

The Rt Hon Vince Cable MP

Secretary of State for Business,
Innovation and Skills

The Rt Hon David Willetts MP

Minister for Universities and Science

Tim Melville-Ross CBE
HEFCE
Northavon House
Coldharbour Lane
Bristol BS16 1QD

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Dear Tim

HIGHER EDUCATION FUNDING 2012-13

Introduction

1. We are writing to you with details of our allocations to the Funding Council for 2012-13 and the priorities we wish to set for the Council for that year.
2. Our universities are great national assets. Through their research, scholarship, teaching and knowledge exchange activities universities are inherently valuable, creating and transmitting knowledge for its own sake, and crucial in supporting the economy to recover from the down turn. The academic year ahead will be the first under the new higher education funding arrangements that we announced in autumn 2010. They will require universities, colleges and other providers of higher education to continue to change and adapt. We wish to express appreciation for the positive approach the sector has taken to the reforms being introduced. More than ever, institutions will have to respond to the demands of students for high-quality, value for money provision. Where they do, they can be assured of continuing success. It should be a continuing priority for the Council to help the sector to manage this transition, in an orderly fashion, to safeguard the interests of students and the public. We would like an initial assessment from the Council, by December 2012, to inform the next Grant letter, of how the new funding arrangements are affecting students and institutions.
3. It will also be a period of transition for the Council. We consulted over the summer on the HE White Paper reforms and on the technical detail of the regulatory framework. We will be announcing decisions shortly and will write to the Council then setting out the preparatory work we will want you to undertake. We will review the administrative budget we make available to the Council in the light of these decisions.

Priorities

Teaching Funding

4. Our letter to you of 28 June set out the Government's priorities for teaching funding over the period of the Spending Review and also asked the Council to consult, this winter, on the longer-term approach to allocating the teaching grant. This letter confirms that our priorities for teaching funding remain unchanged and include:
 - The additional costs of high-cost subjects at undergraduate and postgraduate levels including, but not limited to, medicine, science, engineering and agriculture;
 - Those subjects which are strategically important and vulnerable and require support to avoid undesirable reductions in the scale of provision;
 - The additional costs associated with attracting and retaining students from non-traditional backgrounds, and disabled students, including the funding the Council provides to support widening participation and retention;
 - The additional costs of high-cost specialist institutions, such as arts institutions, some of which are relatively small;
 - Services which support the whole higher education sector, such as the Joint Information Systems Committee, the Higher Education Academy and the Quality Assurance Agency;
 - Costs associated with the transition to the new funding arrangements; and
 - Funding to support institutions' knowledge exchange activities and their engagement with business and the community through the Higher Education Innovation Fund (HEIF).
5. You should also bear in mind that, for budgetary reasons, the Government does not expect to see any increase in the average length of undergraduate or post-graduate taught courses.
6. We are grateful to the Council for its thorough review of its current approach to ensuring the supply of strategically important and vulnerable subjects (SIVS). We look forward to receiving its outcomes. We would like the Council to monitor the impacts of the implementation of our funding reforms on SIVS. Beyond a continuing funding priority for SIVS, we would also like the Council to develop and, where necessary deploy, further interventions to ensure against any undesirable reductions in such provision.

7. We welcome the way you are engaging with Professor Sir Tim Wilson's review of collaboration between industry and HE. Following its publication later this year, we expect the Council to work with the sector on how relevant recommendations of the review might best be implemented.

Social mobility

8. HEFCE will make a valuable contribution to the success of the new framework for widening participation and fair access outlined in chapter five of the HE White Paper. The Council will continue to manage the introduction and operation of the National Scholarship Programme. We would like you to continue to monitor the performance of the Programme and identify where improvements might be made in its second year.
9. HEFCE and OFFA already work closely and effectively together on areas of shared interest and we want to build on that successful relationship to maximise the impact of the Council's and institutions' own investments in this area in future years. We will be writing to Alan Langlands and Martin Harris in the near future to ask them to work together to develop a shared strategy for promoting access and maximising the impact of the investment made by Government, the Council and institutions. We estimate that with the match-funding for the NSP that institutions have committed, access agreement expenditure could be over £100m more in 2012-13 than in 2009-10. Taken alongside HEFCE's widening participation and retention allocations, overall expenditure in this area could reach record levels, supporting both individual students and the work of institutions to improve access and social mobility.

Enhancing the Student experience

10. Ensuring that students have a rewarding university experience is crucial. HEFCE will continue to contribute to improving the quality of students' academic experience to increase their educational gain, as set out in chapter two of the White Paper. HEFCE's consultation, later this year, will be key to informing the operation of a risk-based approach to quality assurance. We want to see a genuinely risk-based approach with significantly less use of full institutional review for providers with a demonstrable track record of high-quality provision and more regular review for new providers. We would like the Council to keep us informed as your consultation proposals are developing, in particular how you will deliver deregulation in response to low risk through a balanced and responsive risk assessment.
11. We are grateful for your continued work in helping to improve the information available to students. We are particularly keen to see that the Council ensures that, by September 2012, the newly improved website, replacing Unistats, is in place and the Key Information Set is available on university and college websites.

Our request, in chapter 3 of the white paper, for the Council to report back on the take-up of student charters, still stands.

Science and Research

12. The ring fenced settlement for Science and Research resource, which for the first time includes HEFCE funding for research, means that we can continue to support research and related training throughout the spending review period. Funding allocations for HEFCE for research, knowledge exchange and research capital for the period 2012-2015 are set out in the Annex. This funding will enable you to deliver our agenda for research and economic growth, including the Innovation and Research Strategy. Research capital is not ring fenced. Research capital allocations are indicative for 2013-14 onwards.
13. You should continue to take forward funding both for research and for support for the next generation of researchers, by selectively funding on the basis of only internationally excellent research, and protecting funding leveraged from external sources such as the charitable and business sectors.
14. It continues to be important that universities and business work more closely together. We welcome the Council's commitment to maintain HEIF at £150m per year over the spending review period, including £113m per year specifically included from within the Science and Research budget, and the reforms which have provided greater incentives to HEIs to increase interaction with business and other users. The Government is also committed to provide incentives which enhance the economic and social impact of research. We welcome the progress that you have made in continuing to implement the Research Excellence Framework 2014 to recognise impact only from excellent research.
15. You should continue to work with the Research Councils to ensure that the overall impact agenda is delivered coherently, and with Research Councils and the National Academies to address collectively issues such as health of disciplines and research careers.
16. 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.

Postgraduates

17. We are pleased that the Council is taking the lead on gathering evidence to improve our understanding of the purpose and characteristics of, and outcomes from, postgraduate study, with the intention of reviewing postgraduate participation following the changes to undergraduate funding. We also note the progress the Council is making, with its HE Public Information Steering Group, towards identifying what further information might usefully be provided to prospective postgraduate students to help them make informed choices about what and where to study. Until the findings from this work become clear, and in the context of the work on strategically important and vulnerable subjects mentioned above, the Council should in any case take steps as far as possible to support postgraduate provision.

Efficiency

18. We welcome the action the Council has already taken on efficiency. But there remains more to do. More than ever, institutions must offer value for money to students and prospective students in the new funding environment. So efficiency and effectiveness must remain priorities for the sector and we expect universities and colleges to deliver further efficiencies in all elements of teaching, research and administrative activity over the coming years. We also welcome the report of Professor Diamond and UUK's Modernisation and Efficiency Task Group and the £1m fund set up jointly by the Council and the Leadership Foundation for Higher Education to encourage and support institutions to take forward its recommendations. It is essential that the sector exercise effective pay restraint, at a time when there is currently a pay freeze in place across other sectors in receipt of public funding, and for those other sectors the Chancellor has announced 1% restrictions on pay increases for the remainder of this spending period.

19. We are pleased to confirm that arrangements for a VAT cost sharing exemption have now been agreed with HM Revenue and Customs. The exemption will be introduced formally by Royal Assent in this year's Finance Bill (around July). Formal guidance will be published at the same time. However, because it is a mandatory provision of European legislation, universities can use the VAT cost sharing exemption with immediate effect. In advance of the published guidance, while HM Revenue and Customs cannot provide confirmation that particular arrangements qualify they will not immediately challenge those which have a good chance of meeting the exemption conditions. We would like the Council to work with the sector to maximise the service improvements and savings which this new scheme offers. We have already seen good examples of institutions working together in joint projects to reduce overheads, and look forward to this happening on a wider scale.

20. On research, you should deliver efficiency savings from Quality Related (QR) recurrent research funding of £45 million in 2012-13, £73 million in 2013-14 and £104 million in 2014-15 to be reinvested within QR. You should continue to work with the Research Councils to ensure that institutions take forward actions recommended by the Wakeham review to reduce indirect costs associated with research and related postgraduate training. In achieving these efficiencies you should encourage HEIs to collaborate for example through greater sharing of research equipment and infrastructure.

Reducing Burdens from Data Collection

21. As we set out in chapter 6 of the White Paper, it is a priority for the Council, working with its partners, to eliminate duplication and reduce the burdens of data collection. We are grateful that HEFCE has initiated work to reform the future information landscape for higher education and look forward to seeing the outcomes of that project later this year. It is essential that the sector only collects data that is used and that data collection is proportionate for institutions. We are also grateful for the Council's swift actions to carry out the review of the Transparent Approach to Costing (TRAC). We note that this needs to align with the Council's review of its teaching funding and look forward to the outcome of the TRAC consultation expected in Autumn 2012.

Sustainability

22. The HE sector has made good progress in recent years on environmental issues. You should continue to support institutions in their efforts to improve their sustainability.

Funding and Student Numbers

23. We would like to thank the Council for the progress made in implementing the Government's policies to increase the number of places freed from student number controls. As you know, for the 2012/13 academic year, there will be unrestrained recruitment of students achieving AAB or equivalent at A-Level, and a margin of 20,000 places which you have allocated through a competitive process reflecting price, quality and demand. We welcome the protections the Council has introduced for strategically important and vulnerable subjects (SIVS) and for specialist institutions in the performing and creative arts.

24. We said in the White Paper that the approach for 2012/13 represented a starting point and that it was our ambition to widen the grade threshold for unrestrained recruitment over this parliament and to increase the size of the competitive margin. We said we would monitor the impact of this new approach and its effect on supply and demand. We will write separately setting out our proposals for contestable places for 2013/14.

25. The attached annex provides details of your recurrent and capital teaching and research for the financial year 2012-13, and indicative totals for 2013-14. Putting together funding for recurrent grant for teaching and research and the BIS loans outlay to higher education institutions for the upfront costs of graduate contributions, the aggregate effect could be that the total BIS investment in institutions in England would rise in cash terms to over £9.4bn in 2012-13 and could reach over £9.8bn in 2013-14 .
26. BIS budgets face significant and increasing pressures. Over recruitment of students in 2011/12 has contributed to these by creating unanticipated pressure on student support costs. We need to take two steps to help manage these pressures.
27. First, BIS is creating a Departmental Unallocated Provision, to meet any unforeseen Departmental pressures in 2012-13 and future years. As a result - and in line with the approach highlighted in our grant letter of 20 December 2010 – we are reducing the Council's resources by £62 million in 2012-13. To minimise impacts on the front line, we will redeploy funds from two budgets which the Council administers on the Department's behalf into the mainstream teaching grant. We will redeploy £52m from the voluntary giving match fund. This fund has supported the sector to enhance its capacity to diversify its income and generate additional funding from charitable giving. We have honoured all commitments made by this fund, to its original deadline. No institution will lose expected income from this change.
28. The higher education reforms have introduced a new landscape for access and widening participation, with a projected significant increase in overall expenditure from academic year 2012/13 as set out in paragraph 9. Within this, we are rebalancing funding and refocusing the Access to Learning Fund (ALF) specifically on hardship. Funding for activities no longer requiring support from ALF will be refocused within a total of £30m. We will release detailed guidance by May 2012. The teaching grant allocation itself, which you use also to support widening participation and funding for strategically important and vulnerable subjects, is as indicated in last year's grant letter.
29. Second, we are asking the Council to recoup unanticipated student support costs wherever possible. So, we are authorising you to make adjustments to institutional allocations at a rate of £3,800 per full time under-graduate and PGCE student recruited above the permitted level in 2011/12, and we will be discussing with you arrangements for this money to be returned to government in 12-13. This figure represents the average cost to the Government of providing student support. As we remove more places from student number controls altogether, so the proportion of places potentially liable for such adjustments will fall.
30. You will be aware that Government has set out clear financial plans for the Spending Review. The department needs to ensure that we are able to live within these allocations as well as ensuring flexibility to manage any future

uncertainties. In this context we want to work with the Council as follows. First, we need the Council to bring its sector-wide entrant controls into closer alignment with the Government's financial planning. HEFCE has historically set student number control limits across the sector slightly above the recruitment level assumed in the Government's expenditure plans. This recognises that the control is a maximum and some level of under recruitment, at the sector level, was to be expected. The aim of over allocating in this way was to achieve the Government's planned student numbers. The recent trend for strong recruitment across the sector now makes this approach unnecessary. Furthermore, it exposes Government to higher than budgeted costs which cannot be absorbed at a time of financial constraint. As a result, we are now asking the Council to reduce its entrant control maximum by 5,000 places in 2012/13. This brings it in line with our original spending plans and reduces the risk of over recruitment. It does not represent a reduction in the total number of students the Government expects to fund

31. Second, we are reiterating our overarching warning that we may transfer HEFCE grant for 2012-13 or future years back to the Department to meet unanticipated pressures, such as student support costs resulting from any over recruitment.
32. The Council should therefore keep in place and refine its mechanisms for minimising and preferably eliminating over recruitment in 2012/13. With the progressive implementation of our funding reforms, the costs of over recruitment rise, significantly. As a result, the grant adjustments which we will authorise you to make for over recruitment will increase accordingly. We will issue final instructions on how the Council should approach any over recruitment in 2012/13, in the usual way, in your grant letter for 2013-14. But we can say now that the principles we will adopt in calculating the per student figure by which over recruiting institutions' grants will be reduced, will include: avoiding unanticipated pressures on government budgets; removing any financial incentives for institutions to recruit above their permitted level; recognising the different fees charged by institutions; and recouping an element to cover the costs of providing maintenance support. We will set out our approach to managing the unanticipated costs of over recruitment for 2013/14 and beyond, when we write to you to set out our decisions on the Council's future powers and responsibilities.
33. In our letter of 20 December 2010, we said that, as a provisional planning assumption, universities and colleges should work on the basis that the pulse of 10,000 additional entrant places which we made available for 2011/12 will not be repeated in 2012/13. This letter confirms this.

Strategic plan requirements

34. We welcome the strategic statement and business plan that the Council has developed and, in particular, the detailed response these provide to the priorities we set you in recent grant letters and the HE white paper. We expect the Council to operate on the basis of these documents and will finalise a new set of specific

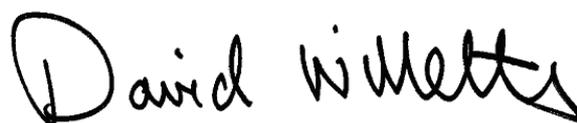
performance targets derived from them in the Autumn. These will need to take account of our response to the White Paper and Technical consultations and to legislation. But we expect the targets will cover the council's role in: supporting growth; promoting social mobility, fair access and widening participation; delivering excellence in teaching; maintaining a world-class science and research base; supporting the sector through the transition to the new funding arrangements. It may be that a number of these indicators need to be relatively short term, to reflect the need to review them as the Council beds down in its new role.

Conditions of Grant on Regulated Fees

35. 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, or where the institution has in force an Access Agreement approved by the Office for Fair Access (OFFA), the higher amount. For students starting their full-time courses before 1 September 2012, the basic and higher amounts for the 2012/13 Academic Year will be specified in an amendment to the Student Fees (Amounts) (England) Regulations 2004. For these courses, the basic amount will be £1,380 and the higher amount, £3,465. For new students starting full-time courses on or after 1 September 2012, the basic and higher amounts of £6,000 and £9,000 respectively for 2012/13 are set by the Higher Education (Basic Amount) (England) Regulations 2010 and the Higher Education (Higher Amount) Regulations 2010. Fee caps for part-time courses starting on or after 1 September 2012 will be introduced for the first time. The basic and higher amounts for these courses for the 2012/13 Academic Year, £4,500 and £6,750 respectively, will be specified in amendments to the Higher Education (Basic Amount) (England) Regulations 2010 and the Higher Education (Higher Amount) Regulations 2010.



THE RT HON VINCE CABLE MP



THE RT HON DAVID WILLETTS MP

Annex: Funding for the HE sector via HEFCE and BIS Loans for 2012-13 and 2013-14

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	Indicative allocations except for Science resource, which are funding figures
		2011-12	2012-13	2013-14
a	Recurrent grant for Teaching	4,645	3,815	2,883
b	Recurrent grant for Research	1,549	1,587	1,573
c	Recurrent Grants sub-total for HE (a+b)	6,194	5,402	4,456
d	BIS Loans to HEIs on the upfront costs of graduate contributions	2,600	3,600	5,000
e	HEIF	113	113	113
f	Total support for English HEIs (c+d+e)	8,907	9,115	9,569

Additional Funding				
g	Voluntary Matched Giving	63	0	0
h	Access to Learning Fund	40	30	Tbc
i	National Scholarship Programme	0	50	100

Capital funding to HEIs				
j	Teaching capital	95	90	59
k	Research Capital	204	175	101
l	Total Capital Grants (j+k)	299	265	160

m	Total funding for HE via HEFCE and loans (f+g+h+i+l)	9,309	9,460	9,829
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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) HEFCE will receive a separate letter detailing their administrative budget for 2012-13 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.

3) Arrangements for the FE ITT Bursary budget for 2012-13 will be notified separately.

4) The Access to Learning Fund is to provide financial assistance to those students experiencing hardship whilst at university. This fund is administered by HEIs and a separate letter to HEIs will make clear the priorities and operation of this fund for the next financial year.

5) Funding provided through Voluntary Matched Giving up to, and including, 2011-12 has matched the levels of actual giving to universities and colleges over the three year life of the scheme, with £150 million of public money.

6) In 2012, we are introducing the National Scholarship Programme (NSP) which will be worth £150 million a year from 2014/15. The NSP is part of a package of measures to support disadvantaged young people and adults through their education. It is a new approach to widening participation and fair access. Alongside the pupil premium it will provide extra support some of the least advantaged learners. We are providing £50m in the first year (2012-13), rising to £100m in 2013-14 and £150m a year from 2104-15.

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 2013-14 onwards. Following the Autumn Statement, there have been changes to the profile of the 4 year allocations and an increase in the total funding from £7,345m to £7,370m:

					SR Period
£ Millions	2011-12	2012-13	2013-14	2014-15	Total
Science and Research Funding	1,866	1,875	1,787	1,842	7, 370
o/w Recurrent grant for Research	1,549	1,587	1,573	1,573	6,282
o/w HEIF	113	113	113	113	452
o/w Research Capital England	151	111	37	84	383
o/w HEI Research Capital England	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.