. We will not ask HEIs to provide any additional information to inform the process of commending strategies. Decisions on commendations will be made on the recommendation of a group of experts, chaired by the HEFCE Director of Research, Innovation and Skills, based on analysis by the researchers undertaking the main assessment and overview exercises. We will inform HEIs being commended prior to publication of the overview report.

Equality and diversity

61. HEFCE is committed to promoting equality and diversity in the higher education sector, and to supporting HEIs in meeting their statutory obligations to promote diversity in the areas of race, gender and disability. A new Equality Act came into force in October 2010, replacing all existing equality legislation. As part of this, a new duty for public sector organisations, the Public Sector Equality Duty, came into force on 5 April 2011. HEFCE and HEIs are required to abide by this duty. The HEFCE Equality Scheme is being reviewed in light of the recent legislation and a consultation on a draft revised version is under way at www.hefce.ac.uk/pubs/hefce/2011/11_15/.

62. We conducted a sector impact assessment of this HEIF period which included impacts of the policy on equality and diversity. This may be read at www.hefce.ac.uk/econsoc/buscom/heif/.

63. In the strategy template at Annex B1, we ask HEIs to give us an account of their institutional equality and diversity policies that relate to knowledge exchange, as a means to fulfil our duty under the Equality Act.

Monitoring and review

64. As a condition of receipt of HEIF, institutions will be asked annually to report on the progress of their HEIF 2011-2015 strategy, including updating us on some aspects of the data requested in the templates. We are in the process of reviewing our annual monitoring statement requirements in the light of new funding arrangements generally in HE. We do not expect that the burden of monitoring will increase overall.

65. We will provide further details on how we will monitor HEIF and the data that that will need to be provided, in early 2012 when we have completed the process of assessing strategies and confirming allocations.

66. The monitoring process will be annual, but the general condition of HEFCE funding still applies in that we do not fund ahead of need. If expenditure on HEIF activities has slipped substantially, we expect HEIs to contact us immediately to discuss the appropriate course of action. If an institution is not achieving sufficient progress against its strategy we may withhold funding from that institution.

67. HEIs will continue to have flexibility to change their strategic KE approaches and, particularly, to vary their use of HEIF from the plans they provide in their strategy (though we may ask for an update annually on changes). This enables HEIs to be flexible and to respond to the most immediate and pressing needs of the economy and society. It also enables HEIs to respond flexibly and responsively to new policies of Government, such as those identified in growth reviews.

68. Given the Government's four-year settlement on HEIF, we expect to be able to confirm HEIF allocations annually in funding agreements at the levels set out in Annex A and confirmed by HEFCE institutional teams following approval of strategies. However, we reserve the right to vary allocations depending on the availability of funding for HEIF as confirmed to us annually by Government in its grant letter to us.

69. We also reserve the right to ask HEIs to submit an updated institutional strategy, potentially addressing new priorities, at any time over the four-year period of funding. This would occur if the Government were to request that we demonstrate that HEIs can meet new opportunities and priorities, particularly related to economic growth.

Annexes A to C are available to download alongside this report at www.hefce.ac.uk/Pubs/hefce/2011/11_16/

Annex D: History, progress to date and international context to HEFCE knowledge exchange policy

Evaluation and reviews of HEIF

1. In 2009, we commissioned a thorough evaluation of our progress to date against the intended aims of our third stream (HEROBC/HEIF) programme, from PACEC and the Cambridge Centre for Business Research (CBR)[6]. The evaluation concluded that much progress had been made toward the intended culture change of the programme, driven by sustained policy interest from Government, dedicated HEFCE funding, and dynamic and supportive HEI leadership.

2. Using external KE income generated into HE as a proxy for the impact created in the economy and society, the report concluded that to date, for every £1 of HEIF, between £4.9 and £7.1 of external KE income into HE has been generated. The report also provided estimates of the additionality of HEIF for different clusters of HEIs, providing evidence to support efficiency and effectiveness calculations, and which can help inform understanding of the links between funding inputs and outputs for different forms of knowledge exchange.

3. One of the main aims of our support for knowledge exchange was to embed KE long-term within the missions of HEIs. We published an overview report from PACEC on HEIF 4 strategies in October 2008 ('Higher Education Innovation Fund round four institutional strategies: overview and commentary', HEFCE 2008/35). A main finding of that work was that in 79 per cent of HEIs, KE was clearly embedded in institutional mission, and in the rest it was at least loosely integrated.

4. Recognising that the Government would be concerned in the next years about value for money for public investment in much tighter fiscal times, in 2009-10 we published a series of working papers from PACEC/CBR focused on aspects of the effectiveness and efficiency of KE in HEIs[7]. As part of this series, we supported a comparative study of the state of UK KE compared with that in universities in the USA[8], since an aspect of our long-term policy development work is to improve the benchmarking of English KE practice and performance against leading overseas comparators. The US comparison study concluded that there are a few universities in the USA of world renown in technology transfer, but that the state of national knowledge and technology transfer practice generally is very similar in both countries. US institutions are now looking to UK universities for good practice as much as the UK is looking to US comparators. This study reinforced the findings of a report, sponsored by HEFCE and others, from the knowledge exchange professional body, PraxisUnico[9], which concluded that many US institutions believed that the USA should now be following the UK in terms of how KE is conducted.

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[6] 'Evaluation of the effectiveness and role of HEFCE/OSI third stream funding: Report to HEFCE by PACEC and the Centre for Business Research, University of Cambridge' (HEFCE 2009/15). All HEFCE publications are available at www.hefce.ac.uk/pubs

[7] For more information see www.hefce.ac.uk/econsoc/buscom/3stream/research.htm

[8] Centre for Business Research/PACEC 'The HE Knowledge Exchange System in HE' (PACEC, July 2010).

[9] Library House study for PraxisUnico 'Metrics for the Evaluation of Knowledge Transfer Activities at Universities' (PraxisUnico, November 2008).

International developments

5. The development of knowledge exchange as embedded within the mission of HEIs is rooted in improved understanding, gained over many decades, of the processes of innovation. As technological innovation became more important in the modern world, a simple linear model was adopted, with knowledge spinning out of universities and into the economy and society – technology transfer.

6. However, over the past 20 years, there has been worldwide improvement in understanding of the processes of diffusion and use of knowledge. There has also been increased recognition that early, simple linear models of knowledge transfer from the university to the economy and society grossly oversimplify the processes, benefits and impacts of KE for all participating. Most countries at the leading edge of innovation now focus on a broader range of knowledge exchange activities. As an example, a recent US report noted that:

> 'Discovery, learning, and societal engagement are mutually supportive core missions of the … university. The transition of knowledge into practice takes place through a variety of mechanisms … the transfer methods will vary from institution to institution. All … mechanisms, often operating in complementary fashion, offer significant contributions to the economy. The licensing of IP [intellectual property], although not the most important of these mechanisms, is more often discussed, measured, quantified and debated.... Principal ... [US] agencies should co-ordinate efforts to develop a more balanced set of measures of total university knowledge exchange.'[10]

7. This US report goes on to commend practice in the UK, and to conclude that our successes have been driven by the introduction of broad metrics of KE through the HE-BCI survey, linked to rewards for KE in funding. The report also notes that US efforts now to improve measurements 'rely to a large extent on the UK measurement efforts described ... as a model'.

8. In parallel, understanding of HE's broader role in economic and social development has changed worldwide, with increased focus on this as a third mission of HE. For example, the Organisation for Economic Co-operation and Development (OECD) recently stated:

> 'Societal engagement has moved beyond institutional outreach to address the challenges of the 21st century. Engagement is now a mindset ensuring that tertiary education can meet its multiple responsibilities…. Institutions, whatever their profile, are now being judged by the variety, vitality and impact of their interactions with society.'[11]

9. The contribution of HE to technological innovation has been acknowledged for some decades, but increasingly HEIs are looked to for broader economic development, such as enterprise and entrepreneurship, and for a range of social contributions to public policy, health and wellbeing, and culture. International practice is then beginning to coincide with the established HEFCE approach, of a focus on 'multi-channel' knowledge exchange, rather than the former narrow focus on technology transfer.

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[10] US National Academies of Science 'Managing University IP in the Public Interest' (National Academies, October 2010).

[11] 'Higher education in a world changed utterly: doing more with less' (OECD, September 2010).

Annex E: Detailed HEFCE and Government policies relevant to knowledge exchange and HEIF

1. The Annex gives information on policies of Government and HEFCE that are relevant to knowledge exchange and HEIF. This includes information on activities that may be funded through HEIF, notably enterprise, and policy issues that are likely to be of continuing importance in the future, such as efficiency and effectiveness and the Government's growth strategies. Institutions should take account of the information in this annex in developing their approaches to knowledge exchange, institutional strategies and plans for use of HEIF, both in submitting strategies to us now, but also throughout the funding period.

Efficiency and effectiveness

2. The reform of HEIF as set out in the Government's grant letter to HEFCE in December 2010, aims to deliver greater impact on the economy and society through allocating funds to support and incentivise higher performance. We expect HEIs themselves to pursue the maximum efficiency and effectiveness in their KE operations and gain the maximum impact from HEIF. This may include: focusing on priority areas of KE where the HEI is most effective, and disinvesting in others; working in partnership with other HEIs or intermediaries to expand markets; and shared services and other collaborative or outsourced delivery models. Collaboration between HEIs is most important, to ensure that HEIF is used most effectively through sharing KE infrastructure wherever possible. We anticipate continuing pressures on public funding into the future, which will mean it remains critically important to use funds to achieve the highest external impact and to maximise the efficiency of operations.

3. We also expect HEIs to be strategic and flexible in their use of HEIF over the four-year funding period, focusing particularly on the best ways to contribute to economic growth of this country.

Joining up with other innovation funders

4. The Government expects HEFCE and other funders to ensure that our policies and activities are coherent, complementary and joined up so as to maximise impact and value for money from the overall public investment. HEIF supports an infrastructure for KE activities that complements the KE and innovation support from other funders, and which can help further policies to enhance the external impacts and responsiveness of research.

5. HEIF provides the broad institutional KE infrastructure that can unlock the potential from research, scholarship and teaching, whereas the Research Councils support KE activities within their research grants and centres, and through special awards for individual projects or wider strategic needs. The Technology Strategy Board complements both HEIF and Research Council support by driving the KE agenda from the perspective of business and other users, opening up higher education to new KE markets and helping HE knowledge exchange respond to demand.

6. HEIF and Research Council KE activities support the wider agenda in research policy, and together underpin achievement of the impacts of research, relevant to future Research Excellence Framework (REF) processes, Pathways to Impact[12] and a wide range of

[12] See www.rcuk.ac.uk/kei/impacts/Pages/home.aspx

business/user-related research funding and partnerships. Our HEIF method, addressing as it does the Government's views on performance in the grant letter, helps HEIs to align use of HEIF with approaches to research impact in Pathways to Impact and REF processes.

Public engagement

7. HEFCE has a long-standing commitment to supporting the social, as well as economic, contributions of HE as part of third stream funding. We described some of these contributions to society in our joint publication with Universities UK in 2010, 'Service to Society'[13]. HEFCE is a signatory and supporter to the Concordat for Engaging the Public with Research[14] and a funder of the National Co-ordinating Centre for Public Engagement (NCCPE)[15]. We expect that HEIF will continue to support the range of KE activities that deliver social as well as economic impacts. Institutions' HEIF strategies will help them to meet the expectations of the Concordat and aspirations of the NCCPE's Manifesto for Public Engagement. We will also continue to seek ways to improve measurement of the volume and value of KE activities, particularly non-monetised benefits[16], building upon work conducted through our micro-studies programme (see www.hefce.ac.uk/econsoc/buscom/micro/).

Enterprise and social enterprise

8. HEIF has always supported the academic and student enterprise/entrepreneurship agendas in HE. This includes support for start-ups and spin-out companies (the latter based on intellectual property), such as entrepreneurship training; incubator space; entrepreneurs in residence; and support for enterprise education outside the core curriculum, such as business plan competitions, business clubs and enterprise societies. HEFCE has recently given grant support to the National Consortium of University Entrepreneurs, in recognition of the importance now of the student-led enterprise agenda in the context of the new HE teaching systems for fees, funding and student support.

9. We expect that HEIs will continue to use HEIF to support all forms of enterprise and entrepreneurship, responding to the Government's aspiration to achieve a step-change in enterprise activity in this country. We believe that HE has a particularly important part to play in meeting the Government's aspiration in the areas of high-tech, high value-added and knowledge-based entrepreneurship.

10. There is also increasing interest, in HE and in wider society, in social entrepreneurship as a way to achieve economic growth while tackling important problems and opportunities in wider society. In 2010, we provided additional non-HEIF funding for a HE Social Entrepreneurship Awards scheme, run with the social entrepreneurship charity UnLtd, to support universities and

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[13] Available at www.hefce.ac.uk/econsoc/buscom/benefits

[14] See www.rcuk.ac.uk/per/Pages/Concordat.aspx

[15] See www.publicengagement.ac.uk

[16] That is, benefits not measurable by income. We recognise that income is an imperfect proxy for the impact of KE on the economy and society. There are areas of KE where income is particularly inadequate, for example, where the focus is on developing wider social or community benefit (for example, changing attitudes). KE also provides internal benefits to research and teaching (see the PACEC/CBR evaluation, as mentioned in footnote 3). We do not have methods presently to measure all these non-monetised benefits.

colleges in exploring the potential of social enterprise activities, and to raise the profile of this work throughout HE (see www.hefce.ac.uk/econsoc/buscom/socent/). We hope that HEIs will use HEIF to build on the awards scheme and embed the social entrepreneurship agenda further as an aspect of knowledge exchange in HE. We hope to be able to provide further incentives into the next period to ensure full embedding of this important and relatively new aspect of KE.

Workforce development

11. HEFCE has recently invested more than £100 million in the development of HE infrastructure directed towards employer-led workforce development. This has complemented investment through prior rounds of HEIF by stimulating the development of accredited HE provision that meets the needs of employee learners. HEFCE has also funded the delivery of these employer-led courses through a co-funding model which has led to more than 35,000 new entrants into HE that are supported by their employers.

12. Throughout 2011-12 the HE sector is preparing for radical forthcoming changes to the system of fees, funding and student support. From 2012-13, we expect that the HEFCE subsidy for employer-led courses under the co-funding model may need to be replaced by employer and/or employee contributions. Changes to the student support system will give more undergraduate part-time learners access to student loans to cover tuition fees, and there will also be improved public information on what jobs people get after their courses. This will mean individuals and employers have more responsibility for funding the delivery of courses.

13. However, HEIF 2011-2015 will continue, as HEIF 4 did, to support the infrastructure for working with business that enables:

- the development of HE courses that are demanded by employers and employee learners
- the enhancement of graduate employability and employment for students
- new forms of employer engagement that enable employers to influence the development of higher education under the new fees system with student choice at its heart.

Local developments

14. The Government has introduced new policies and arrangements for the support of sub-national growth and development of the economy. New Local Enterprise Partnerships are coming into being, and HEIs are already stepping forward to join them, fulfilling their long-established purposes as major civic and community partners in their cities and areas. Universities and HE colleges increasingly play important roles as ‘anchors’ in their areas, retaining, attracting and accelerating business activity, but also supporting civic pride, regeneration and community cohesion. HEIF will enable HEIs to respond to these sub-national developments, including opportunities from the Regional Growth Fund and development of Business Coaching for Growth services, and to form local partnerships and develop responsive KE activities.

Growth strategy

15. The Government published the Plan for Growth[17], alongside the Budget in March 2011, summarising some of its early growth review results. The growth reviews provide important information on the barriers and enablers to increase growth in particular industrial sectors, and should therefore provide critical inputs to shape HE KE strategies and activities going forward. The Government will shortly publish a White Paper on Higher Education, which is likely to make connections between HE and its economic and social impacts and contributions to economic growth, as well as an Innovation Strategy. We will expect HEIs to use their HEIF allocations to respond flexibly to the needs and opportunities outlined in these documents and to play a full part in the delivery of the nation's economic recovery and growth.

16. As part of responding to the growth reviews, HEFCE will strengthen its stakeholder engagement with a wide range of KE and innovation policy and funding bodies. This will include particularly the UK Research Councils, the Technology Strategy Board and enterprise bodies, so that we are able to contribute most effectively, and in a joined-up way with others, to the Government's growth strategy. As part of this, we will want to demonstrate the ways in which individual universities and HE colleges themselves are responding to the growth reviews, and are already using HEIF and other sources of support effectively. Our approaches to analysing institutional strategies, and monitoring and review, in the main text are intended to ensure that we have evidence to demonstrate HE's commitment and performance to deliver the Government's growth strategy, without undue further burden on HEIs.

17. Our work with KE and innovation stakeholders, particularly the Technology Strategy Board, will include consideration of the risks and opportunities to KE delivery from wider government policy on economic growth and the consequent changed funding environment, and particularly in the context of the wind-down of the RDAs.

[17] See www.bis.gov.uk/policies/growth/the-plan-for-growth

Annex F List of abbreviations

CBR	Centre For Business Research
HE	Higher education
HE-BCI	Higher Education-Business and Community Interaction (Survey)
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIF	Higher Education Innovation Funding
HEIF 4	HEIF round four
HEROBC	Higher Education Reach-out to Business and the Community Fund
HESA	Higher Education Statistics Agency
KE	Knowledge exchange
NCCPE	National Co-ordinating Centre for Public Engagement
RDA	Regional Development Agency
REF	Research Excellence Framework
SME	Small and medium-sized enterprise