



Funding overview and budgets for academic year 2019-20

Issue

1. This paper considers the financial implications of the government's strategic guidance letter to OfS of 27 February 2019 and seeks:
 - a. Agreement to recurrent grant budgets and allocation methods for the 2019-20 academic year.
 - b. Agreement to capital grant budgets and allocation methods for the 2019-20 financial year.
2. The board will be provided with a presentation at its meeting which will cover the key issues discussed in this paper.
3. In this paper, academic years refer to the period 1 August to 31 July and are prefaced by 'AY'; financial years refer to the period 1 April to 31 March and are prefaced by 'FY'.

Recommendations

4. The board is invited to agree the recurrent budgets for AY2019-20 and capital budgets for FY2019-20 and the approach to their distribution as set out in this paper.

Further information

5. On budgeting: from Nolan Smith, Director of Resources, Finance and Transformation (nolan.smith@officeforstudents.org.uk, 0117 931 7376); on the approach to funding: from Yvonne Hawkins, Director for Teaching Excellence and Student Experience (yvonne.hawkins@officeforstudents.org.uk, 0117 931 7214) or Toby West-Taylor, Head of Funding (toby.west-taylor@officeforstudents.org.uk, 0117 931 7286).

Member's interests

6. The following members of the board are closely involved in providers that the OfS regulates and therefore have an interest in its powers and the way that these are used:
 - David Palfreyman (University of Oxford)
 - Monisha Shah (Rose Bruford College of Theatre and Performance)
 - Professor Steve West (University of the West of England)
 - Verity Hancock (Leicester College).

7. This paper seeks decisions on overall funding allocations for 2019-20 which will affect all providers registered in the Approved (fee cap) category, including those in which other board members have declared an interest¹. The chair has considered all of these relationships and does not consider it necessary for any board members to recuse themselves from the discussions and decisions about budgets and approaches to funding set out in this paper.

¹ Board members' register of interests is available at www.officeforstudents.org.uk/about/who-we-are/our-board-and-committees/

Funding settlement in 27 February 2019 strategic guidance letter

8. The strategic guidance letter of 27 February 2019 from the Secretary of State for Education² to the chair sets out the level of funding and guidance on policy priorities for higher education. The letter identifies the recurrent and capital funding available to us from the Department for Education (DfE) for FY2019-20, with a comparison against the sums for FY2018-19, but it does not provide indicative figures for FY2020-21. It also provides guidance on priorities to which we must have regard in making our funding decisions. The priorities and funding provided are consistent with our expectations.
9. At this meeting the board is asked to make decisions that enable allocations to individual providers to be calculated. The DfE strategic guidance letter provides funding for the financial year (to 31 March) but we allocate recurrent funding to providers by academic year (to 31 July). This paper therefore:
 - a. Sets out the process to convert the financial year amounts for 2019-20 and (that we have to assume will be available) for 2020-21 into an academic year 2019-20 amount available for distribution.
 - b. Proposes how the academic year total is split across the main areas of funding, and the broad approach to the distribution between providers for elements of grant.
10. In this paper, figures are normally rounded to the nearest £1 million, except where necessary to avoid showing a figure that would otherwise be rounded down to zero, but allocations to providers and their totals will be rounded to the nearest £1. There may therefore be some rounding differences within the paper.

The OfS's general duties

11. Section 2 of the Higher Education and Research Act (HERA)³ sets out the OfS's general duties. These general duties are framed in terms of the need for the OfS to 'have regard' to each of them as it performs its functions. This means that in reaching decisions about the allocation of funding, the OfS must take all of these general duties into account, weighing one against the others as it sees appropriate. We have set out in Annex C a non-exhaustive account of the ways in which the funding proposals set out in this paper have regard to each of these general duties.

Discussion

12. The period up to July 2019 has been a transitional one in which we have been funding providers under the powers that applied to HEFCE arising from the Further and Higher Education Act 1992. This limited our direct funding powers to the same teaching and related activities at the same categories of providers as applied under HEFCE. During this period, many of our requirements on providers have been made as conditions of funding, rather than as conditions of registration.

² See: www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

³ See: www.legislation.gov.uk/ukpga/2017/29/section/2/enacted.

13. From 1 August 2019, the OfS's regulatory framework comes into full effect, with providers on the OfS's register required to comply with ongoing conditions of registration. We will fund eligible higher education providers – that is, those in the Approved (fee cap) part of the register – under Section 39(1) of the Higher Education and Research Act 2017 (HERA). This means we will fund a different list of providers.
14. For 2018-19, we funded providers largely following the approaches previously adopted by HEFCE, which were developed over a number of years following consultation. We need to review our approach to funding, and will explore with the board during the summer how this can be developed to support our duties and regulatory objectives. We will wish to consult on our developing approach as soon as we can, once the outcomes of the review of post-18 education and funding⁴, and the government's response to it, are known. The development of our funding method clearly needs to reflect, for example, the balance of funding responsibilities between ourselves and other government bodies, as well as the overall funding available to us and the balance with student finance, all of which may be affected by the current government review. Nevertheless we believe we can make progress on funding principles, aims and objectives which allow for different scenarios in the wider context of higher education finance arrangements.
15. In August 2018, we published 'Funding for academic year 2019-20: Approach and data collection' (OfS 2018.31)⁵. This explained, and invited comment on, our broad approach to funding for academic year 2019-20. It noted that until we have completed a review we will continue to apply existing funding methods, but will develop them as necessary to ensure that, as far as possible, we treat all eligible providers consistently. In this respect, allocations for academic year 2019-20 will reflect a transitional approach.
16. In February 2019, we published 'Funding for 2019-20: Consultation on terms and conditions and method' (OfS 2019.02)⁶. This has provided a further opportunity for providers and others to comment on the approach to funding for 2019-20, in particular, setting out proposals for a revised approach to calculating formula-based capital grants. Alongside this, we held a consultative event on 13 March 2019 with representative bodies of providers⁷, at which we were able to discuss our proposed approach to 2019-20 funding, including questions of prioritisation between budgets, as well as methods. We have taken the responses received through this consultation process into account in developing the proposals recommended in this paper. Those responses are summarised in Annex D.
17. OfS 2019.02 also consulted on draft terms and conditions of funding for 2019-20. These are very different to those that applied for 2018-19, because the main requirements that OfS places on a provider that we will fund now arise from the general ongoing conditions of registration that apply to it as an Approved (fee cap) provider (set out in the OfS regulatory framework for higher education in England), together with any specific ongoing conditions

⁴ See: www.gov.uk/government/publications/review-of-post-18-education-and-funding-terms-of-reference.

⁵ See: www.officeforstudents.org.uk/publications/funding-for-academic-year-2019-20-approach-and-data-collection/.

⁶ See: www.officeforstudents.org.uk/publications/funding-for-2019-20-consultation-on-terms-and-conditions-and-method/.

⁷ Universities UK (www.universitiesuk.ac.uk/), GuildHE (<https://guildhe.ac.uk/>), the Association of Colleges (www.aoc.co.uk/), Independent HE (<http://independenthe.com/>) and the British Universities Finance Directors Group (www.bufdg.ac.uk/).

of registration that additionally apply, as separately notified to the provider. Where requirements are a condition of registration, we have sought to avoid replicating them as conditions of funding. Instead, the terms and conditions of funding focus on:

- a. The uses to which providers may apply OfS funding.
 - b. The circumstances under which we may recalculate and adjust funding.
 - c. A small number of requirements relating to specific grants, including eligibility criteria for them.
18. Under the OfS scheme of delegation, the board delegates to the chief executive the authority to approve the OfS terms and conditions of funding and any specific terms and conditions of funding with individual providers. We will publish shortly the final terms and conditions of funding for 2019-20, as approved by the chief executive in the light of the recent consultation.
19. While we will allocate recurrent funding for 2019-20 largely using the established funding methods, there are nevertheless some specific decisions required, primarily relating to:
- a. Determining budgets and funding parameters (such as rates of grant or weighting factors).
 - b. The approach to be taken towards providers that are not yet registered in the Approved (fee cap) category, but may become so before the end of the 2019-20 academic year.
20. These two issues interact, because of uncertainty over which providers may subsequently be registered in the Approved (fee cap) category. Providers may submit applications to join the register at any time. While we set out recommended dates by which providers should apply if they wished to receive public funding for 2019-20, we believe we should nevertheless be prepared in principle to provide formula funding for providers that are not registered in the Approved (fee cap) category in time for inclusion in the grant announcements we will make this spring. OfS 2019.02 explained that we would make budgetary provision for this so as to avoid having to review allocations for providers whose grant had already been announced.
21. In spring 2019, we propose to announce:
- a. Formula capital grants for the 2019-20 financial year by the end of March 2019. Our calculations for this announcement will include all those in the Approved (fee cap) part of the register on 19 March 2019.
 - b. Recurrent grants for the 2019-20 academic year on 8 May 2019 (and to be published on 9 May 2019). Our calculations for this announcement will include all those in the Approved (fee cap) part of the register on 15 April 2019.

22. After the spring 2019 grant announcement we expect to announce updated recurrent and formula capital grants for 2019-20 in October 2019, and aim to include in that announcement any providers that are registered in the Approved (fee cap) category on Friday 20 September 2019. We hope that this date will enable us to pick up any remaining registered provider that is seeking public funding for 2019-20, but are not precluding the possibility of making 2019-20 funding allocations to providers that become registered in the Approved (fee cap) category after that date.
23. We have collected and verified data to inform 2019-20 funding⁸ from almost all the providers that have applied to register in the Approved (fee cap) category. However, we are aware of ten providers who applied more recently, from whom we have not yet collected equivalent data (and others could yet come forward).
24. The discussion in the main part of this paper below concerns the decisions required to set the budgets for academic year 2019-20. Annex A sets out more detailed proposals about the budgets and parameters for different elements of recurrent grant; Annex B sets out more detailed proposals about the budgets and allocation method for capital grants and for other funding for national facilities and regulatory initiatives. In making these decisions on budgets and funding approaches, we ask the board to note that it may be necessary for the chief executive to agree, under the scheme of delegation, minor changes to budgets and parameters including the need to make provision for providers whose registration in the Approved (fee cap) category is too late for inclusion in the funding allocations we announce in spring 2019. This is particularly relevant for student premiums, high-cost subject funding and London weighting, which we expect generally to account for most of the grant that may be payable to providers whose registration is not in time for the spring grant announcement.

Funding for FY 2019-20 and government priorities

25. The strategic guidance letter sets out the total amount of grant available for FY2019-20 at £1,487 million, comprising £1,387 million recurrent and £100 million capital. The overall settlement continues to reflect the outcome of the Spending Review and Autumn Statement 2015⁹, which had announced a £120 million cash reduction to teaching grant by 2019-20 compared with 2015-16. However, the recurrent total for 2019-20 now includes £10 million relating to funding transferred from the Department of Health and Social Care (DHSC) to support the planned increase in intakes, from the 2018-19 academic year, to courses leading to first registration as a doctor.
26. The recurrent and capital total for FY2019-20 represents a reduction in cash terms on a like-for-like basis of £29 million compared to FY2018-19, a reduction of 1.9 per cent in cash terms (3.9 per cent in real terms, using the latest GDP deflator). This reduced total has to support additional activity including:
- a. The continuing transfer of funding responsibility relating to courses in nursing, midwifery and allied health that were previously funded by DHSC. This requires us

⁸ Providers have been required to complete one of three surveys, depending on their particular circumstances, as set out at: www.officeforstudents.org.uk/data-and-analysis/data-collection/. We have now published much of this data as an official statistic, at www.officeforstudents.org.uk/data-and-analysis/data-collection/get-the-data/.

⁹ See: www.gov.uk/government/news/department-for-business-innovation-and-skills-settlement-at-the-spending-review-2015.

to provide funding for over 23,000 additional full-time equivalent students (FTEs) for AY2019-20.

- b. Increases in students on pre-registration medical courses, as a result of the phased increase in intakes from 2018-19. This requires us to provide funding for an additional 1,320 FTEs for 2019-20.
 - c. The extension of funding to providers that OfS and HEFCE were not previously empowered to fund. Data collected so far from providers that we did not fund for 2018-19 shows a little under 25,000 fundable FTEs that we might potentially need to count for funding purposes. However, this figure is uncertain because not all of the providers that have submitted data may ultimately be registered in the Approved (fee cap) category, while others from whom we have not yet collected data may be. Only about a quarter of the FTEs are in price groups that attract high-cost subject funding, but students in all price groups may attract targeted allocations such as student premium funding and London weighting.
27. The additional financial commitment arising from these additional activities in 2019-20 will depend on the budget decisions to be taken at this meeting, as well as on which providers are ultimately registered in the Approved (fee cap) category.
28. The strategic guidance letter sets out the government priorities for the year ahead and to which (by Section 2(3) of the Higher Education and Research Act), we must have regard. It is now for the OfS Board to take decisions on how to allocate our budgets, taking this guidance into account. The letter states that “funding priorities for the OfS remain consistent with those set in relation to the Teaching Grant in the previous financial year”. Last year’s strategic guidance letter¹⁰ identified the following:
- a. High cost subjects ‘I would like the OfS to continue to protect high-cost subject funding (including science, technology and engineering) in real terms. On the postgraduate supplement, I ask that funding supports high-cost subject provision and is complementary to the impacts of the recent postgraduate loan support system.’
 - b. Access and participation, and small and specialist institutions ‘For the coming year, the OfS should look to protect, as far as possible, funding for widening participation and small and specialist institutions with world-leading teaching.’
 - c. Health Education ‘I expect the OfS to continue delivery of the health education reforms including the expansion of medical places for 2019/20 supported by funding from the Department of Health.’
 - d. Higher Education Innovation Fund (HEIF) ‘The OfS will be responsible for the teaching and student elements of Higher Education and Innovation Funding (HEIF) via the £47m Teaching Grant contribution to HEIF, working with Research England and UKRI. As part of this, the OfS, working with Research England, will evaluate the impact of the teaching and student elements.’

¹⁰ See: www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

- e. Jisc 'On Jisc, which provides the JANET digital network and other services to universities and colleges, I expect the OfS to take forward recommendations from the value for money study that HEFCE has commissioned in 17/18, working with other funders (including UKRI) as appropriate.'
- f. Capital funding 'On capital funding, I ask that the OfS ensure that the capital allocated to them is invested where it can have the greatest benefit. Where the investment in institutions can benefit both research and teaching and it is more effective and efficient to do so, I expect the OfS to work together with UKRI.'
- g. Accelerated degrees 'I would like the OfS to continue to subsidise the higher annual cost of accelerated degree courses through the teaching grant.'

29. In addition, the separate guidance on access and participation included the following:

'The consortia being funded through the National Collaborative Outreach Programme will provide an important contribution. These projects deliver in those wards of the country where progression to higher education is lower than it should be given typical GCSE attainment, including in our twelve Opportunity Areas. We are keen to see the pace and depth of this partnership approach continue in these areas.'

30. Within the total for recurrent grant, the government priorities to protect high-cost subject funding and to support health education reforms both require additional funding in cash terms. If the board adopts these priorities it would see cash reductions to other recurrent budgets. In making our funding decisions, we must have regard to our general duties (set out at Annex C), as well as the Secretary of State's guidance, including on the other funding priorities relating to access and participation, specialist institutions and accelerated degrees. We should also ensure we have regard, in the student interest, to the needs of all Approved (fee cap) providers, including those that were not previously eligible for funding.

31. The total teaching grant shown in the strategic guidance letter includes sums which are distributed through other organisations. The total for FY2019-20 has been reduced by £22 million for inherited staff liabilities¹¹, the administration of which has transferred from HEFCE to DfE, but there is a further £58 million within the total that relates to funds administered by Research England, thus reducing the total available for distribution by us. This comprises:

- a. Funding allocated to University College London relating to the Institute of Zoology and for the University of London relating largely to its School of Advanced Studies. These were previously supported through HEFCE's recurrent teaching grant, but their activities are more analogous to national research facilities. Funding of a little under £11 million has transferred to the Department for Business, Energy and Industrial Strategy for allocation to these providers through Research England.

¹¹ These relate to the cost of certain historic staff-related commitments of some higher education providers that were previously Local Authority-maintained.

- b. Teaching-related knowledge exchange activities. These have been supported through a £47 million contribution from the teaching budget towards the Higher Education Innovation Fund (HEIF). Although knowledge exchange funding as a whole is paid by UKRI (through Research England), the OfS remains responsible for determining the allocation method and monitoring arrangements relating to this element. An update on the approach to HEIF is provided in Annex A.

32. We therefore need to deduct these sums from the £1,387 million available for recurrent grant to leave a working budget for FY2019-20 of £1,329 million.

33. In addition to the £1,329 million, we expect to receive funding from the Department in relation to the Institute of Coding¹² and in relation to our running costs including specific funding relating to TEF, the Digital Data & Technology (DDaT) programme and student information work. At the time of writing this paper these funding streams had not been confirmed. Further information about these and the OfS's own administrative budget is provided at Annex E.

Setting academic year budgets for non-capital grants

34. To set budgets for each academic year, we need to take a proportion of the funding available to us from government for each of the two financial years across which the academic year falls. Last year, we announced recurrent grants to providers for the whole of AY2018-19, but to do so, we needed to commit funding from the FY2019-20 (because of the four-month overlap from April to July 2019 between the AY2018-19 and FY2019-20).

35. The first call on the £1,329 million available budget is the amount needed to honour the funding commitments relating to the AY2018-19. The sum required for this is £483 million¹³, leaving £846 million available from the FY2019-20 total. We need to supplement this with a proportion of the funding available for the FY2020-21 (reflecting the four-month overlap from April to July 2020 between the AY2019-20 and FY2020-21). However, the strategic guidance letter has not provided an indicative total for FY2020-21, because this falls within the next spending review period. We therefore need to make our own assumptions about this.

36. On the basis of previous discussions with government, we are expecting an additional £11 million in FY2020-21 for the additional costs arising from the increase in medical intakes. It would be imprudent to assume any further increase, or to invite further cuts by assuming a reduction. Taking this into account we propose to commit £503 million of the recurrent funding to be made available to us for FY2020-21 as a contribution to the total required for AY2019-20. This is a very similar level of commitment as was made in setting

¹² See: www.gov.uk/government/news/prime-minister-announces-20-million-institute-of-coding.

¹³ The funding board paper of 26 March 2018 gave a figure for this of £522 million, but this included knowledge exchange funding distributed by Research England. The £483 million now required also takes account of reduced commitments in AY2018-19 totalling £20 million, arising from net reductions to recurrent grant as a result of data assurance work, and some underspends to other project funds. This provides one-off funding that enables us to commit more funding for AY2019-20 than would otherwise be the case.

budgets for AY2018-19. This gives a total AY2019-20 non-capital budget of £1,349M. Annexes A and B set out proposals for how the total could be distributed between:

- a. Annex A: £1,309 million for recurrent teaching to providers.
- b. Annex B: £40 million for national facilities and regulatory initiatives.

37. In setting this budget, we will need to warn providers that we may revise our allocations (including after their distribution to providers has already been announced) if the government reduces the funding it has announced for FY2019-20¹⁴, or if our assumption about the funding available for FY2020-21 proves incorrect.

Capital funding

38. Capital is managed on a financial year basis. The total available for FY2019-20 is specified in our strategic guidance letter at £100 million and Annex B sets out the proposed approach to the distribution of this total to provide formula-based allocations to providers and an allocation for Jisc.

Analysis of the funding to be distributed for AY2019-20

39. Assuming the Board agrees to the recommendations in this paper, Table 1 below sets out how the funding will be distributed in AY2019-20. Further details on the specific funding streams are provided in Annexes A and B.

Table 1: Overall budget for academic years 2018-19 and 2019-20

Sums may not add up due to rounding differences.

Academic year	2018-19 comparison £M	2019-20 £M
Recurrent teaching (see Annex A)	1,290	1,309
National facilities and regulatory initiatives (see Annex B)	51	40
Total recurrent funding	1,341	1,349
Capital funding (see Annex B)	150	100
Total funding distributed by OfS	1,491	1,449
Other funding within DfE teaching grant distributed by others (see paragraph 31)	58	58

40. As previously discussed, we will make budget provision for providers whose registration in the Approved (fee cap) part of the OfS's register is not in time for them to be included in the allocations to be announced in spring 2019. We cannot have certainty about whether funding set aside will match the eventual requirement for such providers. If we set aside too much, we will ensure the balance is re-distributed to all eligible providers; if it is too low, we will have to consider alternative measures though we believe this scenario unlikely to occur due to the assumptions made. To manage this effectively, there is likely to be a need for

¹⁴ The strategic guidance letter warns: "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 Bodies in order to meet budget reductions."

some flexibility to make minor changes to budgets or rates of grant during the year, albeit in keeping with the funding approaches set out in this paper.

Recommendation: The board is invited to agree the recurrent budgets for AY2019-20 and capital budgets for FY2019-20 and the approach to their distribution as set out in this paper.

Resource implications

41. This paper proposes total programme budgets of £1,349 million recurrent for AY2019-20 and £100 million capital for FY2019-20.
42. Table 1 shows that the total for distribution by OfS is £42 million less than for 2018-19. However, the underlying position is worse as the reduced total has to support significant additional activity arising from the government's health education reforms and the inclusion of providers that will be new to OfS funding in 2019-20.

Risk implications

43. There is a small risk to our ability to manage budgets effectively as a result of uncertainty over the final list of Approved (fee cap) providers that will be eligible for funding for 2019-20. We are mitigating this risk by making prudent assumptions about the number of Approved (fee cap) providers not included in the initial grant announcement.
44. The overall OfS funding settlement sees a reduction in the unit of funding for previously HEFCE-funded providers though equally it does provide funding to previously non-HEFCE-funded providers. This means the financial impact on providers of OfS funding is likely to be varied, though in line with expectations.

Communications and engagement

45. Following this meeting we intend to announce by the end of this month:
 - a. The initial distribution of formula-based capital grants to providers for FY2019-20.
 - b. The terms and conditions of funding for 2019-20.
 - c. A summary of the board's funding decisions at this meeting.
 - d. A summary of the outcomes of the funding consultation in OfS 2019.02.
46. We will announce on 8 May, for publication on 9 May, the initial distribution of recurrent grants to providers for AY2019-20. These allocations will be agreed by the chief executive under the scheme of delegation, reflecting the decisions taken at this meeting.

Paper publication date

47. This paper can be published after our announcement in early April of the board's decisions on funding.

Annex A: Academic year (AY) 2019-20 recurrent teaching grant

1. The main part of this paper has proposed a recurrent teaching grant budget for AY2019-20 of £1,309 million. This Annex sets out further proposals on the disaggregation of that budget between different elements of teaching funding and on the funding methods to be used in its distribution between providers. It also provides an update on the approach to the teaching element of knowledge exchange funding, which is administered through Research England.
2. The operation of the funding method as it applied for AY2018-19 is set out in 'Guide to funding 2018-19: How the Office for Students allocates money to higher education providers' (OfS 2018.21)¹⁵. This paper concentrates on the changes to funding required for AY2019-20.

High-cost subject funding

3. The protection given to high-cost subject funding in recent years has been to the total sum allocated, rather than to the rate of funding per full-time equivalent student (FTE). In maintaining this in real terms, we need to provide an uplift for inflation to the 2018-19 high-cost subject funding budget (£681 million), and we do so using the GDP deflator¹⁶. This results in an initial budget for high-cost subjects of £695 million. In broad terms, the numbers of OfS-fundable FTEs in AY2018-19 in the price groups (A, B and C1) that attract high-cost subject funding are similar to the numbers that informed the funding allocations for that year. This means that providing an uplift to the budget for inflation enables us also to uplift the rate of grant per FTE in cash terms by an estimated 1.5 per cent (a cut of some 0.5 per cent in real terms based on the GDP deflator). The precise figure will depend on which providers become registered in the Approved (fee cap) category. While modelling is still being finalised, we expect these proposals to result in the grant rates shown in Table A1, which also includes a comparison against AY2018-19.

Table A1: High-cost subject funding: grant rates per FTE for AY2018-19 and estimated for AY2019-20

Price group	AY 2018-19 grant rate	Estimated AY 2019-20 grant rate
A	£10,100	£10,250
B	£1,515	£1,537.5
C1	£252.5	£256.25
C2	£0	£0
D	£0	£0

4. We then need to make additional provision to support the government's health education reforms. There are two elements to this:

¹⁵ See: www.officeforstudents.org.uk/publications/guide-to-funding-2018-19/.

¹⁶ The GDP deflator can be viewed as a measure of general inflation in the domestic economy. Forecast GDP deflators by financial years from 2018-19 have most recently been produced by the Office for Budget Responsibility for the government's Spring Statement and are published at: www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp. We have calculated an equivalent deflator for AY2019-20 of 1.95 per cent using proportions of the deflators for FY2019-20 and FY2020-21.

- a. The continued phased transfer to the HE finance arrangements of funding for courses leading to registration to practice in nursing, midwifery and allied health (NMAH) professions.
 - b. Increased intakes to courses leading to first registration as a (medical) doctor.
5. For the reforms to NMAH, we need to recognise that in AY2019-20 there are three undergraduate entry cohorts that now come under the main higher education finance arrangements, instead of the two in AY2018-19; and two entry cohorts, instead of one, under the new arrangements for postgraduate and dental hygiene and dental therapy (DHDT) courses. Overall we expect to count as fundable for AY2019-20 net additional student numbers of approximately 16,100 in price group C1 (for nursing courses) 7,000 in price group B (for all professions other than nursing and DHDT) and 100 in price group A (for DHDT). In addition, there are a further 1,320 students to count in price group B as a result of increases in medical intake targets since AY2017-18. As with the approach taken last year, we propose to increase the high-cost subject budget to take account of these additional student volumes, so that the health education reforms do not adversely affect the rate of funding we are able to provide for other subjects. This requires an additional £18 million overall, bringing the total budget for high-cost subjects to £713 million.
6. Within the total of £713 million, we will need to set aside a small amount for allocation later to providers whose registration in the Approved (fee cap) category is not in time for inclusion in our spring 2019 grant announcement.

Targeted allocations

7. Inevitably there is a balance to be struck in how we prioritise between the remaining teaching grant budgets: there are a number of (sometimes competing) constraints and we therefore present in Table A2 an overall package of proposals that we believe appropriately manages them. The table provides a summary of the proposed disaggregation between different elements of recurrent teaching grant and compares it against equivalent figures for AY2018-19. Paragraphs 10 to 35 provide further information about each of the targeted allocations and the rationale for how we set their budgets and any changes to their allocation methods for AY2019-20.
8. The discussion that follows Table A2 considers each element of grant, because agreement on budgets is required for each. However, we would highlight the following areas where there are particular changes or developments proposed to past practice:
 - a. Nursing, midwifery and allied health supplement We plan to increase the budget to reflect the continuing transfer of funding responsibility for NMAH, which is being phased in with successive entry cohorts. See paragraphs 11 to 12.
 - b. Postgraduate taught supplement Last year we reduced the rate of funding for this supplement for students on courses eligible for masters loans and stated that it would be removed entirely in 2019-20¹⁷. This will release savings of £25 million for

¹⁷ See Annex A, paragraphs 9 to 11 of OfS 2018.22, at: www.officeforstudents.org.uk/media/1447/ofs2018_22.pdf.

AY2019-20. The supplement will continue to be provided in relation to students on courses that are not eligible for masters loans or undergraduate student support.

- c. Premium to support successful student outcomes: full-time This element of grant has been the balancing item that ensures all funding remains within budget. Consistent with the strategic guidance letter, we are looking to protect funding for widening participation as far as possible, albeit against the background of the Spending Review and Autumn Statement 2015 which stated that such funding would reduce by up to half; and the other priorities in the strategic guidance letter. We propose in this paper to set the same budget in cash term for this grant as for AY2018-19. See paragraphs 24 to 27.

9. In setting budgets, we are also looking to ensure that funding provided to us by government as a result of the NMAH finance reforms is allocated to support these courses. The 2015 Spending Review and Autumn Statement announced £80 million for this purpose by FY2019-20. This does not represent a steady state funding requirement, not least because, for the entry cohort starting in AY2019-20, only two-thirds of an academic year is counted within FY2019-20. The recommendations in this paper will result in total funding to support the NMAH transfer in AY2019-20 of £92 million. This is done through a number of different elements of grant – all those for which NMAH students are eligible to be counted, including high-cost subject funding, student premiums and London weighting, plus the separate supplementary allocation to reflect where there is evidence that average course costs exceed those that would otherwise be met through tuition fees and other teaching grants (primarily high-cost subject funding). A separate column in Table A2 therefore shows the amount of recurrent funding which relates to activity for which funding responsibility has transferred from the DHSC for NMAH professions. In total, this sums to £91 million: the balance of £1 million is accounted for through the separate funding initiative (detailed in Annex B) to support the sustainability of certain small and specialist NMAH programmes, including through demand raising activities¹⁸.

Table A2: Disaggregation of recurrent grant for AY2019-20 (£millions)

Sums may not add up due to rounding differences.

Elements of recurrent teaching grant	2018-19	2019-20 budget	Of which, related to NMAH transfer
High-cost subject funding	681	713	51
Targeted allocations			
Very high-cost STEM subjects	25	25	
Nursing, midwifery and allied health supplement	14	20	20
Erasmus+ and overseas study programmes	30	30	
Postgraduate taught supplement	33	8	
Intensive postgraduate provision	35	35	
Accelerated full-time undergraduate provision	2	3	
Premium to support successful student outcomes: FT	165	165	13
Premium to support successful student outcomes: PT	72	72	1

¹⁸ See: www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/health-education-funding/strategic-interventions-in-health-education-disciplines/.

Elements of recurrent teaching grant	2018-19	2019-20 budget	Of which, related to NMAH transfer
Disabled students' premium	40	40	2
National collaborative outreach programme (NCOP)	60	60	
Students attending courses in London	67	71	3
Specialist institutions	44	44	
Clinical consultants' pay	17	17	
Senior academic general practitioners' pay	1	1	
NHS pensions scheme compensation	5	5	
Subtotal: targeted allocations	609	596	40
Total recurrent grant	1,290	1,309	91

Very high-cost STEM subjects

10. This allocation reflects the high delivery costs associated with chemistry; physics; chemical engineering; and mineral, metallurgy and materials engineering. It supplements the standard high-cost subject funding for price group B and to receive an allocation for one of these subjects, a provider must have at least 30 FTE in the subject area concerned. The draft terms and conditions of 2019-20 funding set out in OfS 2019.02 also state that to be eligible, a provider must be actively recruiting new entrants to the subjects concerned in the year for which funding is provided. It was originally introduced to support providers to maintain activity in subjects that were vulnerable because of low student demand and as such it has not been recalculated afresh each year to reflect the latest student numbers. However, we are doing so for 2019-20, because of the different list of providers now eligible for our funding. As has been the approach in previous years, we propose that the budget for this allocation should be protected in real terms in the same way as the main high-cost subject funding and thus that we uplift allocations for AY2019-20 by 1.95 per cent.

Nursing, midwifery and allied health supplement

11. As explained in paragraph 9, this allocation was introduced for 2017-18 to support the sustainability of certain NMAH courses where there is evidence that average course costs exceed those that would otherwise be met through tuition fees and other teaching grants (primarily high-cost subject funding). This was informed by a costing study that was carried out during 2016-17¹⁹. The draft terms and conditions of 2019-20 funding set out in OfS 2019.02 also state that to be eligible, a provider must be actively recruiting new entrants, in the year for which funding is provided, to pre-registrations courses for the professions that the funding aims to sustain.

12. For 2019-20 we propose that we continue to provide the nursing, midwifery and allied health supplement using the same rates of grant for undergraduates and postgraduates as applied in AY2018-19. This requires us to increase the budget by approximately £6 million to reflect the increased student volumes eligible for the allocation (as described in paragraph 5).

¹⁹ See: www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/health-education-funding/nursing-midwifery-and-allied-health-courses/.

Erasmus+ and overseas study programmes

13. Finance arrangements for students undertaking a year abroad under the Erasmus+²⁰ or other exchange programme were developed following a 2012 report from Professor Colin Riordan which made recommendations to support UK outward student mobility²¹. In summary, the main income available to providers in relation to outgoing students is set at 40 per cent of the standard higher fee cap for full-time undergraduates (40 per cent of £9,250 being £3,700). Of this, £1,385 is assumed to come through tuition fees (this being the relevant higher fee cap for such a year) and £2,315 through our targeted allocation.
14. The government's intention is that the UK will continue to benefit from all EU programmes, including Erasmus+, until the end of the current budget plan in 2020. While there is some uncertainty about the arrangements in the event of a no-deal Brexit²², it should be noted that the OfS funding is provided to recognise the costs to providers of participation in student exchange programmes more generally including, but not limited to, Erasmus+. These continue to be a priority, and as such we do not propose any changes to our approach to supporting them (applying the rate of grant set out above). Given the student numbers reported by providers, the total funding requirement is broadly stable for 2019-20 at £30 million.

Postgraduate taught supplement

15. This allocation was introduced in 2012-13 to protect postgraduate taught activity from cuts that would otherwise have arisen with the shift from teaching grants to student tuition fees. At that time, postgraduate taught students (other than those on initial teacher training and some architecture courses) did not have access to publicly funded loans to help meet their tuition fee costs and it was therefore expected that providers would not be able to increase their fees in the same way as for undergraduates. The rate of grant was originally £1,100 per FTE for postgraduates in price groups A to C2, which, along with high-cost subject funding, was broadly sufficient to maintain postgraduate grant rates at the levels applying before AY2012-13. Students in price group D have not been eligible because the historic basic HEFCE grant level for them was £0. Students on postgraduate courses that attract undergraduate student support from the SLC are also ineligible (and this applies from AY2018-19 to those starting postgraduate pre-registration NMAH courses).
16. From AY2016-17, the government introduced new loans for those undertaking postgraduate masters courses. Broadly speaking, these provide loans of up to £10,000 per course²³ for students aiming for a full-time one- or two-year masters course (whether taught or research), or their part-time equivalent. They are not available to those studying on

²⁰ Erasmus+ is the EU's framework programme for education, training, youth and sport. Part of the programme provides opportunities for higher education students to take study or work placements abroad, but institutions may also establish exchange programmes for their students with overseas institutions outside the Erasmus+ programme. For more information on Erasmus+ see: <https://erasmusplus.org.uk/>

²¹ See the government announcement at: <https://www.gov.uk/government/news/report-recommends-measures-to-support-and-increase-outward-uk-student-mobility> and HEFCE Circular letter 14/2013 at: http://webarchive.nationalarchives.gov.uk/20170110104959/http://www.hefce.ac.uk/pubs/year/2013/CL_142013/.

²² See: www.erasmusplus.org.uk/brexit-update.

²³ This is the rate for those that started their masters courses in AY2016-17. The rate has been increased with successive entry cohorts to £10,280 for AY2017-18, £10,609 for AY 2018-19 and £10,906 for AY2019-20.

longer programmes, or who are studying on low intensity part-time programmes, or who are not studying the whole of a masters course (for example, those who are topping up from a lower level postgraduate qualification such as a certificate or diploma). Loans are paid directly to students (rather than providers) and may contribute towards their tuition and/or living costs.

17. With the introduction of masters loans, there has been a significant increase in both full-time and part-time postgraduate student numbers, a much healthier recruitment position than the most recent trends at undergraduate level.
18. As noted in paragraph 28 of the covering paper, our 2018 strategic guidance letter asked that in relation to the postgraduate supplement, funding should continue to support high-cost subject provision and be complementary to the impacts of the recent postgraduate loan support system. Postgraduates will, of course, continue to be supported through the main high-cost subject allocation. However, in view of the overall pressures on our funding, the priorities that we are looking to address through other allocations, and the healthier recruitment position of postgraduate taught activity, the board agreed last year to provide through the supplement for 2018-19:
 - a. £1,100 for those postgraduates in price groups A to C2 that are not on courses eligible for masters loans or undergraduate student support.
 - b. £550 for those in price groups A to C2 who are on courses eligible for the masters loan, with a view to this being removed altogether from 2019-20²⁴.
19. Implementation of this previous decision to cease providing the supplement in relation to students on courses eligible for the masters loan reduces the budget requirement for the postgraduate taught supplement from £33 million for AY 2018-19 to £8 million for AY2019-20.

Intensive postgraduate provision

20. This allocation recognises extra costs associated with teaching postgraduate courses that last for 45 weeks or more full-time in the year (or equivalent part-time courses) – this will typically be one-year full-time (or equivalent part-time) masters programmes. For 2018-19 this has been provided at a rate of £1,108 for students in price group B and £847 for students in price groups C1 and C2. It is not provided for courses in price group A, where the rate of high-cost subject funding already recognises the study intensity of clinical subjects; nor to postgraduate courses in price group D, where fees have historically been expected to cover costs. The rates of funding reduced significantly in recent years as the budget was maintained, but student numbers increased following the introduction of masters loans.

²⁴ HEFCE had consulted during 2016-17 on the proposal to remove the supplement for courses designated for the masters loan. The HEFCE consultation is available at <http://webarchive.nationalarchives.gov.uk/20170110105517/http://www.hefce.ac.uk/pubs/year/2016/201610/> and a report on the outcome is available at <http://webarchive.nationalarchives.gov.uk/20170110105934/http://www.hefce.ac.uk/pubs/year/2016/201639/>. Following the consultation the HEFCE Board had decided to continue with its existing approach to supporting taught postgraduate study for 2017-18, but to make changes from 2018-19.

21. For AY 2019-20, we propose to maintain the rates of funding for this grant as applied for AY2018-19. The budget requirement to do so remains £35 million.

Accelerated full-time undergraduate provision

22. This allocation recognises extra costs associated with teaching full-time undergraduate courses that last for 45 weeks or more in the year – this will typically be for bachelors degrees completed in two years. For both AY2017-18 and AY2018-19 this has been provided at a rate of £1,439 for students in price group B, £1,100 for students in price groups C1 and C2 and £846 for students in price group D. It is not provided for courses in price group A, where the rate of high-cost subject funding already recognises the study intensity of clinical subjects.

23. As noted in paragraph 28 of the covering paper, our 2018 government strategic guidance letter asked us to continue to subsidise the higher annual cost of accelerated degree courses through the teaching grant. However, from 2019-20 the regulated fee limits for accelerated courses have been increased by 20 per cent²⁵. This applies only to students starting such courses in AY2019-20, not to those continuing on them. Its late confirmation, in February 2019, means that it is unclear the extent to which providers will in practice be able to increase such fees for AY2019-20 if they have already made offers to students on the basis of a lower fee. Given this, we propose to maintain the rates of grant for this allocation in cash terms for a further year. Because of increases in the numbers of students reported on such courses, the budget requirement increases from £2 million to £3 million for AY2019-20. We will wish to review our approach to recognising intensity of study as part of the wider review of our funding method, and following the government's own post-18 education and funding review.

Premium to support successful student outcomes: full-time

24. The government's spending review and autumn statement in November 2015 announced that the funding previously known as the student opportunity fund may need to reduce by up to half by 2019-20²⁶ and that it should be focused on those providers with the most effective outcomes. This fund covered what is now provided through the student premiums for full-time undergraduates, part-time undergraduates and disabled students, as well as the national collaborative outreach programme (NCOP).

25. This funding is, of course, a key part of how we recognise through our funding our duties to promote greater choice and opportunities for students and equality of opportunity in connection with access to and participation in higher education. Despite the outcome of the 2015 spending review, our strategic guidance from government asks us to protect funding for widening participation as far as possible.

26. The largest of these student-focused allocations is the full-time student premium and this has been most at risk to the cuts to teaching grants, as we have sought to protect the other

²⁵ By statutory instrument 2019/214, available at: www.legislation.gov.uk/uksi/2019/214/made.

²⁶ See the section on 'Efficiency and reform' at: <http://webarchive.nationalarchives.gov.uk/20151202184345/https://www.gov.uk/government/news/department-for-business-innovation-and-skills-settlement-at-the-spending-review-2015>. Funding for student opportunity in 2015-16 totalled £380 million (see: <https://webarchive.nationalarchives.gov.uk/20180319123337/http://www.hefce.ac.uk/funding/annalocns/1516/lt/>), implying a reduction of up to £190 million by 2019-20.

student premiums and NCOP. The overall budget for the full-time student premium has reduced by £50 million from £215 million in AY2016-17 to £165 million in AY2018-19. The allocation provides targeted funding to enable providers to support undergraduate students most at risk of not completing their studies (this risk being assessed according to students' qualification aim, entry qualifications and age). Since 2017-18, a supplement has been included within the overall total, which incorporates weightings based on the recruitment of students who are both 'at risk' and from the most disadvantaged backgrounds. This supplement focuses funding more towards those providers that do most to widen access and participation, albeit within a reduced total. The supplement amounted to £19.5 million of the £165 million total for AY2018-19.

27. The full-time student premium is the largest single element of OfS funding for most further education colleges and also for many providers that we will fund directly for the first time in 2019-20. In the year in which we take on funding responsibility for these providers, we think it particularly important to protect this budget as far as we can, while recognising that because of the extra activity that has to count towards it (both from providers new to OfS funding and arising from the government's health education reforms) there is inevitably a further cut to funding rates. Because of the £25 million saving we are able to make to the postgraduate taught supplement, together with the release of funding uncommitted from AY2018-19, we are able to maintain this budget in cash terms. Within the total, we also propose to maintain at £19.5 million, the sum allocated through supplement.

Premium to support successful student outcomes: part-time

28. There have been significant reductions in part-time student numbers in recent years and we therefore consider part-time provision to be an area we support. This allocation, which totalled £72 million for AY2017-18 and AY2018-19, is made pro rata to London-weighted²⁷ part-time undergraduate student FTEs. We propose to maintain its budget in cash terms for AY2019-20.

Disabled students' premium

29. This allocation reflects providers' success in recruiting and retaining disabled students and has had a budget since AY2016-17 of £40 million. The funding is distributed to reflect the proportions of students at each provider in receipt of the disabled students' allowance (DSA) (weighted 2) as well as those who self-declare a disability (weighted 1). The allocation is designed to support providers to meet the rapid rise in mental health issues and to move towards an inclusive social model of support for disabled students²⁸. It complements reforms to the DSA introduced (for new entrants) in AY2015-16 and AY2016-17 which limited how much might be provided for computing equipment and certain categories of non-medical help²⁹.

²⁷ The weightings for this purpose are 12 per cent for providers in inner London and 8 per cent for those in outer London.

²⁸ As recommended in the HEFCE research reports 'Support for higher education students with Specific Learning Difficulties' (available at: <http://webarchive.nationalarchives.gov.uk/20170110102359/http://www.hefce.ac.uk/pubs/rereports/Year/2015/spld/Title,104722,en.html>) and 'Understanding provision for students with mental health problems and intensive support needs' (available at: <http://webarchive.nationalarchives.gov.uk/20170110102332/http://www.hefce.ac.uk/pubs/rereports/Year/2015/mh/Title,104768,en.html>)

²⁹ See: www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-12-02/HCWS347/.

30. This allocation helps providers to support particular target groups identified in the government guidance on access and participation – students with disabilities and students with specific learning difficulties or mental health needs – and we therefore propose to maintain its budget in cash terms for AY2019-20. Since AY2017-18, there has been a cap within the allocation method to limit year-on-year changes in grant to \pm £100,000. This has been to provide stability for providers as they transition to more inclusive, social models of support. However recognising that this period of transition is entering its third year we intend to increase the limit on changes to \pm £200,000. This will also enable fair access to this funding for providers new to OfS funding. In previous years, a minimum allocation has been applied, which varied by type and size of provider. This minimum has recognised there are costs to providers of ensuring accessibility to their courses, even if they happen to have no disabled students studying in a particular year. We propose to continue to apply a minimum, but that this should be set at a uniform £1,000 for all providers. We would not wish to set the minimum at a higher level, as this will reduce the funds available for targeted support for providers with the larger populations of disabled students.

National Collaborative Outreach Programme (NCOP)

31. NCOP was launched in January 2017 as a four year programme operating over two phases. Its goal is to rapidly increase the proportion of young people from disadvantaged backgrounds entering higher education. Partnerships of universities, colleges and other local organisations are being funded to deliver sustained and progressive programmes of outreach to young people in years 9 to 13 in targeted areas where higher education participation is both low and lower than expected given GCSE attainment³⁰.

32. In December 2018, the board agreed³¹ in principle to set aside £60 million per year in AY2019-20 and AY2020-21 to support collaboration between HE providers and with schools and colleges through a reformed second phase of the NCOP. As our funding settlement from government for FY2019-20 is in line with expectations, there is no reason to change that position and therefore the board is asked to confirm the £60 million allocation for AY2019-20.

³⁰ Further information about the programme, and the consortia involved, is available at: www.officeforstudents.org.uk/advice-and-guidance/promoting-equal-opportunities/national-collaborative-outreach-programme-ncop/.

³¹ See agenda item 4.1 at www.officeforstudents.org.uk/about/who-we-are/board-papers/ofs-board-meeting-6-december-2018/.

Students attending courses in London

33. This allocation, which totalled £67 million for AY2018-19, recognises the extra cost for providers operating in London – the rates of grant provided vary by price group and according to whether providers are in inner or outer London. A review of regional variations was undertaken by HEFCE in 2017³², which confirmed that these parts of the country continue to have higher staff and premises costs than other regions, but also benefit from higher student numbers. For 2019-20, we propose to continue the same method as previously and are looking to maintain the rates of grant in cash terms. Current modelling suggests this requires an increase to the budget to £71 million, which arises primarily because of the increased activity that it must now support: many of the providers new to OfS funding are in London, but there is also an increase arising from the continuing phased transfer of funding responsibility from DHSC for nursing, midwifery and allied health courses. There is potentially greater exposure of this budget because of uncertainty over the final list of providers registered in the Approved (fee cap) category. We therefore propose to set a budget for this allocation of £71 million, and review next month the rates of grant we can afford so as to make sufficient provision for providers whose registration in the Approved (fee cap) category is not in time for inclusion in our spring 2019 grant announcement.

Specialist institutions

34. This allocation supports certain specialist institutions with world-leading teaching identified through an international peer review panel exercise in 2015-16³³. A formulaic methodology has applied from 2016-17 to reflect the outcomes of the review, including transitional arrangements for a small number of providers that had significant changes compared to previous years. The overall budget requirement in AY2019-20 for formula funding following this review is £44 million. Two providers were receiving transitional funding in AY2018-19 totalling £0.4 million, but this ends in AY2019-20.

Clinical consultants' pay, senior academic GPs' pay, NHS pensions scheme compensation

35. These three allocations, which together total £23 million, are provided to support additional costs associated with clinical staff. They were introduced in earlier years to recognise pay settlements for NHS staff and increased employer contributions to the NHS pensions scheme, but have been held constant in cash terms for a number of years since then. We propose to do the same for AY2019-20.

Funding for knowledge exchange (HEIF)

36. As noted in paragraph 31.b, knowledge exchange funding as a whole is paid by UKRI (through Research England), but the OfS remains responsible for determining the allocation method and monitoring arrangements relating to the £47 million contribution to the total that comes from the teaching budget. The chief executive will therefore agree with Research England the approach to HEIF allocations for AY2019-20, albeit that this will be a continuation of the approach taken in previous years of the current spending review period.

³² See <https://webarchive.nationalarchives.gov.uk/20180405115447/http://www.hefce.ac.uk/pubs/rereports/year/2017/regional/>.

³³ See <http://webarchive.nationalarchives.gov.uk/20170712123151/http://www.hefce.ac.uk/it/howfund/institution/>.

37. The strategic guidance letter of 27 February 2019 states that the Department for Education would like the OfS ‘to work with Research England to improve understanding of teaching and students’ involvement in and contribution to achieving the external economic and societal impacts that are the focus of knowledge exchange activities, with the aim of informing Higher Education Innovation Funding and knowledge exchange strategies from 2021, and the government’s broader ambitions for improving productivity and social mobility.’
38. To begin this work, we commissioned two reports in Autumn 2018 which analysed the annual HEIF monitoring returns and explored whether existing HEIF mechanisms could account for students’ engagement in knowledge exchange activities. The work demonstrated that current mechanisms do not sufficiently capture the extent to which students are either engaged in, or beneficiaries of, knowledge exchange activities and strategies.
39. Using those reports and working with Research England, we have identified three intervention points that provide opportunities to capture the data needed to improve our understanding of how students contribute to knowledge exchange and to drive this into the HEIF funding approach so that we can have more assurance about the contribution of this investment to OfS duties and our strategy:
- a. Producing the guidance for the next round of HEIF strategies and shaping how those strategies will be assessed (summer 2019).
 - b. Determining the monitoring guidance and templates for annual reviews of spend against those strategies (summer-autumn 2019).
 - c. Participating in the formal review of the Higher Education-Business and Community Interaction data collection, launched recently by HESA (timing to be confirmed: expected 12-16 months’ duration beginning later in 2019).

Annex B: Capital grants and funding for national facilities and regulatory initiatives for 2019-20

1. We aim to distribute as much as possible of the funding for core higher education activity through recurrent grant. However, a small proportion of our funding is provided for specific purposes (both recurrent and capital) and to promote change that cannot easily be achieved through other routes, or to support national facilities/regulatory initiatives. This annex proposes a budget for each capital and national facility/initiative funding stream.

Capital funding

2. The grant letter has confirmed £100 million for capital funding for FY2019-20, which is made available to support HE teaching infrastructure. From this we are recommending providing £10m for Jisc and the remaining £90 million for distribution to providers through a formula-based allocation as described below. Capital funding is provided for the financial year³⁴.
3. Total capital funding is a reduction of £50 million compared to FY2018-19. However, of the total available for FY2018-19, £36 million was used to meet previous HEFCE commitments, relating to its Catalyst Fund. This means the total available as formula-based capital grant is a reduction of £14 million for FY2019-20. This is shown in **Table B1**.

Table B1: Capital funding for FY2018-19 and FY2019-20 (£ millions)

	FY2018-19	FY2019-20
Formula-based allocation	104	90
Jisc	10	10
Prior HEFCE commitments	36	0
Total	150	100

Formula-based capital grants

4. Up to FY2018-19, formula-based capital grant has been calculated pro rata to recurrent 'resource' (which includes both grant plus fee income). The FY2018-19 allocation was based on both AY2018-19 OfS recurrent grant, plus an assumption of tuition fee income of £6,165 per full-time equivalent student (FTE)³⁵ (which is the regulated full-time undergraduate basic fee limit for providers). We did not provide allocations in FY2018-19 to providers whose share of the funds would be less than £10,000.
5. The approach taken in 2018-19 was possible because AY2018-19 recurrent grants had been determined by the time the capital allocations were announced in May 2018. However, AY2019-20 recurrent grant allocations will not be available in time to inform FY2019-20 capital allocations, if the latter are to be announced in March 2019 (before the start of the financial year to which they relate). Also we believe it would be inappropriate for FY2019-20 capital allocations to be informed by AY2018-19 recurrent grants because we expect to be funding some providers for the first time for 2019-20.

³⁴ Though in order to manage timing differences between budget allocations and actual payments some payments may fall in different years,

³⁵ The FTEs counted for this purpose were both those fundable by OfS and those on initial teacher training courses leading to qualified teacher status fundable by the Department for Education.

6. Therefore, to avoid the direct link with recurrent grants, in OfS 2019.02, we proposed instead to calculate formula capital grants for FY2019-20 pro rata to weighted FTEs. The FTEs to be used for this purpose are the same ones that will inform AY2019-20 recurrent grants³⁶, plus those on initial teacher training courses leading to qualified teacher status fundable by the Department for Education. To reflect factors that may give rise to higher capital costs for providers, we proposed to weight these FTEs by:
- a. Price group and level. These recognise that, for example, clinical and laboratory-based subjects have higher capital costs than classroom-based subjects; and that postgraduates may use more specialist facilities and do so more intensively.
 - b. London weighting. This recognises the additional costs of operating in London, reflecting in part the findings of the consultancy study commissioned by HEFCE in 2017³⁷.
 - c. A specialist institution weighting. This would recognise the particular needs of world-leading specialist providers, following review by HEFCE in 2015-16³⁸.
7. It is possible to determine values for these weighting factors in a way that (if using the same underlying student data and budget) would produce a broadly similar distribution of capital funding between providers as we made for 2018-19. This is possible because they reflect most of the elements of funding that comprise our recurrent grants. Our modelling suggested that the following weights would broadly achieve this:
- a. Price group weights of 2.7 for A; 1.9 for B, 1.1 for C1 and 1 for C2 and D, but with an additional 10 per cent of the price group weighting provided for postgraduates in price groups A to C2. These weighting factors reflect that a significant part of the FY2018-19 formula capital grant was driven by the uniform assumed fee per FTE, but also reflects the OfS's high-cost subject funding and other price group-related targeted allocations³⁹.
 - b. London weights of 8 per cent (0.08) for providers wholly in inner London, 5 per cent (0.05) for those wholly in outer London and zero for those wholly outside London. Providers with provision in more than one of these areas would have an average weighting to reflect the proportion of their activity in each area. These weights do not fully recognise the additional costs of operating in London, because there are also benefits to providers of being there, an area where participation rates are already substantially higher than other parts of the country.

³⁶ That is, the fundable student FTEs reported by providers in the HESES18, HEIFES18 or HESF19 surveys. Further information about these surveys is available at www.officeforstudents.org.uk/data-and-analysis/data-collection/.

³⁷ 'Regional variation in costs and benefits for higher education providers in England', a report by Deloitte LLP to HEFCE, available at: <https://webarchive.nationalarchives.gov.uk/20180405115447/http://www.hefce.ac.uk/pubs/rereports/year/2017/regional/>.

³⁸ See <https://webarchive.nationalarchives.gov.uk/20170712123151/http://www.hefce.ac.uk/lt/howfund/institution/>.

³⁹ These include the allocations for very high-cost STEM subjects, intensive postgraduate taught provision, the nursing, midwifery and allied health supplement and the postgraduate taught supplement.

- c. Variable specialist institution weights per FTE weighted by price group and level to reflect the size of a provider's specialist institution targeted allocation relative to its overall assumed resource. This would be calculated as $1 \div (1 - x)$, where x is the provider's specialist institution targeted allocation as a proportion of its total teaching resource used in the 2018-19 formula capital funding method.

8. The overall weighted FTEs for a provider would therefore be calculated as:

FTEs weighted by price group and level x (London weighting + specialist institution weighting)

9. While these weights reflect most of the factors that determined the distribution of 2018-19 formula capital grants, they do not reflect all of them – in particular the student premium allocations and some smaller targeted allocations. We did not propose to include weighting factors for these, because they would make little difference to the distribution of funding between providers or because we do not generally expect capital costs to vary significantly according to the activities that the targeted allocations support (such as to widen access and support student success, or providers' participation in student exchange programmes like Erasmus+).
10. We accept that there are likely to be additional capital costs relating to support for students with disabilities and providers can of course use their capital grants from OfS towards equipment and adaptations that will improve accessibility to their facilities and courses. All providers have a responsibility to ensure their facilities and courses are accessible to those with disabilities and to make reasonable adaptations to achieve this, irrespective of how many students with disabilities they may have in a particular year. On this basis, we did not consider it necessary to include a weighting factor in the capital funding method to explicitly recognise the proportion of students they have in any one year who have a disability. The disabled students premium in the recurrent funding method does this, and disabled students' allowances are provided to address students' particular needs, including for equipment.
11. Our consultation in OfS 2019.02 invited comment on the proposed formula capital method and also on the £10,000 minimum threshold that has been a feature of the allocation method and whether this should be increased.
12. Responses were broadly supportive of the approach to capital funding as outlined in the consultation. In particular, of those commenting on the minimum threshold, there was a clear majority arguing that it should not be raised above £10,000 and that, although smaller allocations of capital funding may appear trivial, they can often have a relatively large impact at smaller providers who are often aiming to enhance the equipment and infrastructure on offer to their students. For example, this could be ensuring that the equipment or technology used is to industry standard and therefore better prepare them for the workplace.
13. Respondents were supportive of the weightings for the price groups, but were concerned that the proposed method did not include a weighting factor reflecting student disability when determining the capital allocations. They expressed the view that due to the additional cost of the teaching infrastructure to support these students and the higher estate

costs, a factor for disability should be recognised in all funding streams. We have undertaken modelling to investigate the effect of including such a weighting and this has informed the updated proposed method.

14. In light of the responses to the consultation, we propose to implement the revised funding method for capital grants informed by weighted FTEs, including that:
 - a. The weightings for price group and level should be as shown in Table B2.
 - b. The minimum threshold to receive an allocation should be £10,000 – providers whose share of the total funds would be less than this will not receive an allocation.

Table B2: Formula-based capital funding weights for price group and level

Price group	Undergraduate weights	Postgraduate weights
A	2.7	2.97
B	1.9	2.09
C1	1.1	1.21
C2	1	1.1
D	1	1

15. Reflecting the responses to consultation, we propose to include an explicit weighting for disabled students in the allocation, providing an additional weighting of 20 per cent for students in receipt of the disabled students' allowance (DSA) and of 10 per cent for other students self-declaring a disability. The approach is consistent with the recurrent disabled students' premium (see Annex A paragraph 29), but these proposed weightings will ensure a more significant redistributive effect for providers than was the case for 2018-19⁴⁰. This will mean the overall weighted FTEs for a provider, to which we will prorate allocations, are calculated as:

$$\text{FTEs weighted by price group and level} \times (\text{London weighting} + \text{specialist institution weighting}) + (\text{FTEs} \times \text{weighted disability proportion}^{41} \times 0.1)$$

16. As with recurrent grant, the formula-based capital grant that we announce this month will be allocated only to those providers already on the Approved (fee cap) part of the register, but we will set aside a small proportion of the £90 million total for distribution later in the year, so as to budget for providers that may become eligible later in the year.

Jisc

17. We propose to provide capital funding for Jisc of £10 million in FY2019-20 (to sit alongside up to £18 million recurrent funding, as set out in table B3 below) as agreed as part of the current spending review settlement. The capital funding is the same as provided for 2018-

⁴⁰ In distributing formula capital grants for FY2018-19 pro rata to recurrent teaching resource, the disabled students' premium amounted to less than 0.5 per cent of the resource total and commonly affected the size of allocations to individual providers by only about 0.1 or 0.2 per cent. We believe the weightings for disabled students proposed for FY2019-20 will increase the redistributive effect on providers' allocations about fourfold.

⁴¹ The 'weighted disability proportion' is calculated in the recurrent disabled students premium (as described in Annex A paragraph 29) to reflect the proportions of students at each provider in receipt of the DSA (weighted 2) and others who self-declare a disability (weighted 1).

19 and is used to support the Janet network and English regional network upgrades, cyber security and learning analytics. We expect UKRI/Research England will also provide £10 million of capital funding to Jisc.

National facilities and regulatory initiative funding

18. A small proportion of the OfS total funding will be used to support and promote specific policies or to contribute towards additional costs that are not recognised through recurrent funding methods. Table B3 provides a breakdown of this funding, which totals £40 million for AY2019-20, a reduction of £11 million compared to the budget for AY2018-19. This continues previous policies to reduce as much as possible funding that is not part of the recurrent or capital funding for providers. Below the table is a brief explanation of each line of funding.

Table B3: proposed budget for academic year 2019-20

	2018-19 £M	2019-20 £M
Provision of Student Information	3.5	3.0
Nursing, Midwifery and Allied Health Initiative	1.0	1.0
Evidence and Impact Exchange	1.5	1.5
Challenge competitions	20.0	15.0
JISC	18.0	18.0
Professional & Operational Services	4.0	1.5
Other programmes	3.0	0
Total non-institutional funding	51.0	40.0

Provision of student information

19. Funding for work relating to provision of information activity. This includes the annual cost of running the National Student Survey and the provision of an impartial website that helps students to compare official course data from universities and colleges (currently Unistats with a new site in development). The programme has been allocated a budget of £3.5m; of which £0.5m is provided by the Department for Education via ring-fenced funding.

Nursing, midwifery and allied health initiative

20. AY2019-20 is the third and final year of a 3-year programme of funding for a national initiative to support the sustainability of small, specialist pre-registration courses in nursing, midwifery and allied health professions⁴².

Evidence and Impact Exchange

21. In March 2018 the OfS committed £4.5m over 3 years for the establishment of an Evidence and Impact Exchange (EIX)⁴³. This work is well underway and AY2019-20 will require the full £1.5m allocated to the second year of funding. The Exchange, set up by a consortium from King's College London, Nottingham Trent University and the Behavioural Insights Team, will use evidence and evaluation to understand and show how higher education

⁴² See: www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/health-education-funding/strategic-interventions-in-health-education-disciplines/

⁴³ See: www.officeforstudents.org.uk/advice-and-guidance/promoting-equal-opportunities/evaluation-and-effective-practice/evidence-and-impact-exchange/

contributes to social justice and mobility, and will promote equality of opportunity by providing evidence on the impact of different approaches to widening access and improving outcomes and progression for disadvantaged students. At the end of this start up period, the EIX will move to a sustainable funding model, likely to be through provider subscription.

Challenge competitions

22. Challenge competitions support projects in specific areas where the higher education sector is not serving students as effectively as it could. They operate for the benefit of students and deliver key priorities for them, rather than to provide a competitive advantage for individual providers.

23. We published our first two Challenge Competitions⁴⁴ in autumn 2018, both of which have received an excellent response from providers. The first two competitions are:
 - a. Industrial strategy and skills - support for local students and graduates. We received a total of 78 bids requesting over £26 million, involving combinations of providers, employers, LEAs, local authorities and other key stakeholders. A panel of external experts met on 26 February to make recommendations for funding to the chief executive. The panel recommended funding a portfolio of 16 projects, with an approximate total spend of £5.8 million, subject to further discussion with a number of the providers. These recommendations were approved by the chief executive, subject to certain observations. Decisions are due to be finalised before the end of March, with funded projects commencing once announcements are made in early April. We want to ensure that as many local students and graduates are supported and particularly those in the most deprived areas.

 - b. Achieving a step change in mental health outcomes for all students. We are running this competition in two stages. We requested expressions of interest in the first instance as we wanted bidders to provide evidence of and commitment to existing strategic approaches to mental health support for their students. We received 63 expressions of interest involving over 200 providers and partners. Following an initial assessment, 51 bidders were invited to a workshop held on 11 December 2018, where the selected teams, mental health experts, student representatives and sector organisations discussed the development of the proposals.

The deadline for final bids was 1 March and 48 were submitted. These are being assessed internally, with a panel of external experts to meet in early May to make recommendations for funding to the chief executive. Final decisions and announcements are due to be made later that month, and the funded projects should commence their initial activities in the summer. Depending on the outcomes, the expert panel may also wish to recommend a second challenge competition if there are significant gaps in regions or key activities which could benefit more students.

⁴⁴ See: www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/ofs-challenge-competitions/.

24. As advised to the board in July 2018, we intend to publish new challenge competitions throughout each year, to respond to new policy priorities and endemic issues affecting students where additional funding and investment will make a significant difference.
25. In order for challenge competitions to run, we require a specific budget allocation at the start of the year, to ensure that sufficient resources are available when required. We propose a budget for AY2019-20 of £15 million, which reflects our experience of running the competitions for AY2018-19. We will keep the board updated of the progress of the ongoing and new competitions through the chief executive's reports at each meeting, as has been done through 2018-19.

Jisc

26. Funding to support strategic guidance, advice and opportunities in the use of information and communications technology in the English higher education sector, including support for the Joint Academic Network (Janet). The total of £18 million is the same as for AY2018-19. We expect a review of the balance of funding between OfS and UKRI/Research England to inform funding for Jisc in the next spending review period.

Professional and operational services

27. Funding for a programme of smaller scale facilitation activities that support OfS's core regulatory functions. National Facilities and Regulatory Initiatives proposals that are individually costed below £500k are funded from this allocation. For AY2019-20 this programme includes amounts for:
 - a. Student panel-commissioned work. The Student Panel is an important source of advice to the OfS board, ensuring that there is meaningful engagement and that students' views inform the organisation's strategy and activity. The panel is able to decide its own priorities and is resourced to commission research for its own use.
 - b. Funding to support OfS's contractual commitment relating to quality assessment activities.
 - c. Contracted work to support activities related to our regulatory development work
 - d. Funding to support the management and oversight of the Transparent Approach to Costing (TRAC) system. This is a UK wide system funded by all of the UK funding bodies and UKRI.
 - e. Market assessments and evaluation studies. Examples include evaluating the impact of outreach activity and analysing the impact of teaching related HEIF funding.

Annex C: The OfS's general duties

1. The OfS's general duties are framed in terms of the need for the OfS to 'have regard' to each of them as it performs its functions. This means that in reaching decisions about funding, the OfS must take all of these general duties into account, weighing one against the others as it sees appropriate. We have set out below some examples of the ways in which the funding proposals in this paper have regard to each of the OfS's general duties.

The need to protect the institutional autonomy of English higher education providers

2. The budgeting and approach to the distribution of grant does not in itself affect the autonomy of providers. Financial incentives (be they through OfS grants, tuition fees or other sources) will be one of the influences on providers' strategies, but how they respond to those incentives are matters for providers themselves.
3. Terms and conditions of grant place more direct requirements on providers, but they are not the subject of this paper. We have recently consulted on the terms and conditions to apply for AY2019-20, which have been developed to reflect that, from AY2019-20, the main requirements we place on Approved (fee cap) providers will be through their ongoing conditions of registration. We expect to publish the final terms and conditions of funding for AY2019-20, as agreed by the chief executive under the scheme of delegation, very shortly. It remains for providers to decide whether or not they wish to accept funding together with its associated terms and conditions.

The need to promote quality, and greater choice and opportunities for students, in the provision of higher education by English higher education providers

4. OfS teaching grants recognise costs for providers that go beyond income that we might expect to be met through tuition fees from students. They therefore help to maintain the sustainability of provision, which might otherwise be threatened, and hence promote choice and opportunities for students. They promote quality by enhancing the resources available to providers for the courses they offer.

The need to encourage competition between English higher education providers in connection with the provision of higher education where that competition is in the interests of students and employers, while also having regard to the benefits for students and employers resulting from collaboration between such providers

5. Recurrent and capital grants for providers are largely allocated by formula from a fixed budget. In effect all providers are competing for a share of that budget through their ability to recruit and retain students. Some formula-based allocations may, of course, support collaborations between providers, such as student mobility/exchange programmes and joint medical schools.
6. Specific allocations are made through competitive processes, but will often support collaborative activity that will have wider sector or regional benefits – examples being the National Collaborative Outreach Programme (NCOP) and our Challenge Competitions.

The need to promote value for money in the provision of higher education by English higher education providers

7. There is continuing pressure on the income available for teaching, with regulated tuition fee limits frozen again for AY2019-20 (other than for accelerated courses) and further pressure on OfS teaching grants from HEFCE and OfS, including as a result of the significant additional activity they have to support arising from the government's health education reforms and providers new to OfS funding. Providers also have to secure efficiencies as a result of other pressures on their income and expenditure, such as the effects of the UK's withdrawal from the EU and pension cost increases.
8. Teaching grants are targeted where they are most needed in terms of costs to providers and are output-based, in as much as the volume measure for formula funding counts students only if they complete their year of study.

The need to promote equality of opportunity in connection with access to and participation in higher education provided by English higher education providers

9. This paper proposes expenditure of £337 million (26 per cent of the total recurrent grant of £1,309 million for AY2019-20) to support access and participation measures. These include student premiums to address areas of risk and disadvantage (including for disabled students) and NCOP. Challenge Competitions may also promote equal opportunity in higher education, depending on their focus.

The need to use the OfS's resources in an efficient, effective and economic way; and

10. Teaching grants are targeted where they are most needed in terms of costs to providers and are output-based, in as much as the volume measure for formula funding counts students only if they complete their year of study. The adoption of formula funding methods is highly efficient in terms of the OfS's own administrative costs.

So far as relevant, the principles of best regulatory practice, including the principles that regulatory activities should be transparent, accountable, proportionate and consistent; and targeted only at cases in which action is needed.

11. Our grants to providers are almost entirely allocated by formula. This ensures we are fair, transparent and efficient in how we distribute grants to providers. Grants are subject to terms and conditions, with regulatory activity targeted at areas of non-compliance or pursued through sample-based audit.

Annex D: Responses to consultation on the OfS's approach to funding for 2019-20

1. We have issued two publications during the year setting out and inviting comment on our approach to funding for 2019-20:
 - a. 'Funding for academic year 2019-20: Approach and data collection' (OfS 2018.31)⁴⁵ in August 2018.
 - b. 'Funding for 2019-20: Consultation on terms and conditions and method' (OfS 2019.02)⁴⁶ in February 2019.
2. In addition, we held a consultation event with various sector-representative bodies on 13 March. This covered the issues set out in OfS 2019.02, but also discussed the approach to budgeting for AY2019-20, which has informed the recommendations in this paper.

Responses to the consultations

3. We did not receive any specific comments in relation to publication OfS 2018.31, we did however, receive a number of responses to our second publication OfS 2019.02. Although it covered terms and conditions of funding in its broadest sense, for the purpose of this document we have provided a summary of responses relating specifically to those that commented on our approach to budgeting and funding methods for 2019-20.

Capital funding

4. There was broad support for the proposed approach to capital funding from 2019-20, with the following comments:
 - a. Respondents raised the issue of the minimum allocation, with the majority of those expressing a view indicating that it would not be helpful to raise the threshold above £10,000 and that what may be perceived as quite a small amount of funding can make quite a significant difference to some providers; this is often their only source of capital funding.
 - b. A small number of respondents requested further clarity in relation to how capital funding could be utilised. A number had interpreted our current definition as precluding capital funding being spent on the development of 'new' infrastructure and restricting it to replacement and refurbishment of existing facilities. This was not our intention.
 - c. A small number of respondents were concerned that the OfS would no longer be including disability and other student premiums as a weighting factor. In part, this reflected a view that the change to the method should have a minimal redistributive effect between providers. While many of these argued about the additional capital costs of supporting disabled students, there was little evidence provided about additional capital costs associated with student access and success measures more

⁴⁵ See: www.officeforstudents.org.uk/publications/funding-for-academic-year-2019-20-approach-and-data-collection/.

⁴⁶ See: www.officeforstudents.org.uk/publications/funding-for-2019-20-consultation-on-terms-and-conditions-and-method/.

generally. However, there was also a concern that the omission of student premiums in our capital funding method might in itself result in a provider coming below the minimum threshold for an allocation.

- d. One respondent suggested there should be a greater weighting attached to the high cost element when determining the capital allocation.
- e. One respondent indicated that although they see the merit of adopting a specialist institution weighting, they were concerned that it was linked directly to those in receipt of specialist institution funding as determined by HEFCE's review in 2015-16, rather than making a broader judgment of those considered specialist based on their subject mix.
- f. A small number of respondents wanted greater clarity on how OfS capital expenditure can be utilised when it is part of a larger capital programme. There was concern that OfS capital funding could not be used to contribute to a project being funded by other sources. Again this interpretation was not our intention.

Recurrent funding

- 5. Respondents were broadly supportive of our approach to allocating recurrent funding for 2019-20, with the following specific comments raised:
 - a. A small number of respondents indicated that it would be helpful if providers were afforded more time to digest the full implications of any funding announcement. In particular an earlier release date for the recurrent grant would be helpful for planning purposes. Although there was a recognition that responsibility also lies with government in providing a timely budget announcement for the OfS, any additional notice would be appreciated.
 - b. A small number of providers welcomed our intention to not review allocations for providers whose grant has already been announced, as a result of new providers being registered later in the year. This was viewed as the fairest way of ensuring providers can plan with greater certainty.

Annex E: Ring-fenced and administrative budgets

Ring-fenced funding

1. In addition to the recurrent teaching and capital funding set out in the guidance letter we are expecting a small number of ring-fenced funding allocations from DfE. As this funding is ring fenced there are no budget decisions required by the OfS board. Below the table is a brief explanation of each line of funding.

Table E1: Ring-fenced allocations from DfE for FY2019-20

Financial Year 2019-20	Total £M
Provision of Student Information	0.5
Teaching Excellence Framework	2.4
Institute of Coding	12.2
Digital, Data and Technology	1.9
Total ring-fenced funding	17.0

Provision of student information

2. Funding for work relating to provision of information activity. This includes the annual cost of running the National Student Survey and the provision of an impartial website that helps students to compare official course data from universities and colleges (currently Unistats with a new site in development). The programme has been allocated a budget of £3.5m (see Annex B); of which £0.5m is provided by the Department for Education via ring-fenced funding.

Teaching Excellence and Student Outcomes Framework (TEF)

3. TEF is a national exercise, introduced by the government in England. It assesses excellence in teaching at universities and colleges, and how well they ensure excellent outcomes for their students in terms of graduate-level employment or further study. DfE have committed to fund the TEF, for which just over half the costs are for running the panels and remunerating participants with the rest being the cost of OfS staff for the delivery of the programme. The figures above currently only relate to the period ended 31 August 2019 with a further allocation to be agreed for the next cycle of work which begins in September 2019.

Digital, Data and Technology

4. The creation of the OfS and its new regulatory focus brought significant new IT and Data requirements. The Digital, Data and Technology Programme (DDaT) is a three year programme of work, mostly funded by DfE, which was put in place to develop and deliver a strong, flexible, digital, technology and data platform. This has been timed to complete by late 2019.

Institute of Coding

5. The Institute of Coding (IoC) project is a £20m work programme being delivered over three years by a national consortium led by University of Bath. It brings together businesses,

outreach organisations and educators to actively build a new digital workforce. The coming financial year (FY2019-20) is the final year of funding although the programme will be monitored by OfS until 2021 when all matched funding will also have been accounted for.

Administration funding for FY2019-20

6. Administration budgets relate to the Office for Student's day to day operations; principally staff salaries and the cost of maintaining our premises. The overall cost envelope for each financial year is agreed with the Department for Education (DfE).
7. In as much as the Board has responsibility for oversight of the corporate plan, it has responsibility for oversight of the resources that are allocated to its delivery. The board delegates to the chief executive the authority to agree, with directors, the alignment of administration budgets to the activities within the business plan.
8. With effect from Academic Year 2019-20 (that is, from 1 August 2019) the OfS's operational costs will be significantly met through the levying of registration fees to providers in our regulatory system.
9. DfE have set the fee charging level and, just as they agree a cost envelope, an income budget has been set. The fee levels have been set using assumptions about the number of providers who will be on the register in Academic Year 2019-20. Should these assumptions be incorrect and result in a material shortfall in income then DfE will be asked to fund that shortfall. If, however, the result is a material surplus the intention is that we would look to waive some of the fees providers pay in AY2019-20. Further details on the implementation of registration fees is below.
10. Operating costs are projected to increase in FY2019-20, with a major element of this relates to the additional responsibilities that the OfS will be taking on in the coming year, notably the regulation of providers including those that were previously monitored by DfE (and for which the budget was held by DfE but is transferring to the OfS in FY19-20). This accounts for a significant and necessary expansion of staffing numbers dealing with registration, and subsequent monitoring of registration conditions. In addition the OfS will be absorbing increases in cost relating to pension contributions. In essence FY18-19 is not a comparable baseline. DfE have incorporated a 4 per cent efficiency factor in setting the overall budget⁴⁷.

⁴⁷ <https://www.gov.uk/government/publications/office-for-students-registration-fees-impact-assessment>

Table E2: Administration budget for FY2019-20

	Financial Year 2018-19 Forecast £k	Financial Year 2019-20 Budget £k
Income		
Income from registration fees (part year effect)	-	16,620
Grant in Aid DfE – Fee exemptions (part year effect)	-	672
Grant in Aid DfE – Running costs (FY2018-19: full year, FY2019-20: 1 st April to 31 st July 2019)	25,484	9,673
Grant in Aid DfE– Prevent	500	500
Income from other activities	708	640
Total	26,692	28,105
Expenditure⁴⁸		
Salaries (including on-costs)	(18,697)	(19,850)
Estates and Facilities	(2,922)	(2,735)
ICT	(1,834)	(1,970)
Other operating expenditure	(3,153)	(3,470)
Depreciation	(86)	(80)
Total	26,692	28,105

Implementation of registration fees from 1 August 2019

11. Secondary legislation, to set the fee levels and procedures as required under Section 70 of HERA, was laid before Parliament by DfE on 12 March 2019⁴⁹.
12. As previously reported the principles of the Registration Fee as set out in the response to the consultation (published 28 February 2018) have been retained with providers being put in bands based on the full time equivalent student numbers (FTEs) registered at the provider, and fees set for each band accordingly. DfE has made provision for two types of exemptions for specific providers; these being for 'Micro Providers' at 100% of fees and 'New Providers' which starts at 75% of total fee in year one of registration and tapers to zero over 3 years. DfE will provide funding to us to cover these exemptions.
13. Communications with registered providers are planned for mid-April (after the 40 days post laying period) to ensure all providers are sighted on the need to pay registration fees and probable timelines for the payments. Full details of the operational procedures relating to registration fees, including the collection of the data OfS will require to invoice and collect the fees, will be set out in guidance for registered providers in May 2019.
14. It is recognised that there will, understandably, be significant interest in the efficiency and effectiveness of the OfS. We will be producing an annual value for money report for consideration by the risk and audit committee. This report will be made publically available, and alongside this we are considering what further information we make available. We will

⁴⁸ This is net expenditure after contributions relating to ring-fenced funding programmes such as TEF

⁴⁹ Statutory instrument 2019/543, available at www.legislation.gov.uk/ukSI/2019/543/made

also be closely scrutinising our costs to ensure that we are effective and efficient, looking to reduce costs wherever possible.