



Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT  
tel: 0870 0012345 dfes.ministers@dfes.gsi.gov.uk  
**Rt Hon Charles Clarke MP**

Mr David Young  
Chairman  
Higher Education Funding Council for England  
Northavon House  
Coldharbour Lane  
Bristol  
BS16 1QD

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## HIGHER EDUCATION FUNDING 2005-06 to 2007-08

### Introduction

1. I wrote to you on 1 December seeking advice from the Funding Council on a number of strategic issues in higher education. I am now writing to you with details of the funding which we will be making available for HEFCE over the next three years.

2. Almost two years on from the publication of the Higher Education White Paper it is appropriate to begin this letter with my thanks to you and the Council for your work with the Department and other stakeholders in making the proposals in that document a reality. Together we have implemented key commitments from the White Paper. The necessary legislation to make variable fees possible and to set up the Office for Fair Access has received Royal Assent. With your help we have made real strides in making a reality of the vision set out in the White Paper, including for example setting in place the arrangements for the next Research Assessment Exercise (RAE) and developing and implementing the unified AimHigher programme.

3. Overall the outcome of the spending review 2004 was a good one for higher education. Total government expenditure on higher education will increase by over £2 billion between 2004-05 and 2007-08, taking total investment to over £9.5 billion. DfES funding for research (both recurrent and capital) will increase from £1.3 billion in 2004-05 to £1.7 billion in 2007-08, an increase of over 30% in real terms. The publication in July of the Government's "Investment Framework for Science and Innovation 2004-2014" sets the agenda and establishes the longer term planning framework to achieve the Government's aims for science, research and knowledge transfer.

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## **Funding and student numbers**

4. The tables attached at the end of this letter set out the details of the funding available to HEFCE for the three year period from 2005-06. This gives annual increases in total recurrent grant for teaching of £255/208/209 million and for research of £133/95/90 million.

5. After extensive discussion with HEFCE officials we are able now to move to a whole-year-count as the basis for our forecasts of student numbers. This will provide us with a much more robust and accurate set of figures than the previous snapshot method. For the first time both we and HEFCE will be using the same basis for forecasting. We are therefore confident that the new figures represent a considerable improvement and I am grateful to HEFCE for the work that has gone into this with officials in the department.

6. In the House of Commons debate on the Budget in March this year, I gave a commitment that the spending review settlement would allow investment in the sector to continue to grow in real terms and enable the government to maintain real-terms student funding per head and to progress towards our target of increasing participation in higher education towards 50 per cent. The sector has argued that we should maintain the public contribution to the unit of funding in order to maintain our high standards.

7. I am grateful to both HEFCE and UUK for the work they have done in helping us to agree on a new definition of the unit of funding. This letter includes (see attached table) for the first time our planned unit of teaching funding for the next three year period. We have also been working on a revision of the overall unit of funding (including teaching and research) and expect to publish the new version in the Departmental Annual Report (DAR) next Spring.

8. In finalising the figures in this letter we have had to reconcile a number of priorities: our commitment to maintaining the unit of funding per head in real terms; ensuring that we are able to fund fully increases in the numbers of students resulting from demographic change; and finally, accommodating the demand for places in higher education as a result of welcome increases in the number of 18-year old school leavers with the necessary qualifications. In addition, a consequence of the greater accuracy achieved by moving to a whole year count for forecasting student numbers is a small overall increase in the number of students recorded as being in the system. And as I noted in last year's grant letter there has already been a trend in the last few years for institutions to recruit above the planned numbers.

9. I have nevertheless been able to ensure that the unit of funding, including critically the unit of funding for teaching, will be maintained in real terms throughout the next three year period. And I have also been able to meet our commitment to continue to make some progress towards 50 percent participation by 18-30 year olds by 2010. In total, the figures will permit year-on-year increases in the planned totals of 33,000/25,000/24,000 students. In managing expansion strategically, I expect the Council to be able to fund more foundation degrees, while striking a balance between the development of lifelong learning networks and the need for higher education places of individual regions while minimising the burden on individual institutions.



10. The grant settlement over the period 2005-06 to 2007-08 is dependent on the assumptions we have made about the overall growth in student numbers over the planning period not being exceeded. My commitment to maintain the unit of funding can only be achieved over this period if the sector as a whole manages recruitment of students in line with the underlying planning assumptions. We therefore look to the Council to encourage institutions to exercise appropriate control over their student numbers, to monitor carefully student recruitment and growth for next year and to report to me in good time if there are signs that student numbers will exceed current plans. Any over-recruitment in the coming year could result in a transfer of HEFCE grant back to this department in order to meet the consequent additional student support costs.

### **Funding for Teacher Training**

11. As you know there have been discussions over the last few months about the possibility of changing the arrangements under which funds are top-sliced from the overall HEFCE institutional budget and transferred to the Teacher Training Agency (TTA) to spend on teacher training provided within higher education. This process is cumbersome and lacks transparency. Having considered the views of HEFCE and TTA colleagues carefully, I have decided to make a baseline transfer of funds from HEFCE to the TTA. The implications for the three years of the spending review period are set out in the attached.

### **Higher Education Research Forum**

12. The Higher Education Research Forum was set up a year ago under the chairmanship of Sir Graeme Davies, to look into how we could more closely link teaching and research. One of its main proposals was that less research-intensive institutions should be supported in developing a research-informed teaching environment. We support the principle of this proposal and have therefore included in the attached teaching grant figures sums of £2.5/7.5/15 million over the next three financial years for this purpose. We anticipate that HEFCE will allocate these funds according to a formula in inverse proportion to current levels of research funding, and expect the Council to manage this funding in a way which minimises the burden on individual institutions.

### **Tuition fees**

13. 2005-06 will be the last financial year before variable tuition fees come into operation. As in previous years, I do not expect institutions to charge additional tuition fees above the regulated level. Under the Teaching and Higher Education Act 1998, the Secretary of State has the power to impose a condition on the Council's grant, requiring it in turn to place a condition on the funding it allocates to institutions that they should not charge additional fees.

### **Efficiency**

14. I am grateful for your close co-operation with the department in reaching agreement on the efficiency savings to be made by 2008, as part of our overall commitment to reduce administrative costs in Non-Departmental Public Bodies (NDPBs) by at least 10% in real terms by 2007-8. We have agreed that starting from an administrative costs baseline of £17.2 million for



2004-5. We expect the administration costs for 2005-06 to be no more than this and would hope that a proportion of the agreed efficiency savings could be achieved in year, as indicated in the Council's letter of 2 December to Ruth Thompson. HEFCE will have an administration budget of £16.7 million by 2007-08.

15. I also expect HEFCE to continue to work closely with my Department and individual institutions to deliver efficiency savings across the sector, thereby releasing resources for the delivery of front-line services. In particular it will be important to agree appropriate monitoring arrangements.

16. In this context, I should like to draw attention to the work the Higher Education Regulation Review Group (HERRG) has been doing under its chair, Dame Patricia Hodgson. I know that the Council has been closely involved in working with the HERRG. Our expectation is that this close co-operation will continue with a view to delivering a lighter touch accountability regime for institutions, to targets to be agreed with the HERRG.

Charles Clarke



## ANNEX A

<b>Financial Year: all figures (except the unit of teaching funding which is £ real terms) are £ million in cash terms</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
a. SR2004 outcome recurrent resources for HEFCE and TTA <sup>1</sup>	4594	4817	5039
b. Of which HEFCE <sup>2</sup>	4339	4547	4753
c. Public contributions to fees <sup>3</sup>	434	N/A	N/A
d. Student contributions to fees <sup>3</sup>	508	N/A	N/A
<b>Total (a+c+d)</b>	<b>5536</b>		
f. Recurrent resources for Research <sup>4</sup>	1204	1299	1389
Resources for capital grants:			
g. IT and other capital	442	468	472
h. Research	207	236	266
i. Cost of capital and depreciation <sup>5</sup>	-7	-7	-7
<b>Total HEFCE (b+f+g+h+i)</b>	<b>6186</b>	<b>6544</b>	<b>6874</b>
Student numbers (FTEs in thousands) <sup>6</sup>	1185	1209	1232
Real terms unit of funding for teaching <sup>7</sup>	3490	3490	3490

### Notes:

1. The amounts set out above are the Council's resource budgets. They represent the maximum amount of resource that the Council may consume in pursuance of the priorities agreed with the Department for the Spending Review period. The 2007-08 budget includes £9.5 million Departmental end-year flexibility planned to be carried forward from 2005-06 and 2006-07. Figures are net of a £67/69/70 million transfer of AHRB resources

2. Figures assume a baseline transfer of £255/270/286 million to the TTA. The resources for each year include funding of £18m from the Department of Health for clinical academicians' pay and £5m funding transferred to HEFCE for the Dance and Drama scheme.

3. Figures on the contribution to fees include students to be funded through the TTA.

4. The resources **exclude** funding from DTI and OST for the Science Research Innovation Fund and HE Innovations Fund.



5. Capital costs and depreciation are part of the Council's resource budgets and the maximum amount of resources it may consume. The amounts shown are subject to review and will be discussed further with the Council.

6. Student numbers are net of students to be funded through the TTA.

7. Figures are in 2003-04 prices rounded to nearest £10. The real terms level of funding for teaching costs are derived from the total level of recurrent resources available to HEFCE to support teaching (i.e. excluding research, capital and postgraduate stipends ), full-time equivalent numbers of students estimated using the "whole year count" methodology discussed with HEFCE and the GDP deflators published by HM Treasury on 3 December 2004.