Dear Tim,

HIGHER EDUCATION FUNDING FOR 2016-17.

Introduction

1. We are writing with details of the allocations Government will make to the Council in the coming financial year and the policy priorities we expect you to pursue.

2. Higher education is a priority for this Government. In November, the Chancellor announced the results of the Spending Review, including a strong settlement for universities. We are maintaining the research ring-fence, reflecting the importance of science and research to economic growth and supporting increased productivity. Our removal of student number controls, last September, is allowing popular institutions to grow and the sector, as a whole, to increase the income it earns from fees: we estimate that this income could rise from £8.1bn in 2015-16 to £8.6bn in 2016-17 and £9bn in 2017-18. Against this background, we intend to introduce wide ranging reforms to how the sector operates. The Prime Minister has set ambitious participation goals for disadvantaged and black and minority ethnic students. Our
manifesto also committed us to introduce a framework which rewards those institutions offering high quality teaching. Our proposed approach is set out in the Higher Education Green Paper, alongside the Nurse Review. The Green Paper contains the Government’s proposals to reward excellent teaching through the Teaching Excellence Framework; widen participation; provide greater focus on employability; open up the sector to greater competition from new high quality providers; and reform the regulatory structure through the creation of the Office for Students and Research UK to drive value for money for students and taxpayers. The Council’s active support will be essential as we implement these reforms. We will write to you again later in the year, to detail how we intend to proceed.

Priorities

Teaching Funding Priorities

3. The Spending Review included reductions in the Teaching Grant over the coming years, and an indicative allocation for 2017/18 is included in the finance annex alongside the budget for 2016/17. For the coming year, you should protect, in real terms, the total amount of funding for high cost subjects (including STEM), and, as far as possible, look to protect funding for widening participation and small and specialist institutions with world-leading teaching.

4. We would like the Council to review its approach to allocating teaching funding, to reflect that the HE funding reforms of 2012/13 are now largely in steady state. It is for the Council to determine its allocation methodology, but your approach should ensure that the total amount of funding for high cost subjects is maintained, in real terms, over the spending period, until 2020.

5. We would also like you to start to retarget Student Opportunity Funding next year with the aim for further changes in 2017-18. The overall purpose should be to target this funding more effectively to support government priorities, with a greater focus on the institutions with higher proportions of at risk students from disadvantaged backgrounds, including part-time students, and to support access for those students with the educational attainment or potential to succeed in particular geographical areas where there is evidence that entry rates are below expectations. The Spending Review settlement asked that Student Opportunity Funding be at least 50% of its current levels, by the end of this spending period as universities take more responsibility for widening access and social mobility. Going forward we would like you to consider how collaborative activity on outreach could be enhanced through the combined effort of the Student Opportunity Fund and Access Agreements, working
closely with BIS and the Director of Fair Access, recognising the possible changes envisaged by our Green Paper proposals in this area.

6. You should review the Catalyst Fund, enhancing its ability to respond flexibly to the Government’s policy objectives over the Spending Review Period.

7. Additionally, your review should take account of the Chancellor’s Spending Review announcement that, from 1 August 2017, all new nursing, midwifery and allied health professional students will be on the standard student support system, abolishing the cap on the number of students. This will enable universities to provide up to 10,000 additional places during this Parliament. The move will also mean these students can access around 25% more support for living costs during their studies. As part of this reform we will allocate teaching grant to the funding council to contribute to the additional teaching costs of any science-based subjects. The Government will be consulting on how these reforms are implemented to ensure they are a success. We would like the funding council to continue to work with BIS, the Department of Health and Health Education England (HEE) to ensure the success of the reforms. In particular we would like you to take into account, as far as possible, the sustainability of smaller and more specialist health higher education subjects as you have successfully done more widely. Additionally there will be a role for the funding council, to work in partnership with HEE and institutions, on local health economies, including to ensure the availability of quality clinical placements.

8. Maintaining and enhancing the international standing of English higher education remains a priority for Government. The Council have an important role to play on this agenda, both directly and with the sector. We recognise that there will be instances in which there is a case for allocating funds to non-institutional bodies, alongside contributions from institutions and other organisations, where this secures the long-term sustainability of high value services to the sector. For example, the significance of international education as an export.

9. We look to the Council to work with the Department on the implementation of the findings from the Shadbolt and Wakeham reviews, which we expect to be published shortly.

Quality

10. We are grateful for HEFCE’s contributions to the Teaching Excellence Framework (TEF) Delivery Group and its particular input into the design of the TEF metrics. In recognition of HEFCE’s broader role, we would like HEFCE to take responsibility for delivering the TEF in Year 2. We will establish the
delivery framework in the Government’s Green Paper response and the Government’s response to the TEF Technical Consultation, taking into account advice from HEFCE and other members of the Delivery Group. We expect HEFCE to operate within the bounds of the framework established in these two documents.

11. We also want the Council’s assistance with the range of design work needed around future years of the TEF. We would particularly value HEFCE’s advice to consider options around future data requirements and potential future metrics. In particular, we would be grateful if HEFCE could look into the two issues of (a) the contractual status of academic staff and (b) teaching intensity/weighted contact hours across different subjects. In both cases, we would be grateful if HEFCE, working with the department, could investigate these matters and how they could be measured and potentially feed into TEF assessments for future years.

12. We are grateful for the steps that HEFCE have taken to assure quality in the provision that it funds and the action to review the future quality assessment needs of the wider HE sector. We recognise that HEFCE is required to act independently in this area of its activities. We would encourage you to ensure that any new approach maintains the broader assurances that are needed to support Home Office visa activity, act as a potential gateway into TEF, and maintain the UK HE global reputation, including by maintaining compatibility with our obligations under the Bologna process. We also support your ongoing work to ensure that assurance mechanisms for England fit smoothly within a whole-UK approach. HEFCE is invited to take account of these priorities, as far as possible, when implementing the new system.

**Widening Participation**

13. Widening participation in higher education is a key objective for this government. This objective is being supported by a range of measures, including the lifting of the student number cap and guidance we have issued to the Director of Fair Access.

14. There has been strong progress in improving access to higher education for the most disadvantaged students, but there is still more to do. The Government wants to double the proportion of people from disadvantaged backgrounds entering higher education by 2020, compared to 2009, and increase the number of black and minority ethnic (BME) students going into higher education by 20% by 2020. We look to HEFCE, working closely with OFFA, to support the Prime Minister’s goals and the Government’s wider priorities in this area. We also look to you to continue your work supporting the sector in addressing the differential outcomes for some groups of
students, as part of the whole lifecycle approach to access and success for disadvantaged students, as emphasised in the Green Paper. This should build on the analysis that underpinned the National Strategy for Access and Success and the more recent work you have done in this area.

15. Understanding the links between higher education institutions and schools is crucial in supporting our widening participation goals. We recognise the work that the Council are already doing in monitoring the links between institutions and academies, free schools and University Technical Colleges. Going further, we welcome the work some institutions have done to establish new free schools and the plans other have for doing this in future. This is important, both in the context of efforts to widen participation and the wider context of the Government’s commitment to establish more free schools. We would like the Council to establish how many institutions have established free schools and how many plan to and to report to Ministers on this.

16. We would like the Council to review the level and method of allocating grant funding provided to support disabled students. We would like to see this funding working to incentivise universities to establish an inclusive learning and supporting environment that is consistent with the broader reforms the Government has introduced here.

Information for Students

17. Excellent and innovative teaching must be at the heart of a world-leading higher education system and student experience. We thank the Council for its programme of work to review public information. We look to the Council to ensure that this work takes full account of the Teaching Excellence Framework to ensure students have the fullest information to make their decisions on higher education. We also want the Council to develop an approach with the sector to capturing and publishing better information on contact hours and teaching intensity, so that this can be made available to prospective students, in line with guidance from the Consumer and Markets Authority.

Part time

18. The Government is committed to supporting part-time and flexible learning in HE. Studying part time and later in life brings enormous benefits for individuals, the economy and employers. The Government announced further steps at the Spending Review to help hardworking people who want to gain new skills and advance their careers by studying part-time. These included extending the “ELQ exemption” so that people can get a second degree if they want to re-train in a part-time STEM subject; and, for the first time,
providing maintenance support to part-time students equivalent to the support we give to full-time students. We ask the Council to support our ambitions in supporting part-time and flexible higher education.

**Postgraduate**

19. The Council should continue to work closely with BIS to support implementation of the new Master’s loans scheme and design of the Doctoral loan scheme. We also look to you for further analysis and advice on the barriers to progression onto postgraduate taught education more generally to inform the longer term approach to support postgraduate level study.

**Market Entry**

20. We anticipate that the guidance BIS will publish in summer 2016 on applications for specific course designation for validated undergraduate and Higher National/Diploma in Education Training provision may include significant changes, drawing both on our ongoing experience of the designation process, and on some of the changes proposed in the recent Green Paper. We will work with you on this and HEFCE will of course then need to ensure that its guidance and processes reflect the changes.

21. We will also require further assistance in designating eligible postgraduate provision following the introduction of postgraduate loans. For 2016/17, designation for these courses will only be available to alternative providers with degree awarding powers (who will, in most cases, have institutional level designation) but from 2017/18 we will extend this opportunity to all alternative providers. We will work with the Council in deciding how we should implement this change.

22. We want HEFCE to work with BIS to identify the options for the transfer of further administrative activity in relation to the work carried out by the Council on Gateways activity.

**Research**

23. The excellence of the UK’s research base is internationally recognised and is crucial in supporting sustainable economic growth and enhanced productivity. The Government has reaffirmed its commitment to the Dual Support system, which has delivered an increasing share of the world’s best research, and Quality Related research funding remains important to our research success. The Spending Review settlement, which includes ring-fenced resource for Science and Research, means that we can continue to support research and related training through to 2019-20 with the proportion currently allocated to
HEFCE rising over the SR period, from 63p to 65p for every £1 allocated to Research Councils. We wish you to continue the selective funding of world-leading and internationally excellent research with impact 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.

24. You should work with Research Councils and the National Academies to address collectively issues such as health of disciplines and research careers. Funding allocations for HEFCE for research, knowledge exchange and research capital for 2016-2017 to 2019-20 are set out in Annex 1 and will enable you to deliver our agenda for research and economic growth.

25. The Spending Review announced an independent Review of the Research Excellence Framework to be led by Lord Stern, which is expected to report in the summer. Working with the sector and other HE Funding bodies, you should support and engage with the work of this review, and take account of the outcomes in developing proposals for the next REF exercise, which should be completed by the end of 2021.

26. The UK Research Partnership Investment Fund (UKRPIF) has proved highly effective in developing collaborative research programmes at scale between universities and the private sector. We wish you to ensure that maximum benefit is derived from successful projects awarded funding in earlier rounds (£500m for period 2012-2017). We are also providing a further £400m to be allocated via UKRPIF through to 2021. You should ensure that research projects supported must lever committed private co-investment amounting to at least £2 for every £1 from the Fund. It is important that we evaluate past approaches to UKRPIF investments. Building on the audit of projects that you are currently undertaking, we would like you to work with us to develop a suitable evaluation programme during 2017.

27. 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.

28. You should continue to allocate research capital to institutions based on excellence-based formulae. We welcome the progress you have made to provide greater transparency on how it is used, and to ensure effective utilisation through collaboration. You should continue to develop and
implement these proposals and to monitor the sustainability of HE research infrastructure.

29. The Government is taking forward the recommendation from Sir Paul Nurse that the seven Research Councils are brought together under Research UK. We are also considering responses to the Higher Education Green Paper proposals, including on moving QR research funding to the proposed new body, Research UK. In 2016/17, you should work with the Research Councils and BIS to prepare for the implementation of any reforms.

Business collaboration

30. University collaboration with industry provides a notable competitive advantage for the UK, and Professor Dame Ann Dowling’s Review confirmed the importance of effective business-university collaboration. There remains potential to achieve more across the sector. You should continue to implement an evidence-based framework which will demonstrate university knowledge exchange performance against a suite of key KE activities and identify examples of good practice.

31. The Government has identified sustainable rebalanced economic growth and tackling the productivity challenges as key objectives for this Parliament. Effective engagement with our world leading universities will help drive business and productivity gains, and in the Productivity Plan (July 2015) we confirmed our ambition for HEIs to increase their external income earned from working with business and others to £5 billion per annum by 2025.

32. The Government is committed to knowledge exchange long-term, as reflected in the £5bn target, and in your approach to seeking long-term KE/HEIF strategies from institutions. The Government recognises the important role that Higher Education Innovation Funding (HEIF) plays in supporting effective university-business engagement. We welcome the Council’s commitment to continue to support Knowledge Exchange funding through HEIF for which HEFCE will maintain allocations from the teaching and research grant at current levels. We would like you to continue to pursue a robust outcome-based funding approach demonstrating value for money and to explore options to build on this and to encourage and reward greater collaboration. We expect you to introduce a sound method long-term to address the issue of balancing predictability in funding with more regular rewards for dynamism.

33. We welcome your continued funding and support for the work of National Centre for Universities and Business (NCUB), which we see as a key driver of
enhanced university/business activity. We note that NCUB is developing an “Intelligent Brokerage Tool”, which if successful will facilitate greater business access to UK HE expertise and capabilities.

Degree apprenticeships

34. The Government has high ambitions for apprenticeships over the course of this Parliament, including for both the quantity and quality of provision. Degree Apprenticeships will bring together the best of vocational and higher education, and see apprentices achieving a full bachelor’s or master’s degree as part of their apprenticeship. Delivering Degree Apprenticeships will require universities, employers and professional bodies to work in partnership, and we ask the Council to support such collaboration and encourage the growth of these valuable opportunities.

Equality and Diversity

35. Embedding equality of opportunity and fostering diversity are essential for creating the conditions for an excellent higher education system, and we look to the Council to continue to help Universities to achieve this by breaking down barriers and finding innovative solutions. Good progress is being made by the sector in enhancing the diversity of its workforce. We ask that HEFCE continues to chair the Leadership, Governance and Management Diversity Summit, drawing in Research Councils UK as a partner to help lead the change in culture, practices and makeup of the research community. We look to the Council to identify opportunities to influence the pace of change in HE governance, in particular to achieve HEFCE’s agreed Business Plan objective of 40% of governors to be female by 2020 (currently the figure stands at 33.5%). We would also like the Council to consider what scope there is for analysing HEIs’ Equality Objectives and action plans, which they publish under the Public Sector Equality Duty, with the aim of identifying innovative or sector-leading practice, especially where it has led to demonstrably improved outcomes for disadvantaged groups in the sector.

Prevent

36. As of September 2015, we have delegated responsibility to you to monitor implementation of the new Prevent duty in the HE sector in England. This is an important new function in helping the Government deliver its counter-terrorism strategy and in helping universities protect students and academics from the kind of intimidation that can curtail free speech. Over the next year we expect you to review and assess detailed information from all relevant HE bodies and advise on levels of compliance against the duty. We would also
expect that HEFCE will continue to engage with providers directly to ensure they understand requirements and any issues are, where possible, resolved.

Efficiency

37. We recognise that the sector is independent of Government and must offer competitive packages in order to attract leading talent. With the Government’s new National Living Wage, we are also delivering a pay rise for some employees in the sector.

38. Taxpayers expect the benefits of public funding intended for teaching and research to be maximised. We look to all higher education institutions to improve efficiency and control costs. The Government is clear that efficiency includes demonstrating restraint in senior pay and remains concerned about the substantial upwards drift of the salaries of some top management. We would like to see leaders in the sector exercise much greater restraint. We ask the Council to review its guidance on severance payments in the HE sector in the context of the Government consultation on reforms to public sector exit payments which set out a sensible and pragmatic approach that can usefully inform practice beyond that sector in appropriate cases. We would expect HEIs to explain divergence from the revised guidance.

39. In prioritising our investment in Higher Education we must ensure these resources are used efficiently, effectively and where they can offer the greatest strategic benefit. We would like you to work with Universities UK and the sector, in order to implement the recommendations of Professor Sir Ian Diamond’s efficiency reviews, and produce an annual report incorporating sector-level indicators showing how the sector is driving efficiencies. This should be supported by annual reports from institutions on how they are becoming more efficient and productive over time, for example by reporting on asset utilisation, procurement and other back office functions. Over time, these reports will become a useful tool for universities to monitor their key efficiency performance.

40. Alongside work on efficiencies we would like HEFCE to consider two additional complementary areas. Firstly, we would like you to develop further ways to monitor and measure the financial sustainability of institutions and the provision they offer. We would expect this to include work on enhancing metrics to monitor sustainability at both sector and institutional level. Secondly, we would like HEFCE to promote collaboration through the better sharing of infrastructure, data assets, and other resources to raise the efficiency and productivity of the sector. Where appropriate, these two areas...
should be pursued in concert with the sector, BIS, RCUK and other stakeholders.

Conclusion

41. Annex 1 to this letter sets out the detail of the Council’s allocation. Annex 2 provides technical instructions, including the condition of Grant which the Secretary of State imposes on the Council.

42. This letter is being copied to Madeleine Atkins.

THE RT HON SAJID JAVID MP
Secretary of State for Business Innovation and Skills

JO JOHNSON MP
Minister of State for Universities and Science
**Finance Annex**  
**Overall allocation**

<table>
<thead>
<tr>
<th>All figures in £m</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Feb 2015 Grant Letter</td>
<td>Budget</td>
<td>Indicative allocation</td>
</tr>
<tr>
<td>a</td>
<td>Recurrent grant for Teaching</td>
<td>1,671</td>
<td>1,539</td>
</tr>
<tr>
<td>b</td>
<td>Recurrent grant for Research</td>
<td>1,686</td>
<td>1,695</td>
</tr>
<tr>
<td>c</td>
<td>Total recurrent grant for distribution by HEFCE</td>
<td>3,357</td>
<td>3,234</td>
</tr>
<tr>
<td>d</td>
<td>Postgraduate support scheme</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>e</td>
<td>Capital grant for Teaching</td>
<td>300</td>
<td>140</td>
</tr>
<tr>
<td>f</td>
<td>Capital grant for Research</td>
<td>303</td>
<td>338</td>
</tr>
<tr>
<td>g</td>
<td>Total capital grant for distribution by HEFCE</td>
<td>603</td>
<td>478</td>
</tr>
<tr>
<td>h</td>
<td>Total funding via HEFCE</td>
<td>4,010</td>
<td>3,712</td>
</tr>
<tr>
<td>i</td>
<td>Estimate of fee income from students subject to regulated fees.</td>
<td>8,100²</td>
<td>8,600</td>
</tr>
<tr>
<td>j</td>
<td>Total HEFCE funding plus regulated fee income</td>
<td>12,100</td>
<td>12,300</td>
</tr>
</tbody>
</table>

i) 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.

ii) HEFCE will receive a separate letter detailing their administrative budget for 2016-17, but they should expect to make further contributions over the spending review period to the Department’s overall real terms reductions in administrative budgets. As in previous years, HEFCE will receive a separate letter confirming their finalised 2016-17 unrounded resource and capital budget totals, and also admin and AME allocations.

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¹ The figures in the table reflect total amounts allocated to the sector, which are used by HEFCE to determine academic year allocations. They may not reflect standard re-profiling adjustments between financial years

² This was the estimation in the February 2015 grant letter. We currently estimate that the sector will receive c. £8,000m fee income from students subject to regulated fees in 2015-16
iii) 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.

iv) The funding that is set out in this letter is, as ever, subject to Parliamentary approval through the Estimates process twice a year. Parliament votes the funding for teaching and for research separately, as distinct objectives. We recognise that the Council may wish to allocate funding that supports both teaching and research objectives, and in these circumstances will need to judge the appropriate balance from each budget line. In making this judgement the Council should be minded to ensure that funding may not be moved between teaching and research allocations without BIS oversight to ensure appropriate reflection in Treasury reporting.

**Teaching allocation:**

v) From within the recurrent teaching grant, £26m in 2016-17 and £25m in 2017-18 relates to the cash utilisation of HEFCE’s inherited staff liability provision. This 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.

vi) From 17-18, the teaching priorities figure includes an allowance for the transfer of midwives, nurses and other allied health professionals to the BIS funding system.
Research allocation:

vii) The table below shows allocations for Science and Research for the Spending Review period. This includes indicative funding for 2018-19 onwards, except allocations for UKRPIF which are confirmed funding. This includes a resource allocation from the Grand Challenges Research Fund (GCRF) and we will need to discuss with you how you allocate this funding.

<table>
<thead>
<tr>
<th>£ M</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19 Indicative</th>
<th>2019-20 Indicative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Science and Research Funding</td>
<td>2,033</td>
<td>1,920</td>
<td>2,034</td>
<td>2,088</td>
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<tr>
<td>o/w Recurrent grant for Research and Research contribution to HEIF</td>
<td>1,675</td>
<td>1,679</td>
<td>1,693</td>
<td>1,708</td>
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<tr>
<td>o/w Resource contribution from GCRF</td>
<td>20</td>
<td>37</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>o/w Research Capital England</td>
<td>116</td>
<td>116</td>
<td>116</td>
<td>116</td>
</tr>
<tr>
<td>o/w Higher Education Research Capital (HERC) England</td>
<td>87</td>
<td>87</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>o/w UK-RPIF*</td>
<td>135</td>
<td>0</td>
<td>100</td>
<td>140</td>
</tr>
</tbody>
</table>

*UKRPIF funding confirmed through to 2020
Annex 2: 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 2016/17, 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 for 2016/17 are the same as for 2015/16, as set out in the Department’s letter to Nolan Smith of 28 July 2015.

Funding and Student Numbers

2. In my grant letter of 21 July 2015, I asked the Council to implement grant reductions for 2015/16 on institutions that had over-recruited against their student number control up to 2014/15. I am now asking the Council to implement a final grant reduction for 2016/17 on institutions that over-recruited against their student number control in 2014/15, consistent with the guidance you have already provided to institutions on this. The funding recovered can be retained by the Council to contribute to its funding of higher education in the year.

3. We wish to retain intake targets for undergraduate courses in medicine and dentistry, reflecting the high costs to the public purse of the training they provide. 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 continue to impose 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.