

To Heads of OfS-funded providers

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OfS 2018.22 (renumbered from OfS 2018.18)

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Dear Vice-Chancellor or Principal

Teaching funding in the period from April 2018 to July 2019

1. OfS colleagues have already been in touch with you about arrangements for registering with the OfS. I am writing now to tell you about the high-level funding decisions taken by the OfS board at its meeting on 26 March 2018. In this letter and in Annex A, references to financial years (April to March) are preceded by 'FY' and references to academic years (August to July) are preceded by 'AY'.

Context

2. The government's priorities for higher education were set out in the February 2018 strategic guidance letter¹ from the Minister of State for Universities to the chair of the Office for Students, which also confirmed the funding available for FY2018-19. That letter outlines the OfS's role in ensuring quality and choice for students, promoting access and participation, delivering value for money for students and taxpayers, and supporting the sector to help boost skills and productivity in line with the government's industrial strategy. The guidance also emphasises the need for a smooth transition to the new arrangements set out in the Higher Education and Research Act 2017.

¹ See 'Strategic Guidance to the Office for Students: Priorities for financial year 2018-19', available at www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

3. The period from April 2018 to July 2019 will be a transitional one as the OfS prepares for the full implementation of the regulatory framework in August 2019². During this time the OfS will fund providers under powers that applied to the Higher Education Funding Council for England (HEFCE) arising from the Further and Higher Education Act 1992, and will operate transitional regulatory arrangements, which are set out in Regulatory Notice 2 (OfS 2018.12) and in the terms and conditions of OfS funding, separately for higher education institutions and for further education and sixth form colleges³.

Summary of the OfS board decisions

4. In the light of the strategic guidance letter, the OfS board has:
 - a. Confirmed that there should be no change, as a result of confirmation of FY2018-19 funding, to recurrent teaching grant allocations for AY2017-18 previously announced by HEFCE. Allocations may still be revised for other reasons, for example if we find that terms and conditions of grant have not been met or that formula allocations were informed by incorrect data from providers.
 - b. Agreed budgets for and approaches to recurrent grants for teaching and for national facilities and regulatory initiatives for AY2018-19. There is an overall reduction in cash terms of £22 million compared with AY2017-18, of which £19 million applies to recurrent grant. This, and the priorities that we are seeking to address, have necessitated budget reductions in some areas of activity.
 - c. Agreed budgets for and approaches to capital grants for FY2018-19.
5. During the transitional period, we will continue to apply the recurrent teaching grant methods that were developed by HEFCE. Meantime, we will review our overall approach to funding for the longer term, taking into account as necessary the outcome of the government's own review of post-18 education and funding⁴. Funding for research and knowledge exchange provided by HEFCE before April 2018 is now administered through the Research England Council of UK Research and Innovation.
6. The Minister's guidance letter asks the OfS to support activity across a range of priority areas and the board's funding decisions reflect these. Within the overall reduction of £22 million for AY2018-19 there is:
 - a. A £29 million (4 per cent) overall increase in cash terms for high-cost subjects.
 - b. Additional funding to support the government's health education reforms, relating to the phased transfer to the higher education finance arrangements of pre-registration courses in nursing, midwifery and allied health professions and increased undergraduate medical school places. As well as additional funding included in the high-cost subjects allocation, the nursing, midwifery and allied health supplement also increases by £8 million.

² See www.officeforstudents.org.uk/advice-and-guidance/regulation/the-regulatory-framework-for-higher-education-in-england/.

³ Regulatory Notice 2 and the terms and conditions of OfS funding are available from www.officeforstudents.org.uk/advice-and-guidance/regulation/the-regulatory-framework-for-higher-education-in-england/regulatory-notice-2/.

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

- c. A reduction of £14 million to the postgraduate taught supplement, which is being targeted more towards students on courses that are not eligible for postgraduate masters loans.
 - d. A reduction of £30 million to the premium to support successful student outcomes for full-time undergraduates. This is consistent with government priorities in the spending review and autumn statement 2015⁵. The premiums for part-time undergraduates and for disabled students are maintained in cash terms.
 - e. The continuation of funding for the National Collaborative Outreach Programme to July 2019. We will be reviewing this, and other access and participation funding streams, over the coming months to identify how best to align them with government and OfS priorities, with changes to be made from 2020-21.
 - f. A new £20 million Innovation Challenge Fund to support short-term, project-based activity to deliver regulatory and other strategic priorities.
 - g. The establishment of an Evidence and Impact Exchange to help ensure that interventions, activity and approaches to access, student success and progression are evidence-based and effective.
7. More detail on the allocations is in Annex A.
8. Any changes to the funding the government has made available to the OfS for FY2018-19, or that we have assumed will be available for FY2019-20, are likely to affect the funding we are able to distribute to providers in AY2018-19. This may include revising allocations after they have already been announced. We would advise you to take account of this possibility in your own budget planning.

Next steps

9. We will notify you **in confidence** of your individual allocation of recurrent grant for AY2018-19 and formula capital grant for FY2018-19 on **Wednesday 9 May 2018**. We will then make public all allocations and associated details on **Friday 11 May 2018**. This timetable reflects publishing and other constraints on government bodies during the pre-election period leading up to local elections on Thursday 3 May 2018.
10. If you have any questions about this letter or annex, please email recurrentgrant@officeforstudents.org.uk.

Yours sincerely

⁵ See 'Efficiency and reform' at <http://webarchive.nationalarchives.gov.uk/20160817152026/https://www.gov.uk/government/news/department-for-business-innovation-and-skills-settlement-at-the-spending-review-2015>.

Nicola Dandridge
Chief Executive

Annex A: Funding in period from April 2018 to July 2019

1. The February 2018 strategic guidance letter from the Minister of State for Universities, Science, Research and Innovation stated that:

‘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.’

The letter did not show indicative funding levels for FY2019-20. To set budgets for AY2018-19, we have had to make assumptions about the funding that might be available for FY2019-20, because of the overlap from April to July 2019 between the two. However, any future changes to the grant made available to us by government for FY2018-19, or that we have assumed will be available for FY2019-20, are likely to affect the funding we are able to distribute to providers in AY2018-19, and this may include revising allocations after they have already been announced.

2. During the transitional period from April 2018 to July 2019 we are funding providers under the powers that applied to the Higher Education Funding Council for England (HEFCE) arising from the Further and Higher Education Act 1992: our direct funding powers apply to the same teaching and related activities and to the same categories of providers as applied under HEFCE. Subject to the decisions announced in this letter, we are applying during the transitional period the recurrent grant teaching methods that were developed under HEFCE. We will review our approach to funding for the longer term, taking into account as necessary the outcome of the government’s own review of post-18 education and funding.

Recurrent grant for AY2018-19

3. The OfS board has agreed budgets for recurrent teaching grant for AY2018-19, as shown in Table 1, which also shows a comparison with the equivalent allocations for AY2017-18⁶ – there is an overall reduction in cash terms of £19 million (1.5 per cent in cash terms or 2.9 per cent in real terms⁷). Further detail about elements of grant is provided below the table.

Table 1: Disaggregation of recurrent grant for AY2018-19 (£millions)

Figures may not sum due to rounding in the table.

Elements of recurrent teaching grant	2017-18	2018-19 budget
High-cost subject funding	652	681
Targeted allocations		
Very high-cost science, technology, engineering and mathematics subjects	24	25
Nursing, midwifery and allied health supplement	6	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

⁶ Equivalent figures for AY2017-18 in Table 1 exclude £11 million for two specialist facilities previously funded through HEFCE’s teaching grant, for which UK Research and Innovation (UK Research and Innovation) has assumed funding responsibility through its Research England council.

⁷ References to ‘real terms’ use an estimated gross domestic product deflator of 1.54 per cent for AY2018-19.

Elements of recurrent teaching grant	2017-18	2018-19 budget
Premium to support successful student outcomes: full-time	195	165
Premium to support successful student outcomes: part-time	72	72
Disabled students' premium	40	40
National Collaborative Outreach Programme	60	60
Students attending courses in London	65	67
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
Subtotal: targeted allocations	657	609
Total recurrent grant	1,309	1,290

High-cost subject funding

4. The total budget for our main high-cost subject allocation is £681 million, an increase in cash terms of 4 per cent. This is sufficient to maintain the AY2017-18 total in real terms, and then provide additional funding to support the continuing implications of the government's health education reforms (see paragraph 5). Our allocations will take into account the latest student numbers reported for AY2017-18 in the Higher Education Students Early Statistics survey submitted by higher education institutions and the Higher Education in Further Education: Students survey submitted by further education and sixth form colleges. Increases in student numbers reported by providers for AY2017-18 mean that the rate of funding per full-time equivalent (FTE) student reduces in cash terms by a little over 0.6 per cent (as the scaling factor for high-cost subject funding reduces from 1.0165 in AY2017-18 to 1.01 in 2018-19).

Health education reforms

5. Government health education reforms include additional undergraduate medical school places⁸ and the transfer of pre-registration courses in nursing, midwifery and allied health professions from NHS bursary arrangements to the main higher education finance system. This transfer applied to students starting most undergraduate pre-registration courses from AY2017-18, but is being extended from AY2018-19 to students starting courses in dental hygiene and dental therapy and postgraduate pre-registration courses. The budget for high-cost subjects has been increased to recognise the extra undergraduate and postgraduate student numbers for AY2018-19 that will be fundable by the OfS arising from these reforms.
6. A supplement for certain undergraduate pre-registration courses in nursing and allied health professions was introduced for AY2017-18 to recognise where their average costs exceeded the income that might be expected through tuition fees and other elements of teaching grant. For AY2018-19, that supplement is being provided again at the same rates per FTE for undergraduates starting such courses from AY2017-18. It is also being extended to postgraduates starting such courses from AY2018-19, at a rate per FTE that is £700 higher for each profession than applies to undergraduates (including for those professions that do not attract the supplement at undergraduate level). This recognises the

⁸ See www.hefce.ac.uk/lt/healthcare/.

higher costs on average of such postgraduate courses⁹. The total budget for the nursing, midwifery and allied health supplement increases from £6 million to £14 million for AY2018-19 because of the additional cohorts of students who are eligible to be counted and its extension to postgraduates.

7. Pre-registration courses in dental hygiene and dental therapy will be funded at price group A from AY2018-19, reflecting the outcomes of a recent costing study¹⁰. Because of this high rate of funding through the main high-cost subjects allocation, these courses are not eligible for the nursing, midwifery and allied health supplement.
8. In total, we are providing £63 million in AY2018-19 to support the continuing transfer of funding responsibility for pre-registration courses in nursing, midwifery and allied health professions. This includes contributions through high-cost subject funding and the supplement described above, as well as through student premiums and for students attending courses in London.

Postgraduate taught supplement

9. The postgraduate taught supplement was introduced in AY2012-13 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. 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 on postgraduate courses that attract undergraduate student support from the Student Loans Company are not eligible (and this will apply from AY2018-19 to those starting postgraduate pre-registration courses in nursing, midwifery and allied health).
10. With the introduction of masters' loans in AY2016-17, there has been a significant increase in postgraduate student numbers. Numbers of full-time home and EU postgraduate taught students increased by 18 per cent in AY2016-17 and a further 6 per cent in AY2017-18; and by 4 per cent in AY2016-17 and a further 4 per cent in AY2017-18 for their part-time equivalents. 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 proposed changes to its support for postgraduate provision, including to remove the supplement for courses designated for the masters' loan¹¹.
11. In view of the overall reduction to funding, the priorities that we are looking to address through other allocations such as for high-cost subjects and the healthier recruitment position of postgraduate taught activity, we are reducing the budget for the postgraduate taught supplement from £47 million to £33 million and prioritising those postgraduates who

⁹ This is based on a 2017 costing study available at <http://webarchive.nationalarchives.gov.uk/20170712122352/http://www.hefce.ac.uk/pubs/rereports/year/2017/pre-regcosts/>. The comparison of undergraduate and postgraduate costs is at section 6.2.3 of the report, beginning on page 31.

¹⁰ See www.hefce.ac.uk/pubs/rereports/year/2018/dhdtcosting/.

¹¹ 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 decided to continue with its existing approach to supporting taught postgraduate study for 2017-18, but to make changes from 2018-19.

do not have access to masters' loans or undergraduate Student Loans Company student support. Postgraduates will continue to be supported through the main high-cost subject allocation, while the supplement will complement the impacts of the postgraduate loan system. The allocation will:

- a. Restore to £1,100 the rate of grant for those postgraduates in price groups A to C2 who are not on courses eligible for masters' loans or undergraduate student support.
- b. 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 AY2019-20.

National Collaborative Outreach Programme and student premiums

12. We are maintaining in cash terms the budgets for the National Collaborative Outreach Programme (NCOP)¹² and the premiums for part-time and for disabled students. However, the overall reduction to the funding available for AY2018-19 means a reduction of £30 million (15 per cent) to the premium for full-time students.
13. The NCOP was launched in January 2017 as a four-year programme operating over two phases. The programme was expected to run during the four calendar years from 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 following two years subject to consortia making satisfactory progress towards meeting the government's goals. Evidence from 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. We are therefore extending phase one of NCOP from December 2018 to July 2019 and providing total funding of £60 million for it in AY2018-19.
14. There are no changes proposed to the allocation methods for the premiums for part-time students and for disabled students. The latter will retain the weightings of 2 for students in receipt of Disabled Students' Allowances and 1 for other students declaring a disability, which were introduced last year. The limit on year-on-year changes to the disabled students premium of ±£100,000 will also apply, so as to provide stability for providers as they transition to more inclusive, social models of support. The allocation method for the premium for full-time students is also unchanged, but within the reduced total, we are maintaining (at £19.5 million) the amount allocated through the supplement, which incorporates weightings based on the recruitment of students who are both at risk of non-continuation and from the most disadvantaged backgrounds. This supplement helps to focus the funding more on those providers that do the most to support successful outcomes for disadvantaged students.

Other elements of recurrent teaching grant

15. We are maintaining in real terms the allocation for very high-cost science, technology, engineering and mathematics (STEM) subjects (physics, chemistry, chemical engineering and mineral, metallurgy and materials engineering). Each provider will therefore receive the same pro rata increase of 1.54 per cent to its allocation.

¹² 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/>.

16. We are maintaining in cash terms the rates of grant for:
- a. Erasmus and overseas study programmes (at £2,315 per student). The budget for this increases by £1 million because of increased student numbers reported for AY2017-18 by providers.
 - b. Accelerated full-time undergraduate courses (where rates vary by price group). The budget for this is broadly maintained at £2 million.
17. We are maintaining in cash terms the total budgets for:
- a. Intensive postgraduate courses. Because of the increased student numbers reported, the rates of grant per FTE (which apply to those in price groups B, C1 and C2) fall by approximately 6 per cent.
 - b. The allocations for clinical consultants' pay, senior academic general practitioners' pay and NHS pension scheme compensation.
18. The allocation for students attending courses in London increases by £2 million because of increased student numbers reported by providers, approximately half of which is a result of the government health education reforms described in paragraph 5. However, the allocation will be subject to the same reduction to rates of grant per FTE as applies to high-cost subject funding (that is, reflecting the change to the scaling factor as described in paragraph 4).
19. We are maintaining in cash terms the formula-based allocations for specialist institutions that were determined following review in 2015. The total budget is reduced by £2 million because some transitional funding has come to an end.
20. The supplement for old-regime students has also ended.

Other grants

21. Within the total teaching grant provided to us by government, there is £47 million to support knowledge exchange. This funding will be distributed as part of the knowledge exchange funding distributed by UK Research and Innovation through Research England, according to a method agreed with us.
22. The OfS board has also agreed to make provision of £51 million to support national facilities and regulatory initiatives. This is a reduction of £3 million compared with the equivalent total for AY2017-18¹³. This funding supports activities such as quality assessment, the National Students Survey and strategic interventions in health education disciplines¹⁴. However, the two largest elements of this funding are support for Jisc and for a new £20 million discretionary fund – the Innovation Challenge Fund – for short-term, project-based activity that will support regulatory priorities and effective provision. We will provide further details about this in due course. Within the total of £51 million, there is also £1.5 million for a new Evidence and Impact Exchange, as recommended by a group of sector experts and practitioners, to provide evidence on the impact of interventions, activity and approaches to access, student success and progression across the student

¹³ The equivalent total for AY2017-18 excludes the support for national facilities and initiatives that was previously provided from HEFCE's research grant and also excludes inherited staff liabilities, the administration of which will be subject to separate confirmation.

¹⁴ See www.hefce.ac.uk/lt/healthcare/sihed/.

lifecycle. This facility will be developed in line with the existing What Works network¹⁵ 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 higher education.

23. The Minister of State for Universities, Science, Research and Innovation's February 2018 strategic guidance letter identifies £150 million of capital funding for FY2018-19. Of this total, approximately £36 million is required to meet commitments made by HEFCE that extend beyond March 2018 – particularly capital allocations from its Catalyst Fund. Of the balance, we are providing £10 million for Jisc to support the Janet network and English regional network upgrades, cybersecurity and learning analytics; and £104 million which will be allocated as a formula capital grant, using largely the same methodology as applied for FY2017-18 (within which, the STEM element is maintained at £11 million). As before, providers will not receive an allocation if the formula would provide less than £10,000.

¹⁵ See <https://www.gov.uk/guidance/what-works-network>.