

# Funding overview and budgets for April 2018 to July 2019

1. This paper considers the financial implications of the Government's strategic guidance letter to OfS of 20 February 2018 and seeks:
  - confirmation of recurrent grant allocations to providers for the remaining four months of the 2017-18 academic year
  - agreement to recurrent grant budgets and allocation methods for the 2018-19 academic year
  - agreement to capital grant budgets and allocation methods for the 2018-19 financial year.
2. 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'.
3. The board is asked to:
  - agree that there should be no change as a consequence of the DfE grant settlement to the recurrent funding for teaching for AY2017-18 previously notified to providers by HEFCE.
  - agree the recurrent budgets for AY2018-19 and capital budgets for FY2018-19 and the approach to their distribution as set out in this paper and Annexes A and B.
4. Following this meeting, we will announce as soon as possible the funding decisions on budgets and methods that reflect the board's decisions. This will assist providers' planning and also avoid a conflict with the pre-election period leading up to the local elections on 3 May. Work will continue to finalise and run funding models and check outputs, so that we can seek agreement from the Chief Executive to the allocations for each provider in late April. We intend to announce both AY2018-19 recurrent and FY2018-19 capital grants in the week beginning with the 7 May bank holiday and are looking to coordinate this with the separate announcement by UKRI of the allocations made through its Research England council.

## Conflicts of interest

5. Some members of the board have direct links to providers that will be in receipt of funding from the OfS. The board members and the corresponding providers are listed below:
  - Martin Coleman – member of the council of University of Kent. His brother is a professor at the University of Leeds and two children are studying at institutions; one as an undergraduate at the University of Bristol and the other as a postgraduate at the London School of Economics and Political Science
  - Gurpreet Dehal – member of Royal Holloway university council
  - Simon Levine – research fellow and visiting professor in the Business School at Imperial College, London, and managing partner and global co-CEO of DLA Piper, among whose clients are several English universities. His son is an undergraduate at the University of Bath.
  - Chris Millward – his partner is director of research and innovation at the Royal College of Art, his father is professor emeritus at the University of Manchester
  - David Palfreyman – bursar and fellow of New College, Oxford
  - Monisha Shah – chair of Rose Bruford College of Theatre and Performance

- Steven West – vice-chancellor, president and CEO of the University of the West of England, UUK board member
6. The chair has considered these relationships and does not consider it necessary for these board members to recuse themselves from the discussions and decisions about budgets and approaches to funding set out in this paper.

## The OfS's general duties

7. Section 2 of the Higher Education and Research Act (HERA) sets out the OfS's general duties. In performing its functions the OfS must have regard to:
- the need to protect the institutional autonomy of English higher education providers
  - the need to promote quality, and greater choice and opportunities for students, in the provision of higher education by English higher education providers
  - 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
  - the need to promote value for money in the provision of higher education by English higher education providers
  - the need to promote equality of opportunity in connection with access to and participation in higher education provided by English higher education providers
  - the need to use the OfS's resources in an efficient, effective and economic way; and
  - 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.
8. 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.
9. The board might find it helpful to note that the requirement 'to have regard' to certain matters is not expressed in absolute terms. Instead it is required to have regard to the need to do so. 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.

## Funding settlement in 20 February 2018 strategic guidance letter

10. The strategic guidance letter of 20 February 2018 from the Minister of State for Universities, Science, Research and Innovation 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 FY2018-19, with a comparison against the equivalent sums for FY2017-18. It also provides guidance on priorities that should inform our funding decisions. The priorities and funding provided are consistent with our expectations.
11. We understand that the Department for Business, Energy and Industrial Strategy (BEIS) is writing separately to the Executive Chair of Research England setting out the recurrent and capital funding available to Research England for FY2018-19. That letter is not yet publicly available, but is relevant to OfS in so far as it covers areas of shared interest where OfS and

UKRI will wish to work collaboratively – such as on the approach to funding for knowledge exchange.

12. 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 sets out the process to convert the financial year amounts for 2018-19 and (that we have to assume will be available) for 2019-20 into academic year 2018-19 amounts available for distribution. It also proposes how this is split across the main areas of funding. 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.

### OfS funding methods in the period to July 2019

13. We have limited scope to change funding methods quickly or in any fundamental way. We are in a transitional period to July 2019 in which we are funding providers under the powers that applied to HEFCE arising from the Further and Higher Education Act 1992 and this limits our direct funding powers to the same teaching and related activities at the same categories of providers as applied under HEFCE.
14. The approaches previously adopted by HEFCE were developed over a number of years following consultation, and data has been collected from providers<sup>1</sup> that is consistent with how those methods operate. The OfS will clearly want to review its approach to funding in due course, not least to reflect how this can be used as a regulatory tool to enable the OfS to deliver its priorities, but any review will need to fit in with the wider Government review of post-18 education and funding<sup>2</sup>. In the meantime, for AY2018-19 we will need to operate recurrent teaching methods as HEFCE did, but subject to:
- Any amendments that follow the development of allocation methods on which HEFCE has previously consulted or arise from our Government strategic guidance letter. In this context, this paper includes particular proposals to change the funding approach towards:
    - postgraduate taught students
    - nursing, midwifery and allied health students
    - the premium to support successful student outcomes: full-time (FT)
  - Any amendments to parameters such as rates of grant or weightings that arise from the budget recommendations in this paper.
15. We will bring to the board later this year proposals for how our approach to funding might be reviewed and developed for implementation from AY2019-20 onwards. In particular, we are initiating a review of the funding streams relating to access and participation, for which we currently provide funding through two strands, focused on access and student success respectively:
- The National Collaborative Outreach Programme (NCOP), which conducts targeted collaborative outreach to students in local areas.
  - A student premium, which provides a higher level of funding to higher education providers according to their intake of students with characteristics that carry a higher

<sup>1</sup> Data has been collected by HEFCE in the 2017 Higher Education Students Early Statistics (HESES) survey from the higher education institutions it funds and in the equivalent Higher Education in Further Education: Students (HEIFES) survey from further education and sixth form colleges.

<sup>2</sup> See: <https://www.gov.uk/government/news/prime-minister-launches-major-review-of-post-18-education>.

risk of non-continuation, such as studying part-time, entering with non-traditional qualifications or reporting a disability.

The aim of the review, which will report to the board in November alongside proposals for the further development of access and participation plans and transparency data, is to ensure that:

- Our funding is aligned with the OfS strategy and appropriate to the more diverse set of providers we expect to become eligible for funding from AY2019-20.
- Our approach to regulatory pressure through access and participation plans and transparency data, and our support through funding, are mutually supportive.

16. The Government's review of post-18 education and funding is not expected to conclude until early 2019 and this may limit the extent to which we can settle some longer term funding issues before then. We expect that we will have to fund additional providers from AY2019-20 (those not currently funded but that will be eligible approved fee cap providers on the register) which will require us to carefully consider our funding priorities if no additional funding is provided by DfE. It is worth noting that lead times for introducing changes in the funding method can be quite long, if they depend on new data requirements on providers. For example, we would normally be starting to prepare data collection now to inform AY2019-20 allocations for any providers we expect to fund for that year.
17. The main funding decisions now, therefore, are about the balance of funding between different elements of grant. We have more scope to change this, to reflect priorities in the Government's strategic guidance letter as well as our own, but have to manage a number of constraints.

### Funding for FY 2018-19 and Government priorities

18. The strategic guidance letter sets out the total amount of grant available for FY2018-19 at £1,538 million, comprising £1,388 million recurrent and £150 million capital. The total for capital is the same and the total for recurrent is £2 million more than the indicative figures for FY2018-19 previously notified in the last grant letter to HEFCE of 25 February 2017<sup>3</sup>. The increase of £2 million relates 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.
19. The overall settlement continues to reflect the outcome of the Spending Review and Autumn Statement 2015<sup>4</sup>, which had announced a £120 million cash reduction to (HEFCE) teaching grant by 2019-20 compared with 2015-16. The FY2018-19 totals represent a reduction in cash terms of £69 million, compared to the equivalent totals for FY2017-18, a reduction of over 4.7 per cent in cash terms (6.2 per cent in real terms, using the latest GDP deflator. This reduced total has to support additional activity including a continuing general increase in student numbers and the continuing transfer of funding responsibility relating to courses in nursing, midwifery and allied health that were previously funded by DHSC.
20. The strategic guidance letter sets out the government funding priorities for the OfS in 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,

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<sup>3</sup> See:

<http://webarchive.nationalarchives.gov.uk/20170712122502/http://www.hefce.ac.uk/news/newsarchive/2017/Name,112915,en.html>.

<sup>4</sup> See: <https://www.gov.uk/government/news/department-for-business-innovation-and-skills-settlement-at-the-spending-review-2015>

taking this guidance into account. Funding priorities “remain broadly consistent with those set for HEFCE in relation to Teaching Grant in previous years” and include the following:

- 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.’
- 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.’
- 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.’
- 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.’
- 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.’
- 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.’
- Accelerated degrees ‘I would like the OfS to continue to subsidise the higher annual cost of accelerated degree courses through the teaching grant.’

21. In addition, the separate guidance on access and participation includes 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.’

22. Within the reduced 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. These priorities therefore necessitate greater cash reductions to other recurrent budgets. In making the necessary savings, we will need to be mindful of the guidance on the other funding priorities relating to access and participation, specialist institutions and accelerated degrees.

23. The total teaching grant shown in the strategic guidance letter includes the following where we expect funding responsibility to transfer to other bodies from April 2018, and for which we therefore expect the total to reduce. These are:

- Inherited staff liabilities. These relate to the cost of certain historic staff-related commitments of some higher education providers that were previously Local Authority maintained. We expect a sum of £24 million to revert back to the DfE so that it takes on responsibility for its administration.
- 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 have been supported through HEFCE's recurrent teaching grant, but their activities are more analogous to national research facilities. We expect a sum of £11 million to transfer to BEIS for allocation to these providers through Research England.

24. We therefore need to deduct these sums from the £1,388 million available to leave a working budget for FY2018-19 of £1,353 million. It should also be noted that the total also includes £47 million for knowledge exchange. Although knowledge exchange funding as a whole will be paid by UKRI (through Research England), the OfS will remain responsible for determining the allocation method and monitoring arrangements relating to this element. We therefore include this in the budget figures that follow, even though we expect the money to be transferred from DfE to BEIS for its onward payment to providers.
25. In addition to the £1,353 million, we expect to receive funding from the Department in relation to the Institute of Coding<sup>5</sup> and in relation to our running costs including specific funding relating to TEF, Prevent, OfS Digital Data & Technology (DDaT) programme and Institute of Technology assessment work. At the time of writing this paper these funding streams had not been confirmed.

## Setting academic year budgets for non-capital grants

26. 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. As usual, HEFCE announced recurrent grants to providers for the whole of AY2017-18, taking account of the indicative government grant totals notified to it for FY2018-19.
27. With confirmation of funding for FY2018-19, our first decision is to confirm funding previously announced for AY2017-18. The FY2018-19 total in the strategic guidance letter is virtually unchanged from the indicative figure provided to HEFCE previously, with just the addition of £2 million relating to increases in medical students starting in AY2018-19. There is therefore no budgetary reason to re-open previous HEFCE decisions on recurrent funding for AY2017-18 and we therefore propose to confirm to providers that we will not do so (both in relation to funding allocated as recurrent teaching grant and the teaching-related element of knowledge exchange). This does not preclude reviewing and revising grants for individual providers if, for example, we find that terms and conditions of grant have not been met or that formula allocations were informed by incorrect data from providers.
  - The first recommendation in this paper is therefore to agree that there should be no change as a consequence of the DfE grant settlement to the recurrent funding for teaching for AY2017-18 previously notified to providers by HEFCE.
28. The next decision is to set the recurrent grant budget for AY2018-19. The first call on the £1,353 million available budget (adjusted as described in paragraphs 23 and 24) is the amount needed to honour the funding commitments made by HEFCE that extend beyond March 2018. The sum required for this is £487 million, leaving £866 million available from the FY2018-19 total. We need to supplement this with a proportion of the funding available for the FY2019-20 (reflecting the four-month overlap from April to July 2019 between the AY2018-19 and FY2019-20). However, the strategic guidance letter has unusually not provided an indicative total for FY2019-20. We therefore need to make our own assumptions about this.
29. On the basis of the Spending Review and Autumn Statement 2015 and subsequent discussions about the additional costs arising from the increase in medical intakes, we are

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<sup>5</sup> See: <https://www.gov.uk/government/news/prime-minister-announces-20-million-institute-of-coding>



expecting a cash increase in FY2019-20 of £21 million compared to FY2018-19<sup>6</sup> and this therefore implies an available budget assumption for FY2019-20 of £1,374 million (after adjusting for the items identified in paragraph 23). Although this is an increase in cash terms, it is insufficient to meet the extra costs arising in that year from the health education reforms, and therefore the underlying position is a further cash reduction. We propose to assume that 38 per cent of this total (£522M) is committed to the AY2018-19, a proportion similar to that used by HEFCE when it set budgets for AYs 2016-17 and 2017-18. This gives a total AY2018-19 budget of £1,388M. This approach is consistent with the previous HEFCE commitment to smooth the impact of the cuts in funding through the spending review period.

30. 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 FY2018-19<sup>7</sup>, or if our assumption about the funding available for FY2019-20 proves incorrect.
31. The AY2018-19 budget is a reduction in cash terms of £22 million compared to the equivalent £1,410 million set by HEFCE for AY2017-18<sup>8</sup>. The underlying cut is greater, because within this reduced total we need to provide additional funding to support the Government's health education reforms (particularly the continuing phased transfer of funding responsibility for nursing, midwifery and allied health).
32. Within the AY2019-20 total, we need to provide £47 million for knowledge exchange through HEIF – this is the figure specified in our 20 February 2018 strategic guidance letter and is the same total as last year. Annexes A and B set out proposals for how the balance of £1,341 million should be distributed between:
  - Annex A: £1,290 million for recurrent teaching to providers (a reduction of £19 million compared to AY2017-18)
  - Annex B: £51 million for national facilities and initiatives (a reduction of £3 million compared to AY2017-18).

## Capital funding

33. Setting capital funding budgets is more straightforward, because we manage these on a financial year basis. The total available for FY2018-19 is specified in our strategic guidance letter at £150 million and Annex B sets out the proposed approach to the distribution of this total to meet existing commitments entered into by HEFCE, to provide formula-based allocations to providers and an allocation for Jisc.

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<sup>6</sup> As noted in paragraph 19, the Spending Review and Autumn Statement 2015 announced a reduction to teaching grant of £120 million by FY2019-20 and this was against a baseline for FY2015-16 of £1,519 million. The £120 million reduction therefore implied a Spending Review 2015 total of £1,399 million, to which we expect £10 million to be added for FY2019-20 arising from the increase in medical intakes. This £1,409 million total represents a £21 million increase compared to the FY2018-19 strategic guidance letter of £1,388 million.

<sup>7</sup> 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."

<sup>8</sup> HEFCE's budgets from teaching grant for AY2017-18 included £1,320 million for recurrent teaching, £47 million for knowledge exchange and £78 million for national facilities and initiatives. We have reduced the total of £1,445 million for comparison purposes by £35 million to reflect the expected transfers of funding responsibility described in paragraph 23.

## Analysis of the funding to be distributed for AY2018-19

34. Assuming the board agrees to the recommendations in this paper, Table 1 below sets out how the funding will be distributed in AY2018-19. Further details on the specific funding streams are provided in Annexes A and B.

**Table 1: Overall budget for academic years 2017-18 and 2018-19**

Academic year	2017-18 comparison £M	2018-19 £M
Institutional recurrent funding, made up of:		
Teaching (see <b>Annex A</b> )	1,309	1,290
<i>Of which funding for nursing, midwifery and allied health</i>	31	62
HEIF	47	47
<b>Total institutional recurrent funding</b>	<b>1,356</b>	<b>1,337</b>
National facilities and initiative funding (see <b>Annex B</b> )	54	51
<i>Of which funding for nursing, midwifery and allied health</i>	1	1
<b>Total recurrent funding</b>	<b>1,410</b>	<b>1,388</b>
<i>Of which total for nursing, midwifery and allied health</i>	32	63
Net Capital funding (see <b>Annex B</b> )	150	150
<b>Total funding being distributed:</b>	<b>1,560</b>	<b>1,538</b>

*Sums may not add up due to rounding differences.*

## Collaboration with UKRI to fund areas of shared interest

35. There are a number of areas where we need to work closely with UKRI to ensure funding continues appropriately for particular activities following the transfers of responsibility from HEFCE. There are two in particular where this is important:
- Knowledge exchange funding through HEIF As explained in paragraph 24, although knowledge exchange funding as a whole will be paid by UKRI (through Research England), the OfS will remain responsible for determining the allocation method and monitoring arrangements relating to £47 million that comes from DfE teaching grant.
  - Jisc HEFCE provided funding to Jisc from both teaching and research grants to support strategic guidance, advice and opportunities in the use of information and communications technology in the higher education sector, including support for the Joint Academic Network. HEFCE has recently undertaken a review to inform the balance of funding for Jisc between teaching and research.
36. With all of these areas, there remain some matters of detail to resolve with DfE, BEIS and UKRI over implementation – for example over allocation methods and budgets and the timing over when any funding transfer is implemented. We therefore ask the board to delegate authority to the Chief Executive to agree the approach to, and allocations of, funding for these programme areas of shared interest where we are working collaboratively with UKRI.



## Annex A: Academic year (AY) 2018-19 recurrent teaching grant

1. The main part of this paper has proposed a recurrent teaching grant budget for AY2018-19 of £1,290 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.
2. For the meeting on 29 January 2018, board members received a background briefing paper on how higher education finance and funding has operated for AY2017-18. This paper therefore concentrates on the changes to funding required for AY2018-19.

### 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 2017-18 high-cost subject funding budget (£652 million), and we do so using the GDP deflator<sup>9</sup>. This results in an initial budget for high-cost subjects of £662 million. The overall increase in FTEs across all levels (undergraduate and postgraduate) in AY2017-18, compared to the numbers that informed funding allocations for that year, means that maintaining the budget for high-cost subjects in real terms requires a small cut to the rate of grant per FTE in cash terms of approximately 0.64 per cent (a cut of some 2.1 per cent in real terms based on the GDP deflator). 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 AY2017-18.

**Table A1: High-cost subject funding: estimated grant rates per FTE for AYs 2017-18 and 2018-19**

Price group	AY 2017-18 grant rate	Estimated AY 2018-19 grant rate
A	£10,165	£10,100
B	£1,525	£1,515
C1	£254	£252.5
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:
  - The continued phased transfer to the higher education finance arrangements of funding for courses leading to registration to practice in nursing, midwifery and allied health (NMAH) professions.
  - Increased intakes to courses leading to first registration as a (medical) doctor.
5. For the reforms to NMAH, we need to recognise that in AY2018-19 there are two undergraduate entry cohorts that now come under the higher education finance

<sup>9</sup> The GDP deflator can be viewed as a measure of general inflation in the domestic economy. Forecast GDP deflators by financial years from 2017-18 have most recently been produced by the Office for Budget Responsibility for the Government's Spring Statement and are published at: <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>. We have calculated an equivalent deflator for AY2018-19 of 1.54 per cent using proportions of the deflators for FY2018-19 and FY2019-20.

arrangements, instead of the one in AY2017-18; and a first entry cohort under the new arrangements for postgraduate and dental hygiene and dental therapy (DHDT) courses. Overall we expect to count as fundable for AY2018-19 net additional student numbers of approximately 17,400 in price group C1 (for nursing courses) 7,800 in price group B (all professions other than nursing and DHDT) and 400 in price group A (DHDT, reflecting the board's decision on 29 January that these courses should be assigned to price group A from AY2018-19). In addition, there are a further 630 students to count in price group B as a result of increases in medical intake targets for AY2018-19. 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 £19 million overall, bringing the total budget for high-cost subjects to £681 million.

## Targeted allocations

6. 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 A1 an overall package of proposals that we believe appropriately manages within them. The table provides a summary of the proposed disaggregation between different elements of recurrent teaching grant and compares it against equivalent figures for AY2017-18. Paragraphs 9 to 38 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 AY2018-19.
7. 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:
  - Nursing, midwifery and allied health supplement We need to increase the budget to reflect the continuing phased transfer of funding responsibility for NMAH, but also extend the supplement to postgraduate students (which are subject to the transfer for the first time from AY2018-19). We propose to provide the supplement for postgraduates at a rate £700 higher than applies to undergraduates to recognise the higher average costs of postgraduate courses. See paragraphs 10 to 12.
  - Postgraduate taught supplement We propose to reduce the budget by starting to phase out the supplement for students on courses eligible for masters loans, while restoring the rate of grant to 2016-17 levels for those on courses not eligible for masters loans. This is consistent with the direction of travel set by HEFCE in its consultation during 2016-17 on the matter and reflects the strong recruitment that has followed the introduction of masters loans in 2016-17; the need to make overall savings from teaching grant; and the Government funding priorities in the strategic guidance letter. See paragraphs 14 to 19.
  - Premium to support successful student outcomes: full-time This element of grant is essentially 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, but this is 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. The proposals in this paper result in this premium reducing by £30 million (15 per cent in cash terms). See paragraphs 24 to 27.
8. 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 – on an academic year basis this amounts to approximately £63 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 introduced in 2017-18 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 funding which relates to activity for which funding responsibility has transferred from the DoH for NMAH professions. In total, this sums to £62 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 activities.

**Table A2: Disaggregation of recurrent grant for AY2018-19 (£millions)**

Figures may not sum due to rounding within the table.

Elements of recurrent teaching grant	2017-18	2018-19 budget	Of which, related to NMAH transfer
<b>High-cost subject funding</b>	<b>652</b>	<b>681</b>	<b>34</b>
<b>Targeted allocations</b>			
Very high-cost STEM subjects	24	25	
Nursing, midwifery and allied health supplement	6	14	14
Erasmus+ and overseas study programmes	29	30	
Postgraduate taught supplement	47	33	
Intensive postgraduate provision	35	35	
Accelerated full-time undergraduate provision	2	2	
Premium to support successful student outcomes: FT	195	165	10
Premium to support successful student outcomes: PT	72	72	0.4
Disabled students' premium	40	40	2
National collaborative outreach programme (NCOP)	60	60	
Students attending courses in London	65	67	3
Specialist institutions	46	44	
Clinical consultants' pay	17	17	
Senior academic general practitioners' pay	1	1	
NHS pensions scheme compensation	5	5	
Supplement for old-regime students	14	0	
<b>Subtotal: targeted allocations</b>	<b>657</b>	<b>609</b>	<b>29</b>
<b>Total recurrent grant</b>	<b>1,309</b>	<b>1,290</b>	<b>62</b>

### Very high-cost STEM subjects

- 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 is conditional on providers maintaining their provision in the subjects concerned. It was originally introduced to support institutions to maintain provision in subjects that were vulnerable because of low student demand and as such is not recalculated afresh each year to reflect the latest student numbers. 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 AY2018-19 by 1.54 per cent.

### Nursing, midwifery and allied health supplement

10. As explained in paragraph 8, 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 2016-17 and the allocation is conditional on institutions maintaining provision of those courses. For 2018-19 we need to increase the budget to take account of two changes:
- To reflect the increased student volumes eligible for the allocation (as described in paragraph 5).
  - To provide new, higher rates of grant for postgraduate pre-registration courses, for which the transfer to the higher education finance arrangements commences for new entrants from AY2018-19. This is within the funding transferred as part of the NMAH reforms.
11. The 2016-17 costing study identified that pre-registration courses cost on average some 6.8 per cent more at postgraduate than undergraduate level<sup>10</sup>. There was variation in these relative costs between different professions, but the comparisons are more uncertain at this finer grained level, because they are based on small sample sizes. Shorter, more intensive courses may be a contributory factor in the higher cost of postgraduate courses, but it is also to be noted that these courses do not meet the current eligibility criteria for the separate targeted allocation for intensive postgraduate provision (see paragraphs 20 and 21). This is because these NMAH courses involve significant work/practice-based elements, which do not count towards meeting the criteria for the separate intensive postgraduate allocation.
12. We therefore propose that for AY2018-19 we continue to provide the nursing, midwifery and allied health supplement using the same rates of grant for undergraduate courses as applied in AY2017-18, but to provide an additional £700 per FTE for postgraduate courses to reflect their higher costs (including for those professions that do not attract the supplement at undergraduate level). The supplement should not be provided for DHDT courses (all of which are undergraduate), because the board's decision in January that these courses should be assigned to price group A sufficiently recognises their costs. With the increased student volumes to which they should apply, the budget for the supplement needs to increase from £6 million to £14 million for AY2018-19.

### Erasmus+ and overseas study programmes

13. Finance arrangements for students undertaking a year abroad under the Erasmus+<sup>11</sup> or other exchange programme were developed following a 2012 report from Professor Colin Riordan which made recommendations to support UK outward student mobility<sup>12</sup>. 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

<sup>10</sup> The costing study is available from:

<http://webarchive.nationalarchives.gov.uk/20170712123044/http://www.hefce.ac.uk/lt/healthcare/nursing/>. The comparison of undergraduate and postgraduate costs is at section 6.2.3 of the report, beginning on page 31.

<sup>11</sup> 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/>

<sup>12</sup> 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/](http://webarchive.nationalarchives.gov.uk/20170110104959/http://www.hefce.ac.uk/pubs/year/2013/CL_142013/).

for such a year) and £2,315 through our targeted allocation. 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 and as such we do not propose any changes to the finance arrangements for Erasmus+ and other study years abroad. Given the student numbers reported by institutions, the total funding requirement has increased from £29 million in 2017-18 to £30 million in 2018-19.

### Postgraduate taught supplement

14. 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 will apply from AY2018-19 to those starting postgraduate pre-registration NMAH courses).
15. 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 course<sup>13</sup> 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 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.
16. With the introduction of masters loans, there has been a significant increase in postgraduate student numbers. Home & EU postgraduate taught students increased by 18 per cent in AY2016-17 and a further 6 per cent in AY2017-18 for full-time; and by 4 per cent in AY2016-17 and a further 4 per cent in AY2017-18 for part-time. This is a much healthier position than the most recent trends at undergraduate level.
17. For AY2017-18, HEFCE maintained the budget for this allocation in real terms, but the consequence of the increase in student numbers was that the rate of funding per FTE fell to £955. HEFCE also consulted during 2016-17 on proposals to remove the supplement for courses designated for the masters loan, to extend the supplement to all price groups ineligible for the loan and to retarget the remaining funding to support the progression of underrepresented groups at this level<sup>14</sup>.
18. As noted in paragraph 20 of the covering paper, our Government strategic guidance letter asks that in relation to the postgraduate supplement, funding should continue to support high-

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<sup>13</sup> This is the rate for those that started their masters courses in AY2016-17. The rate has been increased to £10,280 for those starting in AY2017-18 and £10,609 for those starting in AY2018-19.

<sup>14</sup> 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.

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 reduction to our funding, the priorities that we are looking to address through other allocations, and the healthier recruitment position of postgraduate taught activity, we propose to reduce the budget for the postgraduate taught supplement and prioritise it more towards those postgraduates that do not have access to masters loans or undergraduate SLC student support. This will help to reduce the impact of cuts on other grants, particularly the undergraduate student premiums. Specifically, we propose to:

- Restore to £1,100 the rate of grant for those postgraduates that are not on courses eligible for masters loans or undergraduate student support (following the cut to £955 implemented by HEFCE for 2017-18). However, we do not intend to extend eligibility to students in price group D.
- Reduce to £550 the rate of grant 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 2019-20.

19. These measures reduce the budget required for the postgraduate supplement by £14 million for AY2018-19. Further savings will be possible for AY2019-20, but there may also be a case for retargeting funding saved in that year towards measures to encourage progression of under-represented groups into postgraduate study.

#### 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 2017-18 this has been provided at a rate of £1,177 for students in price group B and £900 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. For AY2017-18, HEFCE had maintained the budget for this allocation in cash terms, but the increases in postgraduate student numbers meant the rates of grant fell by approximately 18 per cent compared with AY2016-17.

21. For AY 2018-19, we propose that the budget should again be maintained in cash terms. The further increase in postgraduate student numbers mean that the rates of grant will fall by approximately a further 6 per cent compared to AY2017-18. This reflects the constraints within which we have to manage and the greater priorities in other areas.

#### 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 2017-18 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. For AY2017-18, HEFCE had maintained rates of grant for this allocation in cash terms, which also served to broadly maintain the budget.

23. As noted in paragraph 20 of the covering paper, our Government strategic guidance letter asks us to continue to subsidise the higher annual cost of accelerated degree courses through the teaching grant. We therefore propose to maintain the rates of grant for this allocation in cash terms for a further year. Because of reductions in the numbers of students



reported on such courses, the budget requirement falls slightly from £1.7 million to £1.5 million.

### 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 2019-20<sup>15</sup> 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). HEFCE had taken steps to refocus this funding, including through establishing the NCOP, and had largely been able to protect these allocations collectively from cuts up to AY2017-18. Nevertheless these are allocations where the pressure to make savings up to AY2019-20 may be most keenly felt. With half of the recurrent teaching grant (relating to high-cost subjects) protected, these allocations amount to over a quarter of the total and cover a number of high-priority areas – some identified as such in our guidance letter, and others natural priorities because of our focus on the student interest. Despite the outcome of the 2015 spending review, our strategic guidance letter asks us to protect funding for widening participation as far as possible.
25. 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. The budget for AY2017-18 was £195 million, a reduction of £20 million on the previous year. 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). For 2017-18, following consultation<sup>16</sup>, HEFCE introduced a new supplement within this targeted allocation, amounting to 10 per cent of the total, which incorporated weightings based on the recruitment of students who are both 'at risk' and from the most disadvantaged backgrounds. The introduction of the supplement served to focus funding more towards those providers that do most to widen access and participation, albeit within a reduced total.
26. For AY2018-19 the issues for this allocation are about the extent to which we can:
- Continue to protect this budget overall
  - Further prioritise the funding towards those providers that do most to support the success of students from disadvantaged backgrounds, by increasing (from the current 10 per cent) the proportion of the total that is allocated through the supplement.
27. We have sought to make savings from other budgets (such as the postgraduate supplement) where we can for AY2018-19 so as to minimise reductions to the full-time student premium. This has enabled us to propose a budget for that premium of £165 million (a reduction of 15 per cent compared to AY2017-18) and we believe this is consistent with our guidance from Government to protect this funding as far as possible. In distributing it, we propose that the sum allocated through the supplement should be maintained at its current level in cash terms at £19.5 million, representing an increase to 11.8 per cent of the lower total for AY2018-19, so

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<sup>15</sup> 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> .

<sup>16</sup> The HEFCE consultation is available at:

<http://webarchive.nationalarchives.gov.uk/20170712123113/http://www.hefce.ac.uk/pubs/Year/2016/201610/> and its outcome at:  
<http://webarchive.nationalarchives.gov.uk/20170712124025/http://www.hefce.ac.uk/pubs/year/2016/201639/>.

as to continue to focus the funding more on those providers that do most to support successful outcomes for disadvantaged students.

### 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 all part-time provision to be at risk. This allocation, which totalled £72 million for AY2017-18, is made pro rata to London-weighted<sup>17</sup> part-time undergraduate student FTEs. We propose to maintain its budget in cash terms for AY2018-19.

### Disabled students' premium

29. This allocation reflects institutions' success in recruiting and retaining disabled students and, for AY2016-17 and AY2017-18, HEFCE doubled to £40 million the funding it provided for it. Up to 2016-17, it had been distributed to reflect the proportion of students at each institution in receipt of the disabled students' allowance (DSA). However (following the consultation mentioned in paragraph 25), HEFCE developed the funding method for AY2017-18 so that it took account both of students in receipt of the DSA (weighted 2) and those who self-declare a disability (weighted 1). These changes were designed to support institutions to meet the rapid rise in mental health issues and to move towards an inclusive social model of support for disabled students<sup>18</sup>. They also recognised 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 made student eligibility criteria more restrictive<sup>19</sup>. In changing the allocation method for AY2017-18, HEFCE introduced a cap to limit year-on-year changes in grant to ±£100,000, so as to provide stability for providers as they transition to more inclusive, social models of support.
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 AY2018-19. We also propose to continue the same funding method as applied for 2017-18, including limiting year-on-year changes in grant to ±£100,000.

### 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. Twenty-nine consortia of universities, colleges and other local partners 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 attainment<sup>20</sup>.
32. The programme is expected to run during the four calendar years 2017 to 2020, with funding of £60 million per annum. However, the original commitment was for funding to be provided for two years in the first instance, from January 2017 to December 2018, with funding for the

<sup>17</sup> The weightings for this purpose are 12 per cent for providers in inner London and 8 per cent for those in outer London.

<sup>18</sup> 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>)

<sup>19</sup> See: <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-12-02/HCWS347/>.

<sup>20</sup> Further information about the programme, and the consortia involved, is available at: <http://webarchive.nationalarchives.gov.uk/20170831150806/http://www.hefce.ac.uk/sas/ncop/>.

following two years subject to consortia making satisfactory progress towards meeting the Government's goals. Accordingly, funding of £30 million was provided to the programme for the academic year ending July 2017, with funding of £60 million provided for academic year 2017-18 and a HEFCE board commitment, in principle, to provide a further £30 million to the Programme up to the end of phase one (originally December 2018).

33. Evidence from the evaluation as well as feedback from consortia has highlighted the benefits of running the programme over complete academic years, particularly in terms of securing school engagement and delivering activity across the school and college year. This would also bring the programme's funding in line with the OfS's funding cycle. We therefore propose to extend phase one of the NCOP from December 2018 to July 2019 and provide total funding of £60 million to the NCOP for AY2018-19. This is consistent with the Government's guidance on access and participation, which has emphasised the importance of the contribution made by NCOP consortia and stated that it wishes to see the pace and depth of this partnership approach continue.
34. Extending phase one will also allow sufficient time for a meaningful review of the programme to be undertaken using more robust evidence than would be available earlier in the programme's operation. The review will take into account the prevailing policy priorities and spending review position; the OfS strategy, particularly with regard to access and participation, to information, advice and guidance, and to engagement in local areas; the latest evidence from the national evaluation of the programme; information from the monitoring and expenditure returns consortia submit to us; and stakeholder views. A proposed approach to the second phase would be developed based on the findings of the review which would be brought to the board for its consideration later this year. If approved by the board, the second phase of the NCOP would run from August 2019 onwards on an academic year basis with the length of the second phase determined as part of the review.

### Students attending courses in London

35. This allocation, which totalled £65 million for AY2017-18, recognises the extra cost for institutions 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 2017<sup>21</sup>, 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 2018-19, we propose that the rates of grant we provide for this London targeted allocation should be subject to the same percentage reduction as applies to high-cost subject funding. Nevertheless, this requires an increase to the budget to £67 million because of increased student numbers. About half of this increase is due to the continuing phased transfer of funding responsibility from DHSC for nursing, midwifery and allied health courses.

### Specialist institutions

36. This allocation supports certain specialist institutions with world-leading teaching identified through an international peer review panel exercise in 2015-16<sup>22</sup>. A formulaic methodology has applied from 2016-17 to reflect the outcomes of the review, including transitional arrangements for a small number of institutions that had significant changes compared to previous years. The overall budget requirement in AY2018-19 for formula and transitional funding following this review is £44 million.

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<sup>21</sup> See [www.hefce.ac.uk/pubs/rereports/year/2017/regional/](http://www.hefce.ac.uk/pubs/rereports/year/2017/regional/)

<sup>22</sup> See <http://webarchive.nationalarchives.gov.uk/20170712123151/http://www.hefce.ac.uk/lt/howfund/institution/>.

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

37. 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 AY2018-19.

### Supplement for old-regime students

38. This allocation has been provided up to AY2017-18 and is no longer required.

## Annex B: Capital and national facilities/regulatory initiative funding for 2018-19

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 £150 million for capital funding for FY2018-19, which is made available to support higher education teaching infrastructure. HEFCE has already made commitments totalling £36m which leaves a remaining total of £114m. From this we are recommending providing £10m for Jisc and the remaining £104 million for distribution in the financial year as below.

#### Teaching Capital Investment Fund (TCIF)

3. We propose to distribute £104 million of TCIF formulaically in 2018-19, using largely the same methodology as that used by HEFCE in 2017-18 but updating allocations to reflect the most recent underlying data, as set out below. It has not been feasible to develop a new approach to distribution in the time available since the capital funding was confirmed to OfS.
4. In 2017-18 HEFCE distributed £11 million of its TCIF allocation as a science and engineering capital supplement. We propose to keep the funds available for this science and engineering element the same, at £11 million, with the remaining £93 million distributed through the main method which we propose is the same as used in 2017-18. Protecting the STEM element in this way is consistent with Government priorities to continue to protect high-cost subject funding.
5. We propose to use a threshold of £10,000 within TCIF, meaning that institutions will not receive funding if the formula allocates less than this. This is in line with the threshold used by HEFCE in recent years.

#### Other Capital

##### Meeting existing commitments

6. Existing commitments of £35.8 million relate mainly to awards from HEFCE's Catalyst Fund, which are paid out according to a profile agreed with each institution.

##### Jisc

7. We propose to provide capital funding for Jisc at a maximum level of £10 million in 2018-19 (to sit alongside up to £18 million recurrent funding, as set out in table B1 below). The capital funding is the same as provided for 2017-18 and is used to support the Janet network mid-term and English regional network upgrades, cyber security and learning analytics. UKRI/Research England will also be expected to provide £10 million of capital funding to Jisc.

### National facilities and regulatory initiative funding

8. 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 B1 provides a breakdown of this funding and below it is a brief explanation of each line of funding.

9. HEFCE had a strategy to reduce as much ‘non-institutional’ funding as possible. We recommend to continue to implement this approach until we undertake a full review of our approach to funding.
10. We can categorise the funding streams under the following headings:
- Projects/programmes that are already agreed and underway/committed.
  - Projects/programmes that are signalled as government priorities in the OfS guidance letter.
  - Maximum budgets where precise OfS funding contributions are to be agreed.

**Table B1: proposed budget for academic year 2018-19**

<b>Academic Year 2018-19</b>	<b>£M</b>
<b>Projects/Programmes already committed</b>	
Quality assessment	2.8
Provision of student information	3.5
Costing and pricing	0.5
<b>Priorities</b>	
Nursing, midwifery and allied health initiative	1.0
Evidence and Impact Exchange	1.5
<b>Maxima pending agreement/negotiation</b>	
Innovation challenge fund	20.0
Jisc	18.0
Professional & operational services	4.0
<b>Total non-institutional funding</b>	<b>51</b>

#### Projects/Programmes already committed

##### Quality assessment

11. Funding to support OfS’s quality assessment activities, including the discharging of OfS’s statutory responsibility to assess the quality of education in OfS funded providers. This work will include direction of the QAA in its role as the designated quality body for England, and the continued management of quality and standards projects led by Advance HE (encompassing projects previously led by the Higher Education Academy and the Leadership Foundation for Higher Education).

##### Provision of student information

12. Funding for work relating to provision of information activity, which includes the annual cost of running the National Student Survey and the Unistats website.

##### Costing and pricing

13. Funding provided to support the Transparent Approach to Costing (TRAC) system, which is under contract until 2019. This system is a UK wide system which is funded by the UK funding bodies and (currently) the Research Councils.



## Priorities

### Nursing, midwifery and allied health initiative

14. Funding for a national initiative to support the sustainability of pre-registration courses in nursing, midwifery and allied health professions.

### Evidence and Impact Exchange

15. We have committed to the establishment of an Evidence and Impact Exchange (EIX) which will provide evidence on the impact of interventions, activity and approaches to access, student success and progression across the student lifecycle. The EIX will be developed in line with the existing What Works network<sup>23</sup> and will improve the way researchers, policy makers and practitioners create, share and use high quality evidence for decision making in relation to access and participation in HE. On the basis of a costing study undertaken by CFE Research on behalf of the OfS, it will require £1.5 million per annum for three years (2018-19 to 2020-21) to set up and establish the EIX. At the end of this start up period, the EIX will move to a sustainable funding model, likely to be through provider subscription.

### Maxima pending agreement/negotiation

#### Innovation challenge fund

16. The budget figures include revenue budget for the Office for Students (OfS) to operate a new discretionary fund – working name the Innovation Challenge Fund – for short-term, project based activity to enable it to deliver its own objectives and the government's priorities, particularly key topics identified through the strategic guidance letter and ongoing discussions with Ministers which may benefit from additional investment. Priorities for investment could include support for the Industrial Strategy and skills, student well-being, diverse forms of provision to enhance student choice, supporting access and successful student outcomes, and promoting student engagement.
17. The board will be aware that the Minister's first strategic guidance letter to the OfS advised that 'I would like the OfS, in carrying out its functions and in consultation with UKRI, to have regard to how the higher education sector supports the Government's broader economic policy as defined by the Industrial Strategy, in particular relating to the skills and employability of graduates from all backgrounds. Targeted use of the Catalyst Fund or any future equivalent fund, could be considered for this purpose, in the context of a broader review of its priorities'.
18. A new discretionary fund will need to operate for the benefit of students and deliver key priorities for them, rather than to provide a competitive advantage for individual institutions. Subject to board agreement, we propose to work with the Chief Executive to set out how such a fund could operate and return to the board with operational detail and to agree priorities for funding at its next meeting.

#### Jisc

19. 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 final funding contribution is subject to agreement with DfE, BEIS and UKRI, though it will not exceed £18 million.

#### Professional and operational services

20. Funding that contributes to the delivery of services in support of the OfS's core regulatory functions (such as market assessments and evaluation studies). This budget line also includes a number of smaller funding commitments already made by HEFCE.

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<sup>23</sup> See: <https://www.gov.uk/guidance/what-works-network>.

## 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 institutions themselves.
3. Terms and conditions of grant place more direct requirements on providers, but they are not the subject of this paper: the board is considering a separate paper at this meeting on those terms and conditions for the period to July 2019. It remains for institutions 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. Teaching grants 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. Specific allocations support collaborative activity, for example through the National Collaborative Outreach Programme (NCOP), exchange programmes such as Erasmus+ and joint medical schools.

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

6. There is continuing pressure on the income available for teaching, with regulated tuition fee limits frozen for AY2018-19 and further reductions in teaching grants from HEFCE and OfS, notwithstanding increases in student numbers (including as a result of the transfer of funding

responsibility for nursing, midwifery and allied health subjects). 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

7. This paper proposes expenditure of £337 million (26 per cent of the total recurrent grant of £1,290 million for AY2018-19) to support access and participation measures. These include student premiums to address areas of risk and disadvantage (including for disabled students) and NCOP.

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

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 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.

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