



Department
for Business
Innovation & Skills

1 Victoria Street
London
SW1H 0ET.

T +44 (0) 20 7215 5000

E enquiries@bis.gov.uk
www.gov.uk/bis



The Higher Education Funding Council for England
Northavon House,
Coldharbour Lane
BRISTOL
BS16 1QD.

29 January 2015

For the attention of Tim Mellville-Ross.

Dear Tim,

HIGHER EDUCATION FUNDING 2015-16

We are writing to inform the Council of the priorities the Government wants it to pursue in 2015/16 and the allocations that we have made under section 68 of the Further and Higher Education Act 1992. The annexes to this letter provide the detail. Annex 1 describes the priorities. Annex 2 sets out the allocations. Annex 3 provides detailed funding instructions, including requiring the Council to impose a condition of grant on regulated fees.

The funding letter anticipates an increase in the total funding available to universities (HEFCE funding plus estimated fee income) from £11.1bn to £12.1bn in 2015-16.

The specific HEFCE funding allocations confirmed in this letter for 2015-16 are all identical to, or in the case of the recurrent grant for teaching (line a, Annex 2) marginally above, those announced as indicative allocations for 2015-16 in last year's grant letter.

Over the past five years, we have implemented important reforms to the student funding system. This has supported the continued success of our world-leading universities and colleges and, as the OECD has concluded, "among all available

approaches, the UK offers still the most scalable and sustainable approach to university finance”.

Combining HEFCE recurrent grant for teaching and estimated fee income from students subject to regulated fees, the resource for teaching will have risen from around £7.9bn in each of 2010-11 and 2011-12 (the last year of the old funding arrangements) to £8.9bn in 2014-15 and a potential £9.8bn in 2015-16. Capital for teaching has risen from £207m in 2010-11 or £95m in 2011-12 to £300m in 2015-16. Student satisfaction as measured by the National Student Survey is very high and more young students from disadvantaged backgrounds than ever before are entering higher education. Our reforms have allowed the cap on student numbers to be abolished – a historic step which implements Robbins’ vision that university places should be ‘available to all who are qualified by ability and attainment to pursue them and who wish to do so.’ We continue to attach great importance to improving access to higher education in places and among groups where entry is lowest.

Total Government funding for science and research (including both resource and capital funding) was £5.45bn in 2010-11 or £5.33bn in 2011-12 and has risen to over £5.8bn in 2015-16.

The high quality results of the Research Excellence Framework justify our continuing commitment to this investment.

These successes are vital to our future economic prospects as the country now enters a period of growth. New knowledge generates new companies. Skilled graduates enable our country to compete in ever-more challenging global markets. We expect our reforms and funding commitments to continue to drive economic growth. The Council has played a key role in supporting the sector throughout this period. In particular we recognise the Council has developed its role as lead regulator, and integrated this effectively with a continuing role as the significant funder of higher education in England. We endorse your new Business Plan for the period 2015-2020 including the commitment to working in partnership with other organisations.

We have made great strides in making admission to universities open to all with the potential to succeed in higher education. We support the work you are doing on equality and diversity and welcome the report on progress and issues you sent to us in December. Equality and diversity are vital at all levels, not just admissions, but also in senior leadership. For example, currently only one Vice Chancellor in five is female and we believe the sector should go much further to seek out and harness the diverse talent available. We would like the Council to continue working with the Council of University Chairs and other sector bodies to help ensure that higher

education governors and senior managers are drawn from the full range of excellent people, including who are underrepresented at the top level of higher education.

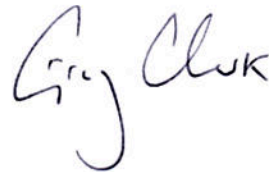
International students make a huge contribution to universities and the UK - boosting our economy, enhancing our cultural life and building lifelong affiliations and affections. We want universities to attract the best talent from around the world to come and work and study in them.

We welcome the publication of the HEFCE sustainable development framework and HEFCE's continuing role in facilitating the sharing of good practice on sustainable development. We note the HE sector's performance and look to the sector to continue improvements in this area.

Student engagement is important in helping students and their associated representative bodies become partners in the student experience. We endorse HEFCE's work with the other UK funding bodies and the sector on student engagement; in particular, we note your work on the review and refinement of the National Student Survey.

A handwritten signature in blue ink, appearing to read 'V. Cable', with a large, sweeping flourish extending from the end of the signature.

VINCE CABLE

A handwritten signature in blue ink, appearing to read 'Greg Clark', with a large, sweeping flourish extending from the end of the signature.

GREG CLARK

Annex 1: Funding Priorities

Introduction

1. The Chancellor's Autumn Statement and the Government's Science and Innovation Strategy highlighted the importance of Science and Innovation to the growth of the economy, underpinned by the five pervasive themes of excellence; collaboration; agility; place and openness. There is also a need to address any opportunity gaps, to make sure that no one is prevented from going into higher education because of where they come from, or their background.
2. Your teaching funding priorities therefore remain the same. You should continue to protect, as far as possible, funding for high cost subjects (supporting institutions to meet future increased demand for, and costs of, high quality STEM provision), widening participation and small and specialist institutions.
3. The financial table (annex 2) sets out the funding figures for 2015-16.
4. The funding letter anticipates an increase in the total funding available to universities (HEFCE funding plus estimated fee income) from £11.1bn to £12.1bn in 2015-16.
5. The specific HEFCE funding allocations confirmed in this letter for 2015-16 are all identical to, or in the case of the recurrent grant for teaching (line a, Annex 2) marginally above, those announced as indicative allocations for 2015-16 in last year's grant letter.

Teaching and students

6. Excellent and innovative teaching must be at the heart of a world-leading higher education system and student experience, but we need better indicators to demonstrate it. The Council should therefore continue its programme of refining and testing new indicators, including those on graduate earnings, in the context of its review of public information, and continue its research to develop and test measures of teaching quality and learning gain.
7. Enabling and recognising excellence in teaching and learning, and removing barriers to pedagogic innovation, must also be central to the assessment of academic quality in the higher education sector. In this connection we endorse the Review of Quality Assessment you have initiated in conjunction with the Funding Bodies in Wales and Northern Ireland (and through discussion of common themes with the Scottish Funding Council) to ensure that the quality assessment system is fit-for-purpose for the next decade, providing the assurances that students, employers and taxpayers rightly expect, while addressing the increasing diversity of institutions, partners, courses, places and modes of delivery.
8. The Government is supporting new pathways into higher education through the expansion of Higher Level Apprenticeships and National Colleges. The Council should facilitate work with Higher Education Institutions and Further Education Colleges to develop innovative curricula and new modes of

delivery that will meet employer needs for high levels of technical expertise, contributing to Local Enterprise Partnerships growth plans, and to the Government's Industrial Strategy.

9. We are grateful for the Council's work to allocate £200m of capital to STEM from within the total teaching capital allocation of £300m. The projects you are supporting will create new, world-class STEM teaching facilities and support a growth in students studying STEM in environments that are flexible and responsive, supporting collaborative, cross-discipline learning. You should allocate the £100m remainder of the teaching capital we are making available in 2015-16 to support investment in the teaching and learning infrastructure. We ask the Council to work with the relevant accreditation bodies to review whether the systems of accreditation in Computer Science are fit for the future, and whether there are other STEM areas that could benefit from similar reviews. Further, we look to the Council to work with engineering professional and regulatory bodies over the next two years to develop an engineering conversion pilot to support more graduates to pursue a career in engineering, broadly defined.
10. The removal of the student numbers cap will give greater opportunities for students from disadvantaged backgrounds to enter higher education as will your roll out of the National Networks for Collaborative Outreach. We look to the Council to drive forward its innovative work on higher education 'cold spots' with the aim of ensuring the benefits of higher education are felt in all parts of the country and particularly in the most disadvantaged areas with the lowest levels of participation. The Council's work on differential degree and employment outcomes also provides a platform to scale up successful interventions that will translate into improved social mobility. More broadly, we note the progress being made on establishing better ways to understand and measure the return on investment in widening participation. We would now like the Council to review its priorities and approach to ensure the best use of access and student opportunity funding from 2016/17.
11. Last year we published the national strategy for access and student success to carry forward our objective of widening access which was developed jointly by you and the Office for Fair Access (OFFA). We look to you to continue to work with OFFA as you take forward the actions from the national strategy.
12. We also welcome the Council's research projects into provision for students with disabilities, particularly those with specific learning difficulties or complex mental health needs. The outcomes of these reviews, and consideration of any new models of provision which they suggest, will assist the Government to make optimal use of the Disabled Students Allowance from 2016/17.
13. The Autumn Statement this year announced the Government's plan to introduce the first ever income contingent loan scheme for Postgraduates undertaking Masters' courses from 2016/17. You will continue to work closely with BIS and Treasury through the consultation and subsequent implementation of the loan arrangements. This means that 2015/16 will be an important transition year as we implement the new loan arrangements. HEFCE has a key role in administering £50m through the Postgraduate Support Scheme in 2015/16, match-funded by institutions, to support progression to postgraduate taught education. The Council, working with

universities, will make available 10,000 scholarships of £10,000 targeting students who wish to undertake a one-year full-time (pro-rotas for part-time) Master's degree and who face the greatest financial barriers to participation.

Research

14. Outstanding research lies at the heart of the sector's global reputation. The Dual Support system has delivered an increasing share of the world's best research, and Quality Related research funding remains fundamental to our country's success. We welcome the outcome of the 2014 Research Excellence Framework (REF), which has demonstrated substantial improvements in the UK's research quality and delivered compelling evidence of the impact of research. We therefore wish you to continue selectively to fund world-leading and internationally excellent research wherever it is found, to provide selective support for the next generation of researchers, and to recognise research funding leveraged from external sources such as the charitable and business sectors.
15. We continue to push forward the implementation of open access to research publications and the underlying data. You should support Jisc's work to determine how our objectives on increasing open access to research outputs can be delivered without significantly increasing costs to the sector. You should consider how to reward open data as part of future REF assessments, subject to the evaluation of REF 2014.
16. The UK Research Partnership Investment Fund (UKRPIF) has also proved highly effective in developing collaborative research programmes at scale between universities and the private sector, with excellent leverage obtained for the Government's investment. We wish you to ensure that maximum benefit is derived from the previous and current (2016-17) rounds of successful bids, with a clear focus on delivery of the committed projects. Evaluation and the lessons learned from the scheme so far will be important to informing delivery of the Government's priorities set out in the Science and Innovation Strategy, in which an additional £200m was announced, to be allocated through the Research Partnership Investment Fund over the next Parliament.
17. We need to get the most research benefit possible from the £5.9bn investment over the next six years to be spent on the Grand Challenges and World-Class Laboratories programmes announced in the Science and Innovation Strategy. You should continue to allocate science and research capital to institutions based on excellence-based formulae and you should develop arrangements to provide increased transparency which can highlight the developing impact of this spend on the wider research base including where single, large-scale facilities, and expensive research equipment are used, they should reflect modern and professionally-run collaborative arrangements.
18. Through the additional research capital and revenue funding that the Council will now distribute under these programmes, we will want you to promote openness and collaboration through the better sharing of infrastructure, data assets, and other research resources to improve the efficiency and productivity of research in a more agile sector. We wish you to lead a programme to effect these improvements and the recognition that collaborating universities should obtain, working closely with Research

Councils UK and other partners at national, regional and local levels. You will need to work with our officials to agree the overall shape and implementation of a programme of efficiency measures that take account of any relevant recommendations in the Report from Professor Sir Ian Diamond's Review and the recommendations that may be made later in the year in any response to Sir Paul Nurse's review with the Research Councils.

Knowledge Exchange & Economic Growth

19. The Government is committed to building on its long-term and fully-rounded approach to funding all forms of knowledge exchange. The Government has noted the continued excellent return on investment achieved by Higher Education Innovation Funding, and its endorsement in the October 2013 Witty Report and the November 2014 BIS Select Committee report on Business-University Collaboration. In 2015/16 you should ensure a degree of continuity by distributing Higher Education Innovation Funding on the same basis as in 2014/15 while recognising the need for dynamism and the reward of up-to-date performance. The results from the 2015/16 Catalyst projects in Small and Specialist institutions should inform future policy. The Council should also consider how, from 2016/17, it might be possible to reflect the benefits external organisations gain as a result of their interaction with Higher Education Institutions and advise Government on how such criteria might be used. We note also the recommendations in the Witty Report of the need for longer-term, predictable funding. The performance of our Universities in partnerships and knowledge exchange can be further promoted through sharing of best practice and by assessment of performance. You should develop an evidence-based framework against a suite of key knowledge exchange activities which will assess university performance and identify examples of good practice.

20. Further, we ask the Council to work with the Cities and Local Growth Unit to deliver the aspirations set out in the Science and Innovation Strategy and reflect the importance of "place" in delivering science and innovation aims. We welcome the important funding and support role you are playing in the development of the National Centre for Universities and Business, including the new Smart Specialisation Hub to be located there. In 2015/16 you should continue to support universities and colleges seeking greater engagement with their cities and Local Enterprise Partnerships, particularly on smart specialisation, advanced level skills, and social innovation, where their roles and contribution can be very effective. In this context, and if resources permit, you will want to consider the outcomes of the new 'anchor institution' projects which are being supported by the Catalyst fund.

Regulation and reputation

21. We value the Council's role as lead regulator for higher education in England and commend the publication of the Register last autumn. We will continue to seek your expert advice and support in ensuring the reputation of the English HE sector remains world class.

22. We thank you for the considerable work that you have undertaken in relation to the Alternative Providers (APs) sub-sector and in collating the new annual monitoring returns. We are grateful for your continued advice on what additional measures may be needed for these providers in the future. Government has today published a Written Ministerial Statement setting out what further measures it is implementing in this area, and we are considering what arrangements and conditions may be most appropriate in the future for specific course designation, monitoring and quality assurance in the AP sector. We anticipate asking for your increased assistance in this important area and may write to you separately on this.
23. We are particularly conscious of the need to protect taxpayers' funds and to ensure that bona fide students are better protected when their studies are threatened by events beyond their control. We therefore welcome your advice on how the current regulatory regime could better secure the interests of students and the taxpayer as well as reduce the burden on providers. We will look to the Council to work closely with us on the building blocks of any new higher education legislation that might be introduced in the future.
24. HEFCE has responsibility for administering the specific course designation process and, as a next step, we want the Council to assume responsibility from BIS for the administration of the processes for degree awarding powers, university and university college title, designation as institutions eligible to receive HEFCE funding, and transfers from the FE to the HE sector. Accordingly we would like HEFCE to work with BIS to develop proposals and a timeline for effecting the transfer.

Summary

25. In determining the allocation of funding to institutions we expect the Council, as last year, to use its judgement in balancing the funding across the various priorities we have set out where funding constraints require it.
26. Despite pressures on public funding we are recognising the vital importance higher education plays within our economy and society, and are providing additional capital funding for the sector, which we expect you to distribute as efficiently as possible whilst ensuring there are clear monitoring arrangements in place to show how this funding is used and the value obtained.
27. We recognise that the Council will need to make assumptions about the level of funding for 2016-17 when making decisions on funding for the academic year 2015/16. The council should make prudent assumptions about commitments beyond 2015-16. Funding in 2016-17 and beyond will be subject to decisions at the next Spending Review.

Annex 2: Funding for the HE sector via HEFCE and tuition fee income for financial year 2015-16.

All figures in £m	This table shows the funding allocations for HE and Science and Research for 2015-16	Baseline	Budget
		2014-15	2015-16
a	Recurrent grant for Teaching	1,915	1,671
b	Recurrent grant for Research	1,573	1,573
c	Recurrent grants sub-total for HE (a+b)	3,488	3,244
d	HEIF	113	113
e	Total recurrent grant for English Higher Education Institutions (c+d)	3,601	3,357
f	National Scholarship Programme	50	-
g	Postgraduate Support Scheme	-	50
h	Teaching capital	154	300
i	Research Capital	286	303
j	Total Capital Grants (h+i)	440	603
k	Total funding for HE via HEFCE (e+f+g+j)	4,091	4,010
l	Estimate of fee income from students subject to regulated fees	7,000	8,100
m	Total of HEFCE funding plus estimated fee income (k+l)	11,100	12,100

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. Where Departmental or HM Treasury controls are in place, funding must not be moved between resource lines without explicit agreement from BIS. If the department's level of overall funding is decreased due to wider events or in order to cover other unavoidable financial pressures, the Department may, within the framework set by Parliament and the courts, need to make in year adjustments to allocations to our Partner Organisations in order to meet budget reductions. Funding decisions for 2016-17 are subject to the next Spending Review.
- 2) HEFCE will receive a separate letter detailing their administrative budget for 2015-16, but they should expect to make further contributions in 2016-17 to the Department's overall real terms reductions in administrative budgets. As in

previous years, HEFCE will receive a separate letter confirming their finalised 2015-16 unrounded resource and capital budget totals.

- 3) The figures at 'a' in the above annex include £28m per year for the inherited staff liability. This amount represents the cash utilisation of HEFCE's provision and the charge against programme resource DEL: it does not include the unwinding, release or revaluation of provision, all of which are charged against AME with budget amounts confirmed outside of this grant letter.
- 4) The figures at 'a' include the government contribution (BIS and DoH) for student hardship. Funding allocated in 2014-15 will continue to support the infrastructure for the national network that supports outreach activity.
- 5) The 2015-16 figure at 'a' above includes an extra £1m for HEFCE to work with engineering professional and regulatory bodies to develop an engineering conversion pilot. This figure also includes an extra £0.5m for HEFCE to support independent reviews into the accreditation arrangements for computer science and other subjects which could benefit from being independently reviewed to improve employment outcomes.
- 6) The 2014-15 Recurrent Teaching grant at 'a' above included £25m postgraduate support funding to pilot options for finance and activity aimed at stimulating progression into taught postgraduate education. After evaluating the success of these projects, a further one-off £50m will be invested in 2015-16 to support students by making available 10,000 scholarships of £10,000 targeting students who wish to undertake a 1 year full-time (pro rata for part-time) Master's degree and who face the greatest financial barriers to their progression.
- 7) The 2015-16 Teaching capital figure of £300m includes £200m STEM funding and £100m for investment in the teaching and learning estate.
- 8) Although it is not part of the Council's settlement, the figures also show the anticipated level of fee income from UK/EU undergraduates subject to regulated tuition fees in each of the financial years in question from both student loans and up-front payments. These figures include the estimated fee income from increased student entrants, announced in the 2013 Autumn Statement.
- 9) The table below shows allocations for Science and Research for the remainder of the current Spending Review period. Following the allocation of £300m for UK Research Partnership Investment Fund over 2012-15, which HEFCE is administering working in collaboration with Devolved HE funding bodies, a further £100m pa of capital allocation has been made in 2015-16 and 2016-17. This funding was secured at Spending Review 2013, as part of the Government's commitment to increase Science and Research Capital to £1.1bn pa from 2015-16. It will ensure levels of investment to date in RPIF are maintained going forward, recognising that £160m was allocated in 2014/15 to meet the operational needs of projects.

£ Millions	2014-15	2015-16
Science and Research Funding	1,973	1,989
o/w Recurrent grant for Research	1,573	1,573
o/w HEIF	113	113
o/w Research Capital England	55	117
o/w Higher Education Institution Research Capital England	72	86
o/w UK-RPIF	160	100

Annex 3: Funding instructions

Condition of grant on regulated fees

1. 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 2015/16, requiring it 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 remain as set out in [annex 3 of our February 2014 grant letter](#). We will agree with you separately the precise wording to be included in your funding agreements with institutions.

Funding and Student Numbers

2. We are asking the Council to recoup from the institutions it funds any unanticipated student support costs that arise from their over-recruitment up to 2014/15, consistent with the guidance you have already provided to institutions. As in previous years, we would like this to be on the basis of cost recovery in 2014/15, reflecting both the average lifetime and the upfront outlay cost to Government of providing student support, recognising that the latter is particularly influenced by the different fees institutions charge. The rate of grant reduction for each excess student recruited up to 2014/15 should therefore be:
 - a. £5,000 for institutions charging average fees after fee waivers of up to £6,000; and
 - b. £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.
3. Any arrangements for recouping grant in later years arising from over-recruitment up to 2014/15 will be confirmed in future grant letters to the Council. But, you should plan on the basis that, for both 2015/16 and 2016/17, the approach will be similar to that set out above.
4. At this point we wish to retain intake targets for undergraduate courses in medicine and dentistry, reflecting the high costs of their training to the public purse. HEFCE provides teaching grant funding of over £30,000 per medical student over the length of their course. 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 repeatedly over-recruit, including reductions to grant that reflect the cost to Government of providing student support for the excess numbers recruited.