

Distribution of capital funding for financial year 2021-22

Outcomes of consultation

Reference OfS 2021.28

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Key terms and definitions

1. **'Funding'** and **'grants'** are used synonymously in this document to mean financial support provided under section 39(1) of the Higher Education and Research Act 2017 by (HERA) the OfS to the governing body of an eligible higher education provider – that is, one registered with us in the Approved (fee cap) category – in respect of expenditure incurred, or to be incurred, by the provider for the purposes of either or both of the following:
 - a. The provision of education by the provider.
 - b. The provision of facilities, and the carrying on of other activities, by the provider, which its governing body considers it is necessary or desirable to provide or carry on for the purposes of, or in connection with, education.
2. **'Capital funding'** and **'capital grant'** mean funding allocated in respect of capital expenditure incurred, or to be incurred, by the provider. Capital expenditure means money used to acquire or maintain fixed assets, such as land, buildings and equipment, which is normally capitalised in the provider's audited annual accounts. It does not include expenditure on rent, or hiring or leasing of equipment and facilities. Capital grants for financial year 2021-22 must be used for the purposes set out in paragraphs 77-83 of 'Capital funding for financial year 2021-22 Allocations and invitation to bid' (OfS.2021.27)¹.
3. **'HESES'** means the annual Higher Education Students Early Statistics survey,² returned by providers registered with the OfS in the Approved (fee cap) category. The data collected in this survey, along with data supplied to the Higher Education Statistics Agency and the Education and Skills Funding Agency, is used to inform the allocation of OfS funding. 'HESES20' is the survey for the 2020-21 academic year, used to inform formula funding for 2021-22.
4. **'Academic year'** means the 12-month period from 1 August to the following 31 July.
5. **'Financial year'** means the 12-month period from 1 April to the following 31 March.

¹ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/annual-funding/capital-funding/

² HESES20 was the survey to be completed for the 2020-21 academic year. See www.officeforstudents.org.uk/publications/heses20/.

Summary

6. This document reports the decisions taken by the Office for Students (OfS) on the distribution of capital grant funding for the financial year (April to March) 2021-22. This follows a statutory guidance letter³ from the Secretary of State for Education, which announced capital funding of £150 million to support the government's priorities.
7. The distribution of capital grant relates to the OfS's powers under HERA in relation to financial support for registered higher education providers (section 39). Providers eligible for financial support are those registered with the OfS in the Approved (fee cap) category.
8. In our recent publication 'Consultation on distribution of capital funding for financial year 2021-22' (OfS 2021.02)⁴, we sought views on:
 - a. A new method for the distribution of capital funding. Although our preferred approach was to adopt a bidding exercise and to allocate the funding on a competitive basis, we consulted more widely on alternative methods for allocating the funding, including exploring the possibility of allocating the funding formulaically.
 - b. How the OfS should prioritise funding if the capital funding were to be allocated on a competitive basis, including how bids from providers should be assessed.
 - c. Proposed changes to the terms and conditions that should apply to teaching capital grant.
9. Following consultation that ran from 26 March to 23 April 2021, we have decided to adopt a bidding exercise and to allocate the majority of the funding on a competitive basis. We will, however, retain **a small formulaic allocation** of £7.4 million, which will be allocated to all eligible providers and capped at a maximum of £30,000 per provider. Further details of the bidding process and the formulaic allocation can be found in 'Capital funding for financial year 2021-22: Allocations and invitation to bid' (OfS 2021.27)⁵. In addition, on 19 July 2021 the OfS was issued with terms and conditions of grant⁶ by the Secretary of State for Education, which specifically states that the OfS must not directly or indirectly vary any rates of grant on the basis of the region of the UK in which providers or students are located or courses offered. We will therefore not apply a London weighting when calculating the formulaic allocations. The terms and conditions also state that archaeology should now remain as a priority subject and we will therefore consider it as eligible under category 1: 'high-cost subjects of strategic importance' when assessing bids from eligible providers. This is consistent with our approach to recurrent funding as set out in OfS 2021.26⁷.

³ Available at www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

⁴ See www.officeforstudents.org.uk/publications/consultation-on-distribution-of-capital-funding-for-2021-22/.

⁵ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/annual-funding/capital-funding/

⁶ See www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/

⁷ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/annual-funding/recurrent-funding/

10. By retaining a small formulaic allocation, we are addressing the concerns of smaller providers who on balance considered a competitive exercise overly burdensome. In making this decision we have also considered Schedule 1, paragraph 21 of HERA, which extends the Equality Act 2010, and therefore the Public Sector Equality Duty, to the OfS. This requires the OfS to have due regard to eliminating unlawful discrimination, foster good relations between different groups and take steps to advance equality of opportunity. By allocating a small formulaic element to all eligible providers we also had regard to our own general duties and in particular:
 - a. 2(1)(b) the need to promote quality, and greater choice and opportunities for students, in the provision of higher education by English higher education providers.
 - b. 2(1)(e) the need to promote equality of opportunity in connection with access to and participation in higher education provided by English higher education providers.
11. With the remainder of the funding allocated through a competitive exercise we had further regard to our general duties, with particular attention paid to:
 - a. 2(1)(d) the need to promote value for money in the provision of higher education by English higher education providers.
 - b. 2(1)(f). the need to use the OfS's resources in an efficient, effective, and economic way.
12. This document summarises the key themes from, and our responses to, the consultation feedback we have received relating to the distribution of the capital grant, and outlines the rationale for the decisions we have made.

Action required

13. Eligible providers are invited to submit a competitive bid, following the guidance that we have published separately in 'Capital funding for financial year 2021-22: Allocations and invitation to bid' (OfS 2021.27). Bids from eligible providers for capital funding must be received by **1700 on 10 September 2021**. Full details of the formula-based capital funding allocations to individual eligible providers for 2021-22 are also available in OfS 2021.27. We expect to announce the outcomes of the capital bidding competition in October 2021.

Introduction

14. In January 2021, the Secretary of State for Education issued a guidance letter which announced capital funding of £150 million for the financial year 2021-22.⁸ Of the £150 million, we have set aside £19 million for existing commitments and support for national facilities and regulatory initiatives.⁹ The January guidance letter set certain parameters and expectations around the distribution of capital funding to providers – primarily that this should be through a bidding exercise to support specified priorities.
15. Capital funding has previously been allocated by the OfS largely through a formula, which sets an allocation for each provider meeting threshold criteria. This offered flexibility to providers to use the funding towards capital expenditure as they saw fit, and was not attached to specific projects. It has, however, proved difficult to assess the value for money of this public funding. We therefore proposed to distribute capital funding through a strategically targeted bidding process, which would aim to ensure that the capital funding is adding value through specific projects. In March 2021, we consulted on this approach to the distribution to providers of the available balance (£131 million) in ‘Consultation on distribution of capital funding for financial year 2021-22’ (OfS 2021.02).¹⁰
16. Under section 2(3) of HERA, the OfS is required to have regard to statutory guidance from the Secretary of State for Education. Also, in formulating the proposals set out in the consultation, the OfS had regard to its statutory duties in section 2 of HERA¹¹ and the Public Sector Equality Duty set out in section 149 of the Equality Act 2010.¹² The preferred approach that we put forward in the consultation was developed with regard to the guidance letter from the Secretary of State, in addition to our wider statutory duties.
17. The consultation provided an opportunity for higher education providers, their staff, representative bodies, and others with an interest in the finance arrangements for higher education to consider and respond to our proposals in order to inform our future approach. In this document we discuss the issues raised by respondents to the consultation, and have taken these into account in deciding how to move forward with our proposals.
18. Under section 41 of HERA, financial support can be provided by the OfS on such terms and conditions as it considers appropriate, but before determining these, the OfS must consult such

⁸ Available at www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/.

⁹ £19 million is set aside as provision for Jisc (<https://www.jisc.ac.uk/>), Higher Education Statistics Agency Data Futures (<https://www.hesa.ac.uk/innovation/data-futures>) and previous commitments arising from the former Higher Education Funding Council for England’s catalyst fund. The figure is a reduction to the £20 million initially expected in our consultation on capital funding for 2021-22, as a result of further work on expected spend profiles for existing commitments. This reduction means that the sum available for distribution to providers has increased from £130 million to £131 million.

¹⁰ Available at www.officeforstudents.org.uk/publications/consultation-on-distribution-of-capital-funding-for-2021-22/.

¹¹ See Section 2 of the Higher Education and Research Act 2017 (<https://www.legislation.gov.uk/ukpga/2017/29/section/2>).

¹² See Section 149 of the Equality Act 2010 (<https://www.legislation.gov.uk/ukpga/2010/15/section/149>).

persons as it considers appropriate. Our consultation therefore invited comments on the approach to capital funding for providers for financial year 2021-22, and the terms and conditions for such funding, to inform our decisions.

19. The consultation invited comment on the capital funding for higher education providers registered with the OfS in the Approved (fee cap) category. Being so registered is a prerequisite for a provider to be eligible for OfS funding under section 39(1) of HERA.

Approach to capital funding proposed in consultation

20. OfS 2021.02 set out our aim, in distributing capital funding for 2021-22, as being to enhance the learning experience of higher education students at providers, by helping raise the quality of their learning and teaching facilities; and to prioritise in particular:
 - a. Facilities for high-cost science, technology, engineering and maths (STEM) subjects, healthcare disciplines and other technical subjects that are designed to meet the specialist skills needs of industry and employers, including at Levels 4 and 5.
 - b. Facilities that will support the development of flexible provision and modes of delivery, including for part-time study, e-learning and blended learning.
 - c. Capital expenditure that will demonstrate value for money.
21. We believe these objectives will: promote choice and opportunities for students in relation to high-cost subject areas that require specialist teaching facilities; support access to higher education for those who need more flexibility in how they study; and help to meet the skills needs of students and employers.
22. The consultation set out our preferred approach to allocate funding through a bidding exercise, open to all providers registered (or that have applied to register) in the Approved (fee cap) category. In summary, it proposed that bids should demonstrate **value for money**, and be for **relevant expenditure** (relating to types of capital spending on facilities for learning, teaching and assessment) that supported one or more of three priority **categories**:
 - a. Category 1 – High-cost subjects of strategic importance. These are subjects in price groups A and B, and computing, IT and nursing in price group C1. These subjects include laboratory-based subjects in science, technology and engineering, and healthcare disciplines in medicine, dentistry, nursing, midwifery and allied health professions and veterinary science.
 - b. Category 2 – Enhancing graduate employability and the skills needs of employers, industry and therefore local and regional economies. Bids focusing on this priority would, in particular, support technical provision at Levels 4 and 5.
 - c. Category 3 – Part-time and other forms of flexible provision.
23. The consultation also set out a proposed approach to scoring and prioritising between bids. We proposed two criteria: criterion 1, 'relevant expenditure', and criterion 2, 'value for money'. We would score each criterion, and each category under criterion 1, on a scale of 0 to 4.

24. We would not support any bid that scored less than 2 for value for money. Then, we would prioritise between bids, firstly based on the highest single score achieved under criterion 1 against any one of category 1, 2 or 3, plus the score achieved against criterion 2. Where bids achieved the same overall score under this first prioritisation, we would then prioritise between them based on their total score against each category 1, 2 and 3 combined under criterion 1.
25. Our consultation also discussed the possibility of allocating the funding formulaically, using either the existing formula¹³ or an alternative one. If we were to address the priorities for capital funding through a revised formula method, our consultation proposed that we would:
- a. Restrict which students were counted towards the allocation to those in high-cost and strategically important subject areas – that is, subjects in price groups A and B, plus computing and nursing in price group C1. This would mean that students in price groups C2 and D, and those studying other subjects in price group C1 (performing and creative arts, media studies and archaeology) would not be counted for funding purposes.
 - b. Remove the London weighting that is a feature of the current formula (as was also proposed in our recurrent funding consultation).¹⁴ This would help ensure that the prioritisation of funding is driven by the objectives set out in paragraph 20, rather than the region in which a provider is located.
 - c. Maintain other weightings in the funding method.
 - d. Raise the minimum threshold for an allocation, below which a provider received nothing. This would be intended to ensure that allocations are of material sums that could have impact and provide value for money.
 - e. Apply greater restrictions, through funding conditions, on how capital funding could be used, so that it is targeted at facilities that are provided to support strategic priorities.

Outcomes of consultation

Overview of responses received

26. We received 108 formal responses to our consultation, which closed on 23 April 2021. This publication includes a full analysis of responses, by consultation question (paragraphs 34 to 92). Below (paragraphs 27 to 31), we highlight the key themes in responses to the capital funding consultation, and from paragraph 32 onwards we discuss the options the OfS considered to mitigate concerns raised by respondents and meet the priorities set out in the consultation.
27. Generally, respondents acknowledged that a bidding exercise might allow for better targeting of funding to meet strategic priorities. However, overall, respondents were not in favour of an annual bidding exercise, because of concerns that:

¹³ See 'Formula capital funding for 2020-21' (OfS 2020.17), (www.officeforstudents.org.uk/publications/formula-capital-funding-for-2020-21/).

¹⁴ See www.officeforstudents.org.uk/publications/consultation-on-recurrent-funding-for-2021-22/.

- a. The additional bureaucratic burden introduced through a bidding exercise would be difficult to resource. Respondents were concerned about the burden for both providers in preparing bids and the OfS in assessing them, and whether this burden was proportionate to the possible advantages of bid-based funding.
 - b. A bidding exercise would provide less financial certainty about grant allocations, compared with a formula approach where providers could plan for the levels of allocated funding. As a result, they would have less flexibility in their discretion to spend the money received, as the funding would be prescribed for certain projects, and so they would be less able to respond to their own, specific funding needs.
 - c. Providers might not be able to spend the funding by the end of March 2022, because allocations will be announced late in the current financial year, which could result in significant underspending. Respondents were also concerned about their ability to prepare and submit high-quality bids in time, with the current timescales for the submission of bids and subsequent funding.
 - d. Providers (particularly smaller providers) do not have enough capacity to dedicate time or resource to producing a high-quality bid and are therefore less likely to be successful in securing the funding they require. Small providers in particular could be disadvantaged compared with larger providers because they do not have the dedicated staff to prepare strong bids, nor do they have the institutional knowledge or professional skills to write bids that many larger providers have.
28. Generally, respondents were broadly supportive of the proposed two assessment criteria, 'relevant expenditure' and 'value for money'. This was noted both by respondents who 'agreed' and by those who 'disagreed' with the proposed bidding exercise. A number of respondents requested further guidance on how to evidence value for money.
29. Respondents were concerned that a strong focus on high-cost STEM and healthcare disciplines disadvantaged students in other subject areas that also require significant high-cost facilities and investment. Providers that offer creative and performing arts and design subject areas were particularly concerned that they would not be successful, which might impact the student experience. Respondents also reported that students in these subject areas have larger numbers of students from disadvantaged areas or declaring disabilities, and questioned whether the proposed narrow focus of subjects would ensure equality of experience and opportunity for all students.
30. Respondents to the consultation were in broad agreement with the proposed terms and conditions and monitoring arrangements for capital funding.
31. Our response to the key themes focuses on the policy intent, rationale and proportionality of the proposals. However, many respondents also sought clarification on specific aspects of the proposals and we have addressed these as appropriate in OfS 2021.27.

Summary of the decisions: Distribution of capital funding 2021-22

32. We have considered the strength of arguments put forward, together with a number of options for distributing capital funding in a way that delivers the objectives of the funding. The option we choose must allow us to:

- a. Respond to concerns about potential burden and disadvantage on smaller providers that may not have the dedicated resources and expertise to prepare strong bids.
- b. Meet the priorities for capital funding outlined in the consultation.
- c. Offer value for money in providing assurance that the funding is being spent on projects that meet the priorities set out in the consultation.

33. We have made the following decisions in the light of consultation. We have given a more detailed explanation of the rationale for change in paragraphs 34 to 92.

1. Revised approach to funding

We are modifying our approach so that we distribute capital funding for 2021-22 through both a small formula-based allocation of approximately £7.4 million and a full bidding competition of approximately £123.6 million.

The formula will distribute funding to eligible providers whose allocation meets a minimum threshold of £10,000, and will be subject to a cap of £30,000 per provider. This formula is based on the methodology for the allocation of formula capital funding in 2020-21, but with the removal of the London weighting (following terms and conditions from the Secretary of State for Education) to ensure that the prioritisation of funding is driven by the broader objectives of the funding, rather than the region in which a provider is located. The terms and conditions of funding will specify that the allocation is to fund projects that meet the priorities set out in the consultation.

The remainder of the funding (approximately £123.6 million) will be distributed through a bidding competition open to all eligible providers (whether they have received a formula allocation or not). The minimum threshold for funding through the bidding competition is £50,000. We are also setting an initial cap for funding of £3 million. We have set these limits to ensure funding is prioritised towards more significant capital proposals and to strike an appropriate balance in ensuring we can support a broad group of providers and provide significant sums towards large projects, while also being mindful that all funding allocated to providers must be used by 31 March 2022. However, in the event that the funds available are oversubscribed, we may reduce this initial maximum cap below £3 million, to ensure funding for the bids to be supported comes within budget. Successful bids must meet the priorities set out in the consultation.

Full details of the bidding process, including guidance, and further information regarding individual formulaic allocations can be found in OfS 2021.27. Providers wishing to submit a bid must do so using the bidding template available to them via the OfS portal. Bids from eligible providers must be received by **1700 on 10 September 2021**. We expect to announce the outcomes of the competition in October 2021.

We are **unable to make any commitments** on the availability of funding beyond financial year 2021-22. (The OfS response under paragraph 65 provides further detail)

2. Further guidance on the content and assessment of bids

Following concerns raised by respondents, we are providing greater clarity in the bidding document (OfS 2021.27) in the following areas:

Scoring of bids. We have provided greater clarity on the approach to scoring of bids to ensure all providers are clear about the information they need to provide and how to deliver a 'good' bid and meet the priorities as set out in the consultation. We are looking to keep the information we require in the bidding template as low-burden as possible, so that it is focused on how a project will deliver against the criteria set out in the consultation. Bids should clearly identify any risk factors that are likely to impact on the success of the project, the provider's ability to use all the funding sought on eligible project costs within the financial year 1 April 2021 to 31 March 2022, and how these impacts will be managed.

Following concerns from respondents that they may be penalised if they are unable to submit high-quality bids that will meet all three of the criterion 1 categories, we confirm that there is no requirement to address every category within a bid. Within the scoring system process, the score across all three categories is used only as a tiebreaker for bids that have scored the same under the first prioritisation. That first prioritisation requires bids to score well only against one category together with the value for money criterion.

Value for money. In response to requests from providers seeking further guidance about how to demonstrate value for money (criterion 2), we are changing the title of that criterion to 'value for money, project and risk management' so that it better reflects what we are looking to assess (as described in the consultation) and we are also providing more guidance on it. In one sense, value for money for public funds is provided when funds are used to meet the strategic priorities of the funding body. However, that is assessed under the different categories of criterion 1 and we are not looking for it to be repeated under criterion 2. For the latter, we are looking to understand how any OfS funding contributes to the overall financing of a project (though there is no requirement for matched funding) and how proportionate this OfS contribution is to the benefits that the project will bring to students, graduates, employers and others, but particularly those populations relevant to the priority categories. The other aspect of criterion 2 relates to us having confidence that the provider will be able to manage public funding effectively through its management of all aspects of the project, from planning and procurement to delivery, ensuring that risks are well managed and that the provider is both ready for the money and able to use it all in the time available (that is, financial year 2021-22). (The OfS response under paragraphs 78 and 88 provides further detail)

3. Terms and conditions of funding

Terms and conditions of funding for 2021-22 will be published separately, and will include the terms and conditions applying to capital funding for 2021-22¹⁵. We have updated them to reflect our decisions on the approach to funding, as well as responses to the consultation. In particular, all capital funding for 2021-22 (whether allocated by formula or through bidding) must be used for expenditure that meets the priorities for capital funding set out in the consultation. In addition, any capital grants awarded for 2021-22 through competition must be used:

¹⁵ These will be incorporated in 'Terms and conditions of funding for 2021-22', which we will publish separately in July 2021.

- on expenditure items included in the provider's successful bid
- in accordance with any other terms and conditions that we may specify when we award the grant.

Any capital funding for 2021-22 that is not used in accordance with the terms and conditions (including where sums remain unspent by 31 March 2022) will be recovered. We will monitor use of the funding after the end of the financial year. If providers are unsure whether the use they propose of their formula capital allocation will meet the requirements for its use, they should contact capitalgrant@officeforstudents.org.uk for advice in advance of committing to the expenditure. (The OfS response under paragraph 89 provides further detail)

Analysis of consultation responses and OfS decisions

34. This section provides our analysis of the responses that we received to our consultation in OfS 2021.02 and the decisions we have made in the light of them.

35. We received 108 formal completed responses to the consultation. Of these:

- 104 were an official response on behalf of a higher education provider, organisation or representative group
- two were from current, recent or prospective students at a higher education provider
- one was from an individual responding as an associate or employee of a higher education provider, organisation or representative group
- one respondent completed the online form in an anonymous individual capacity.

36. In addition, there were 38 engagements with the online consultation, where respondents did not formally complete and submit the questionnaire form. Of these, nine respondents provided Likert-type responses and some commentary. A further six respondents completed all Likert-type responses with 'Don't know / prefer not to say' and did not provide any commentary. We believe that it is our responsibility to consider all responses to the consultation. To this end, these 15 'partial' responses are reported alongside the 108 full formal responses to the consultation. The remaining incomplete 23 responses were either superseded by a completed formal response, or all questions were left entirely blank.

37. Respondents were required to choose whether their response remained confidential, or whether sections of their response might be quoted in this summary of responses to the consultation. A total of 73 respondents gave permission for their responses to be published.

38. Respondents were asked for their views on five specific questions. Questions 1 to 4 included both a Likert-type response scale in which responders specified their level of agreement to the question, together with a free-text comment box. Question 5 comprised a free-text comment box only. Respondents may have commented on similar topics in different questions. Where this has happened, we have summarised all such concerns in one place.

Question 1: To what extent do you agree that a bidding process is the most appropriate means of addressing the strategic objectives and priorities for capital funding for 2021-22? (See paragraphs 4 to 11 of OfS 2021.02.) Please provide an explanation for your answer. If you believe our approach should differ, please explain how and the reason for your view.

39. In total, 108 complete responses provided a Likert-type response to this question, with 103 respondents also providing free text comment. As shown in Table 1, a large proportion expressed views that were generally not in favour of our proposed approach to implement a bidding exercise, with further notes of concern also being raised by some of those who indicated that they were in favour of a bidding process.

Table 1: Likert-type responses to consultation Question 1

Total Likert-type responses	Complete responses	Percentage	Partial responses
Agreed (strongly agreed or agreed)	38	35%	4
Disagreed (strongly disagreed or disagreed)	68	63%	4
Neutral (did not know or preferred not to say)	2	2%	7
Total	108		15

40. Responses that raised concerns with a prospective bidding process can be grouped broadly into five principal themes:

- a. A bidding process would increase burden and workload for providers and the OfS.
- b. A bidding process would favour large providers with the expertise and capacity to construct successful bids.
- c. A bidding process would reduce a provider’s autonomy, and the ability to be flexible and agile in how it uses capital funding.
- d. A bidding process would create uncertainty for providers with no assurance over funding levels and restrict their ability to plan strategically.
- e. The requirement to spend all money on large-scale capital projects within the financial year would be challenging.

These concerns are examined in paragraphs 41 to 65.

Increased burden and workload

41. A concern voiced by many respondents was that the implementation of a bidding process would introduce burden and bureaucracy into the allocation of capital funding. Many expressed a view that the internal and external resources required for a bidding process would come at a

high cost, particularly when set against the uncertainty of achieving a successful bid. Multiple responses noted that given the increased workload and constraints on staff time that consultants would need to be employed to undertake this work, questioning whether this offered good value for money. It was noted that the competitive nature of a bidding process meant that many providers either would be unsuccessful in securing capital funding or would not secure the level of capital funding for which they had bid.

42. Respondents raised concerns regarding the issue of burden both from a provider perspective and for the OfS, at a time when the government has stated that it wishes to reduce burden and bureaucracy.

43. Comments included:

- ‘The proposed bidding process would create an additional level of bureaucracy, with scarce resources being required to create capacity to bid for capital grant calls with intangible prospects for success.’
- ‘In addition there will be a considerable administrative effort required to establish a robust evaluation process by the OfS along with a resource overhead required to evaluate and feedback on each project by institution, the cost of which we assume could be considerable and should not [be] under estimated. Also, for good governance, there should be some kind of appeal mechanism, which again only adds to the administrative burden.’
- ‘Bidding processes are wasteful in resource in a number of ways, but especially so if a bid fails to secure funding, or all requested funding. Burden would be more proportionate if applied to the monitoring process, rather than the bidding process. Taking the capital bidding process in November 2020 as an example, staff time and resource will have been wasted in constructing bids that were only partially funded. This was not value for money for the university, or for the OfS who will have had to assess a larger bid than was necessary.’
- ‘Further, OfS will need to ensure a pool of qualified, independent assessors, who can understand the diverse and complex needs of different providers across the sector in order to assess a bid fairly and with expertise. A bidding process will add time, complexity and potential costs for [providers] and OfS to the process for little if any benefit. Additionally, if the capital pot is not announced by government until spring, the bidding process won’t be able to be launched until it is clear what the grant allocation is to OfS, this will likely be [...] April, thus the bidding process will end up eating into the remaining time in this 12-month timeframe to the end of the following March, thus reducing the period for spending the allocation (if bid is successful).’

Advantage to large providers

44. A significant number of respondents commented, in response to both Questions 1 and 5, that a bidding process would favour larger providers with staff resource experienced in preparing bids. Some noted the risk of unintended bias towards larger providers with greater student numbers and dedicated staff to devote to bid writing, or those who were able to employ consultants.

45. It was noted that implementing a bidding exercise would direct the capital funding towards larger providers that were able to deliver capital schemes at pace. That could leave smaller providers without the capital funding they needed to invest in and to maintain their infrastructure, which would ultimately disadvantage students.

46. Comments included:

- ‘The proposed approach runs the risk of smaller providers being cut out of that investment opportunity just at the point when it is needed most.’
- ‘Institutions will have differing levels of capacity available to respond to bidding competitions, which may create inequalities of outcomes, with subsequent impacts on their student population.’

Reduced autonomy

47. Some respondents noted that a bidding process could compromise provider autonomy, commenting that limitations could be imposed that would restrict how capital funding could be spent. A number of comments noted a concern that providers would only bid for projects where they felt funding was most assured given the burden of preparing a bid, and the risk that some might be unsuccessful. Alongside this, it was suggested that given the funding would be required to be spent in the current financial year, and that the type and scope of bids submitted would be unlikely to allow for providers to respond to an emerging situation or need, as projects would already need to be at an advanced stage at the point of applying for funding.

48. Respondents noted that the pandemic has demonstrated that providers need to be flexible and agile, and that constraining capital funding to specific projects could prevent providers from being able to adapt quickly and to meet new challenges and demands as they arose.

49. It was argued that a bidding process puts at risk investment from capital, which is essential both to maintaining a high-quality student experience and to ensuring that providers remain internationally competitive, by being able to train the next generation of professionals strategically aligned to workforce need. Some responses indicated that providers were increasingly advocating generic space for their students, to improve efficient use of space and assets, and were not labelling or designating them to specific subject areas. Therefore, they felt that a bidding exercise limited to only some subject areas would restrict providers in how they could develop their buildings, which would be counterproductive to space efficiency strategies.

50. Comments included:

- ‘We strongly disagree that a bidding process is the best or most appropriate process. This is because of the wasted effort, and lack of value for money inherent in a bid process, this could be better focused on monitoring, and the lack of flexibility and agility that a bidding process would embed.’
- ‘The criteria appear to support larger change-type investments rather than maintaining existing teaching infrastructure with incremental improvement. This is likely to favour bids from larger institutions with a cycle of ongoing new projects who already have access to multimillion pound capital budgets.’

- ‘Capital programmes need to be flexible to cover in-year priority changes, a frequent occurrence in smaller institutions. A defined bidding process at the beginning of the year would remove that flexibility.’

Uncertainty for providers

51. Some respondents noted, in response to both Questions 1 and 5, that a bidding process introduces uncertainty, with projects needing to be at an advanced stage before they had received confirmation of the level of funding being awarded. This is exacerbated by funding being allocated in-year, whereas a formulaic approach is more predictable and stable, allowing providers the ability to strategically plan over a multi-year period.

52. Greater clarity was requested regarding the proposed bidding process to enable providers to fully assess the implications for them, and to judge whether they could and should bid. Some responses commented that adapting the formulaic approach to meet the government’s priorities would be a more efficient and secure method of allocating capital funding.

53. Comments included:

- ‘The current (formulaic) allocation allows for providers to take a strategic view of investment priorities.’
- ‘The introduction of a bidding process introduces additional annual financial uncertainty to [providers], will involve considerable additional administrative burden on the sector to produce bids and will result in a win/lose situation whereby even high-quality projects that address local needs may narrowly fail to be awarded funding and may not be able to proceed.’
- ‘The benefit of a substantial formula-based element to capital funding, which has not been sufficiently highlighted in the consultation, is that it allows smaller and specialist institutions greater freedom to strategically plan and commit to longer term project planning, without the uncertainties of a bidding process.’
- ‘Failed bids will also be costly, again directing funds away from the delivery of strategic aims and potentially deterring smaller and specialist institutions from applying in the first place.’
- ‘The capital planning process takes place over several years. Planning for projects with uncertainty over funding for future years will cause institutions tremendous uncertainties. The existing formula approach allows for institutions to be able to safely plan on a longer-term basis than one year. This approach has the huge benefit of flexibility and being able to allocate the grant to known projects so doesn’t incur abortive time/resources.’

Challenging timeframe

54. The timescales for the process were noted by several responders as an area of concern, in responses to Questions 1, 2 and 5. It was suggested that unless a streamlined bidding process can be introduced and adopted quickly, that providers may struggle to allocate and spend the money in this financial year, hampering the government’s objectives and priorities. This was particularly noted as an issue for this year, with the ability to bid for and spend capital funding

within the financial year on an annual basis being considered to be problematic and raised in multiple responses.

55. It was highlighted that there is often a long lead time for the procurement and delivery of capital equipment, and that often the timeline for completion on large-scale projects can slip and is subject to change for a multitude of reasons. A number of respondents also proposed that any change should not be implemented this year, and that any bidding process should not be brought in until at least 2022-23 to allow providers a fair chance to bid and spend the funding in the period.

56. Comments included:

- ‘There will be a higher risk that projects subject to bidding will not be completed within existing timescales – unlike formula funding where if one project is not able to complete funding is easily transferred into other viable projects.’
- ‘The additional required resource – the time and investment required to identify and prepare bids, allocate funding internally, and to spend funding before the deadline – will be considered in the context of the small minimum award and overall allocation. Coupled with the significant risk that projects aren’t funded, or are only partially funded, providers are extremely likely to bid only for “shovel ready” projects or those which are low-cost.’
- ‘It is not clear that a bidding process will secure better value for money [...]; the opposite may be true if procurement activity for projects which are subject to a successful bid to OfS must be accelerated to comply with a challenging expenditure timetable [...] Staff time to work up a bid may be abortive, and some abortive costs (professional fees etc.) may be incurred.’
- ‘The short-term nature of the spend, i.e. to be spent by March 2022, is at odds with the nature of planning for projects of a capital nature. In our view this could lead to short-term planning and is not in the interests of the sector and likely to have a negative impact on student experience in the medium and longer term.’
- ‘The timeline for bidding and approval will reduce the window available for universities to effectively procure and implement projects greatly increasing the risk of funds not being appropriately spent within the funding year. Our most recent teaching capital grant allocation was equivalent of approximately 0.25 [per cent] of our total annual income and it is important that any allocation process takes account of this proportionality.’
- [from a response to Question 2] ‘Another issue relates to procurement, on large bids that include equipment, appropriate tendering processes might not fit within the tight funding and spending envelope. This might also apply to estate work that needs quite a lot of lead time to tender and appoint contractors.’
- [from a response to Question 2] ‘the timing of the bid process and subsequent need for spend within year would suggest that, particularly for large projects, the project would happen regardless of the bid success, so the funding would not be transformational.’

Benefits of a bidding process

57. Responses that were in favour of adopting a prospective bidding process presented a number of reasons why they would support implementing such an approach. They included this being a fairer process for all providers to access a share of capital funding; that it would concentrate capital funding towards larger strategic projects; that it supported government priority areas; and that providers would be able to demonstrate better value for money.
58. Some respondents noted that a bidding process represented a fair means to distribute funding, creating an equal playing field for all providers irrespective of type or size to bid for a larger share of capital funding. Some smaller providers noted that a bidding process could potentially allow them to access increased levels of capital funding compared with a formulaic method when they wished to undertake larger scale projects. Comments included:
- ‘When considered alongside proposals to reduce the funding supplement for non-STEM high-cost courses, the removal of London weighting and further possible reductions to the regulated fee levels, the unit of resource remains under strain. The capital funding element will be vital to fund essential equipment and infrastructure upgrades.’
 - ‘This will enable providers with smaller numbers of [higher education] students [...] to bid for a higher level of funds than a formulaic approach.’
59. It was suggested that a bidding process would allow a greater focus on larger strategic projects. Given the proposed criteria for a bidding process, it was considered by some to offer a potential source of funding to support larger-scale projects and investment in infrastructure. Comments included:
- ‘Requirements for capital funding vary significantly over time. The funding supplied by OfS through a bidding process will be specific for a project and more likely to cover objectives fully.’
 - ‘A bidding process will become more strategic in nature with larger investments targeted to specific benefits for the students.’
60. It was noted that a bidding process allows money to be targeted to specific projects that support strategic objectives, and allows funding to be targeted towards government priority areas. Comments included:
- ‘The use of a bidding process is appropriate, as it allows providers to submit high-quality bids for specific projects, which address the priority areas. This is optimal versus a formula-based approach.’
 - ‘A bidding process means the OfS can target funds more clearly towards government’s strategic objectives and priorities than would be possible via a formula approach given the limitations of data available to the OfS, as set out in the consultation document.’
 - ‘We consider that the bidding process is an improved approach to capital funding allocation because it will allow the OfS and the government to better align bids to strategic objectives and priorities than a formulaic allocation. This would avoid capital funding being allocated in a piecemeal way and enable innovative [providers] with clear alignment to the

Government's strategic priorities to access funding for targeted and transformative enhancements to facilities and infrastructure underpinning their student experiences.'

61. Some respondents noted that successful bids would be able to provide direct evidence of the projects as they were implemented and that this in turn would demonstrate better evidence of value for money. By attaching the funding to particular discrete projects, it would provide clear evidence of how the money had been spent by providers to meet government objectives. Comments included:
- 'Moving to a bidding process with funding allocated to specific projects will ensure the available money is targeted to discrete projects that address areas of strategic importance within higher education. It will also allow individual projects to demonstrate value for money.'
62. It should be noted that among those who indicated that they were in favour of adopting a bidding process, many also noted caution, with some expressing their concern regarding the additional burden of such a process and the impact this may have on smaller providers without the resources to construct effective bids. Issues regarding the feasibility of the timescales and the burden of preparing bids against the uncertainty of the outcomes were also raised as a concern by some in agreement with adopting a bidding process.
63. Concern was also noted regarding the impact for providers delivering Creative Arts subjects, particularly for smaller specialist providers. The proposal to split price group C1 is seen as potentially damaging, and a bidding process is preferable if it gives the opportunity to bid for more funding.
64. Comments included that a bidding process is beneficial only if the outcomes it achieves exceed those of the formulaic method given the increased burden of the process. It was expressed that a bidding process introduces an element of financial uncertainty, which has the potential to jeopardise capital projects if funding is not secured. Suggestions put forward as a means of mitigating the perceived risks of a bidding process included:
- a. Bidding across multiple financial years rather than for spending in a single, current year.
 - b. A dual approach, with a mix of formulaic allocations to address the baseline need for capital equipment, as well as infrastructure upgrading and replacement, alongside a bidding process for larger strategic projects.
 - c. Greater guidance and assistance to ensure equity in how bids are developed across the full spectrum of providers.
 - d. A simple and straightforward bidding process, to reflect the resources available in all providers.
65. Comments included:
- 'We recognise the approach as an effective means to target present government priorities but would welcome consideration for priorities that do not relate to STEM but still have a strong economic impact and societal benefit, e.g. creative arts.'

- ‘There have been various approaches to the allocation of capital funding to higher education providers over the years. From the perspective of a small specialist provider, the most effective method of distribution has been through a dual approach based on a guaranteed baseline element of formula funding supplemented by a bidding process to meet strategic objectives and priorities. This was effective in that it recognised that every provider has a baseline need for capital equipment and infrastructure upgrading/replacement and removed the burden of having to submit bids for small scale projects. It also reduced the cost of assessment of bids. This dual approach also provided the opportunity to bid for more significant sums than those allocated on a formula basis alone as currently. Smaller providers often receive capital sums of £100,000 or less which have to be spent in-year. Although these allocations are welcome, they do not support larger scale projects where sums in excess of £1 million may be required to address or provide a specialist skills-based facility.’
- ‘A bidding process could allow the OfS to better achieve its funding objectives; however, this should be weighed against the administrative cost to providers in preparing bids and to the OfS in assessing them. The OfS should ensure that the bidding process genuinely achieves outcomes superior to what would be achieved via a formula-based method and that these outcomes make up for the added cost of the process.’
- ‘We support an element of bidding to address strategic objectives and priorities but would wish to argue strongly for the retention of a small element of formula capital funding to reduce the burden of bid writing and assessment for relatively small sums. The baseline element could be based on the size of the provider and could account for a minority of overall capital funds available. This would ensure strategic priorities are addressed whilst meeting baseline needs of providers with a minimum of burden.’
- ‘When considered alongside proposals to reduce the funding supplement for non-STEM high-cost courses, the removal of London weighting and further possible reductions to the regulated fee levels, the unit of resource remains under strain. The capital funding element will be vital to fund essential equipment and infrastructure upgrades.’
- ‘It would also be helpful to ringfence an amount for [further education] colleges so that distribution is equal across the whole [higher education] sector.’
- ‘A concern we would have is the imposition of a bid system would bring new rules and red tape for universities to adhere to, to understand and to process.’
- ‘As a specialist provider which does not offer STEM subjects, we would prefer a bidding process but based on different criteria from those outlined in the consultation and more suited to the needs of specialist institutions.’
- ‘A bidding process will become more strategic in nature with larger investments targeted to specific benefits for the students. However, there are issues in the proposals with the feasibilities of the timescales and the burden of preparing bids against the uncertainty of the outcomes.’
- ‘We do however have significant concerns on the disparity that this may cause and the unfair advantage that “larger” providers may gain when compared to smaller providers. As larger providers with sufficient human capital and resources can employ “bid writers” to

improve the quality and likely success of their bids, as the OfS are clear that “The rationale behind a project and its impact is as crucial as the way it is communicated to the OfS. Even the best project ideas will be let down by a poorly drafted bid. Likewise, even the most sophisticated communication will fall short if it has not been well considered and evidenced” [... t]his seems to be a precarious ground on which to tread when assessing all Approved (fee cap) providers as a collective.’

OfS response

To address concerns from respondents that a bidding exercise would add considerable burden, particularly to smaller providers that might be disadvantaged because of a lack of staff resource and expertise to dedicate to constructing a strong bid, we will implement a hybrid model. This will incorporate a small formula-based allocation of approximately £7.4 million, together with a full bidding competition of approximately £123.6 million. By retaining a small formulaic allocation and addressing concerns raised primarily by smaller providers we also have regard to our general duties as set out in sections 2(1) of HERA. We have given particular weight to the duties in sections:

2(1)(b) the need to promote quality, and greater choice and opportunities for students, in the provision of higher education by English higher education providers.

2(1) (e) the need to promote equality of opportunity in connection with access to and participation in higher education provided by English higher education providers,

We have also considered Schedule 1, paragraph 21 of HERA, which extends the Equality Act 2010, and therefore the Public Sector Equality Duty, to the OfS. This requires the OfS to have due regard to the need to eliminate unlawful discrimination, foster good relations between different groups and take steps to advance equality of opportunity. In particular, we recognise that providers offering performing and creative arts and, to a lesser extent, media studies attract high proportions of students declaring a disability (including mental health issues) and therefore the availability of these courses and means of supporting them through a small formulaic allocation is important.

The formula will distribute funding to eligible providers whose allocation meets a minimum threshold of £10,000, and will be subject to a cap of £30,000 per provider. The cap of £30,000 broadly reflects what a provider with typically (depending on subject mix) a little over 300 full-time equivalent students would receive if all capital funding was distributed by formula. It addresses the potential disadvantage that the smallest providers might face through adoption of a bidding competition, while applying equally to all eligible providers. In setting the cap at this level, we have sought to strike an appropriate balance in ensuring that all providers that meet the minimum threshold to receive a meaningful sum, while also ensuring that the large majority of capital funding is distributed through the bidding competition. This will result in about 280 registered providers receiving a capital funding allocation. The terms and conditions of funding will specify that the allocation still needs to fund projects that meet the priorities set out in the consultation: providers that are unsure whether the use they propose of their formula capital allocation will meet this requirement should contact capitalgrant@officeforstudents.org.uk for advice.

The remainder of the funding (circa £123.6 million) will be distributed through a bidding competition open to all eligible providers (whether they have received a formula allocation or not). The minimum threshold for funding through the bidding competition will be £50,000. We have increased this from the proposed £20,000 minimum in our consultation in recognition of the small formula allocation to providers of up to £30,000 that we are now making and which can be used to support smaller eligible projects. This will ensure that funding allocated through bids supports projects of a larger scale. We are also setting a maximum allocation, initially capped at £3 million. Successful bids will also need to meet the priorities set out in the consultation.

This approach allows us to address the issue of burden on and potential disadvantage to smaller providers, but also ensure we meet the priorities set out in the consultation document. It enables us to deliver value for money as we can assure ourselves that the funding (whether allocated by formula or through bidding) is being spent on projects that meet our priorities. It may also help manage the burden on the OfS, if smaller providers choose not to submit bids because of their formula allocation.

It also has regard to our general duties in sections:

2(1) (d) the need to promote value for money in the provision of higher education by English higher education providers.

2(1)(f) the need to use the OfS's resources in an efficient, effective and economic way.

We considered an alternative option of two bidding competitions – one 'light-touch' for smaller amounts and one requiring more detailed information for larger amounts. We rejected this option as it does not adequately address the points raised by respondents to the consultation around burden and potential disadvantage to smaller providers, and would also risk significant additional burden on the OfS.

Full details of the bidding process, including guidance, and further information regarding individual formulaic allocations can be found in OfS 2021.27.¹⁶ Providers wishing to bid should complete a bidding template available to them from the OfS portal. A specimen copy of the bidding template is included for information in Annex B of OfS 2021.27. Bids from eligible providers must be received by **1700 on 10 September 2021**.

We acknowledge the short timelines for a bidding exercise and resulting funding being fully used in financial year 2021-22 (1 April 2021 to 31 March 2022). However, the capital grant provided by government to the OfS is provided on a financial year basis and we have had confirmation of the availability of funds for financial year 2021-22 only. Our ability to allow longer lead times for a bidding process is dependent on how far ahead we have confirmation of capital funding from government. In setting the initial cap at £3 million for the maximum allocation to be awarded through the bidding competition, we have been mindful of the need to minimise the risk that funds may be unspent at the end of the financial year.

¹⁶ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/annual-funding/capital-funding/.

We agree that a bidding exercise provides less flexibility for providers in how they might use OfS capital grants, but this is a deliberate policy intent. In distributing a small proportion of the total through a formula allocation, our policy remains that capital funding for 2021-22 should still be used to address the priorities set out in the consultation. In taking this approach, we are mindful that the amount of capital funding available to us represents only a small proportion of total annual capital expenditure by providers, and that providers have (varying) scope to address their other capital priorities within the overall income available to them. In this context, we believe it reasonable to expect that the public funding we allocate should be focused on the particular priorities we have identified. We believe the priority categories for our capital funding for 2021-22 will promote choice and opportunities for students in relation to high-cost subject areas that require specialist teaching facilities, support access to higher education for those who need more flexibility in how they study, and help to meet the skills needs of students and employers.

We acknowledge the concern expressed by some respondents about a focus in the bidding competition on high-cost subjects identified as strategically important. However, this is one of three categories under which providers may bid. We believe the other categories, and our approach to scoring bids, give scope for providers to be able to bid successfully in relation to other disciplines.

Question 2: If we were to allocate capital funding through a bidding exercise, to what extent do you agree with the proposed approach to assessing bids? (See paragraphs 12 to 35 of OfS 2021.02.) Please provide an explanation for your answer. If you believe our approach should differ, please explain how and the reason for your view.

66. In total, 108 complete responses provided a Likert-type response to this question, with 96 respondents also providing free text comment. A majority of respondents agreed with the approach to assessing bids in the proposed competitive exercise, as shown in Table 2.

Table 2: Likert-type responses to consultation Question 2

Total Likert-type responses	Complete responses	Percentage	Partial responses
Agreed (strongly agreed or agreed)	55	51%	3
Disagreed (strongly disagreed or disagreed)	44	41%	2
Neutral (did not know or preferred not to say)	9	8%	10
Total	108		15

Comments on the proposed assessment criteria

67. Overall, respondents were broadly supportive of the proposed two assessment criteria, 'relevant expenditure' and 'value for money'. This was noted from both respondents who 'agreed' and respondents who 'disagreed' with Question 2.

68. Comments included:

- 'In general, if this is to be the mechanism, the approach is, overall, reasonable.'
- 'If a bidding exercise is to be used, the proposed approach to assessing bids looks to be appropriate.'
- 'The proposal to use 'relevant expenditure' as a criteri[on] appears appropriate and relatively straightforward to assess. Using such a measure would also allow priorities to be changed over time [...] The value for money criteria seem appropriate.'

69. Of the 44 complete responses that disagreed with the proposed assessment criteria, and provided comment, the majority (28 respondents) cited one or both of two issues:

- a. Many respondents opposed an annual bidding exercise per se, rather than specifically disagreeing with the proposed bid assessment criteria. Comments largely supported periodic, open competitive calls in response to national policy priorities, but were opposed to an annual bidding exercise, citing objections such as administrative and regulatory burden, and the compressed timeframe (see responses to Question 1 in paragraph 54).
- b. Many respondents were concerned that the proposed subjects of strategic importance (focusing on STEM and health-related subjects) were too restricted, excluding performing and creative arts, mathematics, business, social sciences and humanities subjects.

70. Comments included:

- 'Although the assessment criteria are sound and appropriate to ensure delivery of objectives and good use of public funds, the bidding process is not consistent with OfS's commitment to reducing regulatory burden. In particular the requirement to demonstrate in a detailed submission of up to 2,000 words, how value for money will be achieved seems disproportionate.'
- 'If the OfS decided to move forward with a competitive bidding process, we broadly support the categories and criteria for the assessment of capital bids [...] Given the timescales, the overall level of information required to evidence quality is going to be burdensome to provide.'
- 'We recognise the approach as an effective means to target present government priorities but would welcome consideration for priorities that do not relate to STEM but still have a strong economic impact and societal benefit, e.g. creative arts.'
- 'We would like to see some continued capital support for business, arts and humanities and social science subjects as well as STEM. [Providers] that specialise in these subjects are likely to be disadvantaged with the new process.'

Comment on the priority categories

71. The consultation proposed that eligible projects should be capital expenditure projects that address one or more of three priority categories, linked to OfS objectives for capital funding. There was broad support for Category 2 graduate employability and skills needs (including technical provision), and for Category 3, part-time and other flexible provision.
72. Many respondents to Questions 2 and 3 supported, and requested confirmation of, the proposal that the three priority categories should be 'independent' and would not all need to be included within one bid. Respondents were concerned that the initial assessment process under criterion 1 and the identified three categories would put some providers at a disadvantage. In particular, there was concern that although there was no requirement to address every category, a bid under a single category would not score as highly as bids that supported more than one priority category. Comments included:
- 'The proposed criteria provide clear parameters to support the bid process. The link to support both students and employers is key to the development of skills to support employability and the inclusion of technical provision at Level 4 and 5 is welcomed from a college perspective.'
 - 'Central to our response to this question is the reference to "one or more" of the three priority categories in paragraph 14b, so that those providers that are unable to address category 1 on account of their provision are not excluded. Our answer to this question is also based on the assumption that providers that already support part-time and other forms of flexible provision will be eligible for capital funding to enhance this provision.'
 - [from a response to Question 3] 'We would prefer that Step 2 is modified to take the sum of the best two of three in criterion 1. This is because we believe it will be difficult for us and other institutions to submit high-quality bids that meet all three of the criterion 1 categories. Scoring highly in two of these three categories would be a better "threshold" for funding success.'
 - [from a response to Question 3] 'We feel the scoring should not work to disadvantage providers that do not offer STEM who would also have legitimate, especially post-covid, capital needs.'
73. A number of providers and sector groups welcomed the focus on capital projects that align with STEM and allied health priorities. However, in responses to Questions 2, 3 and 5, there was broad disagreement with the limits to Category 1, High-cost subjects of strategic importance, from a wide spectrum of providers. Respondents expressed concern around the proposal to exclude high-cost subjects in the arts and other areas, and raised issues around promoting choice and opportunity (see Question 3, paragraph 80). Some respondents noted that creative technology subjects are increasingly 'digital' in nature, and focusing largely on STEM and healthcare disciplines would hinder interdisciplinary projects or projects developing flexible facilities that might have benefits for the broader student population. Some respondents commented on the difference between income and costs, particularly for smaller or specialist providers.
74. Comments included:

- ‘Whilst we tend to agree with the proposed approach to assessing bids for capital funding, we do need to raise the issue that creative and performing arts and design subjects are areas that also require high-cost facilities and investment and this approach significantly disadvantages these areas and students.’
- ‘We are also in strong disagreement on the omission of certain hidden high-cost subjects from the three assessed criteria. The three criteria are heavily weighted towards STEM subjects and whilst they align to a set of government priorities, do not focus on other subjects that enrich the cultural and creative landscape of the UK.’
- ‘Professional creative arts education provided at [the provider] is of strategic importance to a wide range of UK industries, including fashion, film and television, visual arts and retail. Capital investment is also required for creative industries – particularly conservatoire-level performing arts, fashion, jewellery and textiles, and the [science, technology, engineering, arts and maths] interface.’
- ‘When considered alongside proposals to reduce the funding supplement for non-STEM high-cost courses, the removal of London weighting and further possible reductions to the regulated fee levels, the unit of resource remains under strain. The capital funding element will be vital to fund essential equipment and infrastructure upgrades.’

75. A small number of respondents noted that creative and performing arts subject areas make an important contribution to access and participation, and raised concerns about the impact of the proposals on equality and diversity. More widely, providers commented on how principles of access and participation should be included in Category 3. Comment included:

- ‘As with your proposals for revising recurrent funding the fact that you are focusing funding predominately on subject areas that relate only to STEM or healthcare related areas is disadvantaging those students within the creative and performing arts and design subject areas. These subject areas also require significant high-cost facilities and investment. Students in these subject areas as you’ve stated yourselves have larger numbers of students from low [Participation of Local Areas] and [Index of Multiple Deprivation] quintiles¹⁷ and have a higher number of students declaring disabilities. With this in mind your proposals therefore do not ensure equality of experience and opportunity for all students.’

76. Some respondents expressed concern about demonstrable growth in student numbers, arguing that capital expenditure projects may enhance student experience without necessarily increasing student numbers. A number of respondents noted that the assessment of bids for Category 1 requires evidence of the provider’s student numbers and planned growth, with requests to see a comparable level of evidence required to support bids made for priority Categories 2 and 3. Comments included:

¹⁷ See www.officeforstudents.org.uk/data-and-analysis/young-participation-by-area/about-polar-and-adult-he/ and www.gov.uk/government/collections/english-indices-of-deprivation.

- ‘Not all [providers] can grow, and not all always have the latest technologies available to support student learning. A full refit of a lab may not increase student numbers, but would enable students to have “real world” experiences which will meet the future skills needs.’
- ‘There should be more clarity on whether the funding should be for expansion of provision or improvement of provision.’
- ‘There is an inbuilt bias within Category 1 (High-cost subjects of strategic importance) for student growth. This potentially disadvantages some STEM and health subjects where growth may be constrained due to professional, statutory and regulatory [...] requirements.’

Specific queries for capital projects

77. A small number of respondents suggested that bidding criteria should include sustainability requirements.
78. A number of queries related to the purchase of IT equipment used for learning, teaching or assessment, with specific queries around permissible capital expenditure on purchase of operating systems or substantial software applications packages, including where licence, update and maintenance charges were rolled up into the up-front cost.

OfS response

We acknowledge the concern expressed by some respondents about a focus in the bidding competition on high-cost subjects identified as strategically important, which excludes a number of courses that are expensive for providers to offer, such as music, dance, drama and performing arts, art and design, and media studies. We agree that these courses are important, bringing benefit to society and our culture as well as to the individuals who study them, and we want provision in those subject areas to continue to be widely available. However, this particular subject focus applies to only one of three categories under which providers may bid. The other categories, and our approach to scoring bids, give scope for providers to be able to bid successfully in relation to other disciplines. We believe the priority categories for our capital funding for 2021-22 will promote choice and opportunities for students in relation to high-cost subject areas that require specialist teaching facilities, support access to higher education for those who need more flexibility in how they study, and help to meet the skills needs of students and employers. We therefore confirm that the priority categories for capital bidding for financial year 2021-22 are as we proposed in our consultation, but with the exception of archaeology. This will also be eligible under category 1: high-cost subjects of strategic importance reflecting the terms and conditions issued by the Secretary of State¹⁸ that archaeology should remain as a priority subject.

We also confirm that there is no requirement to address every priority category within a bid. Within the scoring system process, the score across all three categories is used only as a tiebreaker for bids that have scored the same under the first prioritisation. That first

¹⁸ See www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/

prioritisation requires bids to score well only against one category together with the criterion relating to value for money, project and risk management.

We have revised the guidance on the submission of student data as part of the bidding template. We will no longer collect student data in a structured table in the bidding template to support our review of bids under Category 1 (relating to strategically important high-cost subjects). This is in part with a view to minimising burden for providers in submitting bids, but also to address concerns about a perceived inconsistency in approach between bids relating to the three categories. Nevertheless, it remains important for our assessment of bids that we are able to understand how proposed capital projects will benefit particular student populations and how those populations might be changing over time. In this respect, providers should still specify and quantify in the narrative parts of their bids how their proposed capital project will support particular student populations relevant to each of the priority categories of capital expenditure for which they are bidding. We confirm that it is not a requirement that those student numbers should be increasing, but that evidence of significant recent or planned growth will strengthen the case for additional capital investment and thus score more highly than would otherwise be the case.

In response to requests from providers seeking further guidance about how to demonstrate value for money (criterion 2), we are changing the title of that criterion to 'value for money, project and risk management' so that it better reflects what we are looking to assess (as described in the consultation) and we are also providing further guidance. In one sense, value for money for public funds is provided when funds are used to meet the strategic priorities of the funding body. However, that is assessed under the different categories of criterion 1 and we are not looking for it to be repeated under criterion 2. For the latter, we are looking to understand how any OfS funding contributes to the overall financing of a project (although there is no requirement for matched funding) and how proportionate this OfS contribution is to the benefits that the project will bring to students, graduates, employers and others, but particularly those populations relevant to the priority categories. The other aspect of criterion 2 relates to us having confidence that the provider will be able to manage public funding effectively through its management of all aspects of the project, from planning and procurement to delivery, ensuring that risks are well managed and that the provider is both ready for the money and able to use it all in the time available (that is, financial year 2021-22).

We have decided not to introduce requirements relating to environmental sustainability as a bidding criterion, but our terms and conditions of funding continue to state that 'Providers should use capital funding in ways that will improve environmental sustainability, for example, in reducing carbon emissions.'

We are providing greater clarity in the bidding document (OfS 2021.27) on permissible capital expenditure relating to IT purchases. Permissible capital expenditure on software includes the purchase of operating systems and substantial applications packages, including where licence, update and maintenance charges are rolled up into the up-front cost and not separately charged over the expected life of the product – that is, where the product has been purchased outright. However, software licences and maintenance expenditure incurred on a periodic basis (even if the period between payments is more than a year) are not allowable as capital expenditure and should instead be treated as recurrent.

Question 3: If we were to allocate capital funding through a bidding exercise, to what extent do you agree with the proposed approach to prioritising between bids? (See paragraphs 36 to 49 of OfS 2021.02.) Please provide an explanation for your answer. If you believe our approach should differ please explain how and the reason for your view.

79. In total, 108 complete responses provided a Likert-type response to this question, with 93 respondents also providing free text comment. Overall, respondents were marginally in agreement with the proposed approach of prioritisation, if we were to allocate the funding through a competitive exercise, with 51 per cent of respondents supporting the proposals. This is shown in Table 3.

Table 3: Likert-type responses to consultation Question 3

Total Likert-type responses	Complete responses	Percentage	Partial responses
Agreed (strongly agreed or agreed)	55	51%	3
Disagreed (strongly disagreed or disagreed)	40	37%	2
Neutral (did not know or preferred not to say)	13	12%	10
Total	108		15

80. Although respondents engaged with this question specifically, there was often significant crossover with responses to previous questions, in particular Question 2. Comments can broadly be categorised as follows:
- a. Concern from respondents that they might be penalised if they cannot submit high-quality bids that meet all three of the categories in criterion 1 (see responses to Question 2 in paragraph 72).
 - b. Concern that, in limiting or prioritising the funding to high-cost and STEM provision, the OfS would potentially be discriminating against provision in price group C and D and failing to recognise the significance and importance of subjects such as the creative and performing arts (see responses to Question 2 in paragraph 73).
 - c. Comment on the level of funding allocated, in particular seeking clarity and certainty on the maximum cap for funding. In addition, there was concern that, if the funding was subsequently pro-rated, it might have an impact on what a provider had originally planned for any capital programmes.
 - d. The issue of a minimum threshold, though responses to this were quite mixed. Smaller providers were broadly happy with a minimum of £20,000 as this threshold is enough to have a material impact for them. Other respondents were interested in raising the threshold substantially given the resource requirements for submitting a bid.

- e. Concern that bids would be assessed on the quality of the writing as opposed to the actual content and merit of the programme.
- f. Mixed responses on the application process, with a small number requesting that the word count be increased to reflect the complexities of capital programmes. An equally small number wanted the word count reduced so the bids are concise and to avoid disadvantaging smaller providers. Some small providers felt that a higher word count would give bigger providers the chance to make a stronger case.
- g. A suggestion by a small number of respondents that an independent panel oversee and make decisions on the bids as opposed to OfS officers.

Maximum cap for a bid

81. Respondents provided comment on the level of funding that may be allocated, and in particular sought clarity on the maximum cap for a single bid. Many respondents to both Questions 2 and 3 raised concern about the quantum of funding and likely pro rata reductions limiting or reducing the scope of the work originally planned. A number of respondents noted that clarity on the likely quantum of an allocation would be crucial to providers' understanding whether the investment of time and resource to develop bids will provide value for money.

82. Comments included:

- 'We are further concerned about the lack of a cap being indicated at this stage for funding allocated to a single institution as part of the bid process, though we note that a threshold for minimum funding has been stated. If institutions do not have clarity on the boundaries of the process it is difficult to judge how it might be applied across the sector.'
- 'Whilst the proposals, in general, are not unreasonable we do not support the proposed standard cap for all providers [...] since this appears to work against larger providers. We would expect there to be a cap weighted by student [full-time equivalent numbers] in some form.'
- 'Uncertainty on the amount of funding means [a provider] will need to have sufficient funds to go ahead with the project even if they only receive partial funding via the capital grant. A partial funding of valid bids would be better received than all or nothing.'
- 'While the fact that there is no upper limit on funding values, the relatively low total allocation suggests that, in order that a range of providers and projects receive funding, actual awards will be modest. The additional required resource – the time and investment required to identify and prepare bids, allocate funding internally, and to spend funding before the deadline – will be considered in the context of the small minimum award and overall allocation.'
- 'We recognise that it is challenging for the OfS to give estimates on the average size or number of grants at this stage. If a competitive process is adopted, however, the information should be published early enough after the first round of funding to meaningfully inform institutions' planning processes.'

- ‘We have commented earlier on the risk arising from a bidding process of downward adjustments to the level of requested funding if there are more than expected fundable projects. This could make some projects unworkable and/or cause disruption and delays to their implementation. Our preference is to apply against a known quantum of funding, on the basis that the submission can still be assessed for eligibility and value for money, but with the expectation that funding allocations will be approved unless there is a major problem with the submission [...] Our aim is to provide a more equitable distribution of capital resources that recognises the varying scale of providers, the value for money that can be achieved even with some smaller-scale investments and the interests of smaller providers and their students.’

A minimum threshold for the bid funding

83. Respondents raised the issue of a minimum threshold, with the responses quite mixed; smaller providers were broadly happy with a minimum of £20,000 as it can provide material impact to them. A small number of respondents suggested that the allocation could be lowered further, as a small allocation can still make a difference to the provider. At the other end of the spectrum, respondents were interested in raising the threshold substantially, commenting that the resource requirement to submit a bid needs to be worthwhile.

- ‘We would also add that we believe that the £20,000 minimum threshold below which no funding will be provided is too low, given the cost in relation to bid preparation and internal sign-off processes.’
- ‘While we agree it is important for funds to have a material impact we also believe application of a minimum threshold of £20,000 will disadvantage small providers who can benefit from smaller sums of investment.’
- ‘However, should the proposed changes result in raising the minimum threshold for allocations and restricting the use of capital funding by narrowing the eligibility criteria, this would in all likelihood, disadvantage college providers for whom relatively small amounts of capital funding (e.g. £20,000) have a disproportionately positive impact on the student experience compared to those at institutions with higher numbers of students and much greater incomes.’

The application process

84. A small number of respondents wished to see an independent panel oversee and make decisions on the bids, as opposed to OfS officers. There was a concern that it would be particularly burdensome for the OfS and if it was possible to involve an independent arbiter with the appropriate expertise then there was the possibility of a fairer outcome. In particular:

- ‘The consultation doesn’t make it clear who will make this decision. It seems to be OfS. We would suggest that a panel be used, and that a fair representation be included from a variety of high-cost subject areas (not just medicine), as well as expertise on the key themes, i.e. apprenticeships, employability, distance / remote learning – VLE technology.’

Word count

85. A small number of respondents identified the specific issue of word count. Despite the proposal to potentially increase the word count to allow for a fuller description of the project or activity being bid for, generally respondents who raised it felt that the word limit was particularly high.

86. Comments included:

- ‘We think that the word limit for each section is too long. Word limits encourage applicants to write to the maximum requirement, and assessors to question why, if applicable, the full limit has not been used. If the funding is small, and the investment straightforward, this may be unnecessary. A range of word limits, based on the requested funding level, would be preferable and would help reduce the bureaucracy and time consumption of a bidding process.’
- ‘A limit on 2,000 words per bid may seem sensible when coming to assess and to restrict the size of the projects proposed but it is unrealistic. The same limit would apply to, for example, projects of £50,000k and £5 million, and the level of review possible by the OfS may not match the sums awarded.’

Assessment of bids based on the quality of the writing

87. As previously discussed in responses to Question 1, a number of respondents were concerned that a bidding exercise would favour those providers that have the resource and expertise to produce well honed bids at the expense of those providers that have less experience of bidding for funding.

88. Comments included:

- ‘We have concerns about such a change blocking innovation, particularly for institutions wanting to expand into new areas. The scoring and prioritisation approach would mean that bids could be judged on how polished they are, rather than address where there is most need.’
- ‘The methodology seems fair but again, only with an excellent written bid is the chance of success likely. We would question how realistic it is to be able to assess and prioritise what are likely to be very similar bids from across the sector. There is a risk of passing money to a small number of institutions (and therefore students) rather than supporting change across the sector.’

OfS response

Full details of the bidding process can be found in OfS 2021.27. Following concerns raised by respondents, we are providing greater clarity in the bidding document describing the scoring of bids, to ensure all providers are clear about the information they need to provide and how to deliver a ‘good’ bid and meet the priorities as set out in the consultation.

The information we require in the bidding template is as low-burden as possible, so that it is focused on how a project will deliver against the criteria set out in the consultation. As

outlined in our response to Question 2, we have revised the guidance on the submission of student data as part of the bidding template. We will no longer collect student data in a structured table to support our review of bids under Category 1. However, providers should still specify in the narrative parts of their bids how their proposed capital project will support particular student populations relevant to each of the priority categories of capital expenditure for which they are bidding, together with narrative information in five defined sections, each with a guide of up to 2,000 words.

We are specifying an initial maximum cap of £3 million on the amount that we will allocate in financial year 2021-22 in support of any single bid. This is to provide clarity for providers as they prepare their bids. We accept the argument made by providers about their need for clarity about the level at which we might cap any allocations awarded through the bidding competition, and have set an initial cap at £3 million – we do not intend to raise it above this level. In setting the level of this initial cap, we have sought to strike an appropriate balance in ensuring we can support a broad group of providers and provide significant sums towards large projects, while also being mindful that all funding allocated to providers must be used by 31 March 2022. The level of the initial cap broadly reflects the largest allocations made to providers through the formula allocations for 2020-21. This cap applies equally to all providers (irrespective of their characteristics or region).

However, in the event that the funds available are oversubscribed, we may reduce below £3 million the level of the cap on how much funding any successful bid might receive, to ensure funding for the bids to be supported comes within budget. For example, a large number of strong bids may result in our having to reduce the maximum level of grant we are able to provide to any successful bid, or require providers to achieve higher scores to be prioritised for funding, than if the number of strong bids is less. We are unable to model this, though, until we have assessed the bids received.

The minimum threshold for funding through the bidding competition will be £50,000. We have increased this from the proposed £20,000 minimum in our consultation in recognition of the small formula allocation to providers of up to £30,000 that we are now making and which can be used to support smaller eligible projects. The threshold for the formula allocation is £10,000 (unchanged from 2020-21), addressing arguments from smaller providers that such sums can still have a significant impact for them. The higher minimum threshold for the bidding competition will ensure that funding allocated through bids supports projects of a larger scale.

Between the limits of the cap and the minimum threshold, we will fund successful bids at the level of the OfS funding sought for the financial year 2021-22 in the provider's bid. In reducing the cap as the means to ensure allocations remain within budget, we are looking to mitigate the risk of underspending against the largest allocations.

We do not accept the need for an external panel to advise on the assessment of bids. We are confident that OfS staff can assess objectively the extent to which bids address OfS priorities and provide evidence about value for money, project and risk management. The use of an external panel could also add further delay to the finalisation of decisions and allocations.

We are looking to keep the information we require in the bidding template as low-burden as possible, so that it is focused on how a project will deliver against the criteria set out in the consultation. In this respect, we are no longer collecting information on student numbers in a structured way as part of the bidding template. We encourage providers to respond concisely. We have set a guide of up to 2,000 words for each of the five narrative sections which is similarly intended to strike an appropriate balance in keeping the burden on providers down while ensuring all providers have sufficient and equal scope to make the case for their proposals. Providers are not required to submit bids that address more than one of the priority categories under criterion 1, and we would emphasise that we will be prioritising on the basis of the quality of the case made and evidence provided, rather than the length of the submission.

Question 4: To what extent do you agree with the proposed changes to terms and conditions that should apply to capital grant? (See paragraph 50 of OfS 2021.02.) Please provide an explanation for your answer. If you believe our approach should differ, please explain how and the reason for your view.

89. In total, 108 complete responses provided a Likert-type response to this question, with 73 respondents also providing free text comment. Their responses are shown in Table 4.

Table 4: Likert-type responses to consultation Question 4

Total Likert-type responses	Complete responses	Percentage	Partial responses
Agreed (strongly agreed or agreed)	62	57%	3
Disagreed (strongly disagreed or disagreed)	31	29%	2
Neutral (did not know or preferred not to say)	15	14%	10
Total	108		15

90. Respondents that provided comment commonly referred to their preference for a formulaic option. However, providers indicated that if the OfS proposal of a competitive bidding exercise were to go ahead, terms and conditions should reflect the bidding option. Providers generally considered the outline terms and conditions proposals in the consultation to be proportionate and reasonable.

91. Although respondents engaged with this question specifically, there was often significant crossover with responses to previous questions, in particular Question 1. A number of specific concerns raised by providers are addressed in the guidance that we have published in OfS 2021.27. Comments can broadly be categorised as follows:

- a. Concern over the process between providers and the OfS in agreeing the profile payments for those awarded funds. These issues were mainly related to any delay this might cause to the project start and any consequential impact on the end date, as well as the

administrative burden, and overlapped with the concerns about timeframes previously raised in response to Question 1 (see paragraph 54).

- b. A similar concern that if government routinely agrees the capital funding in the spring, that the new bidding process of applying for and awarding grants might limit the active building period of a project to eight months of the year and outside the preferred summer months for capital projects when students are not on campus (see paragraph 54).
- c. A parallel concern that value for money may be harder to achieve on large capital projects in a year and that the process of applying annually for a larger, longer-term or multi-year project may not be feasible (see paragraph 51).
- d. Concern over spending all money before the end of the financial year, that is by 31 March each year. This theme also included concerns, some arising out of difficulties over the period of the pandemic, about how to manage delays to capital projects and how to report and manage any unspent funds at the end of the financial year.
- e. Some general misunderstanding of the difference between government fiscal years and providers' academic and financial years. Providers were concerned about the additional monitoring burden for reporting by financial year.
- f. Questions raised by a small number of providers relating to requirements for matched funding.

OfS response

We welcome the broad agreement with the proposed terms and conditions and monitoring arrangements for capital funding allocated through the bidding competition. In agreeing to allocate a small proportion of the overall budget through a formula method, we are addressing particular concerns about burden and potential disadvantage of a bidding exercise for small providers, but we still require that the formula allocation is used to support the same priorities as those for the bidding competition. We will monitor use of capital funding at the end of the financial year. If providers are unsure whether the use they propose of their formula capital allocation will meet the requirements for its use, they should contact capitalgrant@officeforstudents.org.uk for advice in advance of committing to the expenditure. Terms and conditions of funding for 2021-22 will be published separately in July 2021.

We acknowledge providers' concern about the payment profile for capital grant. We will confirm the profile separately and look to ensure that this supports providers in being able to spend their allocations in full by the end of the financial year. We do not provide funding in advance of need, nor can we provide any commitment that providers will be able to carry over any unspent funding into the following financial year, as these policies reflect the basis on which the government provides funding to us. In selecting which capital projects they put forward through the bidding exercise, providers should ensure they will be able to spend any funding awarded within the 2021-22 financial year – this will be an important consideration in our assessment of criterion 2.

The practice of allocating and monitoring capital funding on a financial year basis is not a new requirement, but very longstanding. We do not accept (based on our own experience)

that reporting expenditure over different 12-month periods creates a significant additional monitoring burden.

We confirm that there is no requirement for matched funding as part of the capital bidding competition – there will be no terms and conditions of funding that require this. However, in our assessment of value for money under criterion 2, we are looking to understand how any OfS funding contributes to the overall financing of a project and how proportionate this OfS contribution is to the benefits that the project will bring to students, graduates, employers and others, but particularly those populations relevant to the priority categories.

Question 5: Do you have any other comments on the proposals set out in this consultation?

92. Of the 108 respondents, 60 provided further comments, which largely reiterate concerns raised in previous questions. The main points raised were:
- a. As previously discussed, a bidding exercise would likely see a large increase in burden and bureaucracy for both providers and the OfS. There was concern that providers will not have sufficient capacity to dedicate time to producing a bid that is of sufficient quality (see paragraph 41).
 - b. As previously discussed, there was a concern that providers would not be able to spend the money in full within the financial year (see paragraph 54).
 - c. A small number of respondents commenting on priority Category 1 noted that our published equality and diversity data indicate that students studying design and creative and performing arts have the highest proportion of any broad subject group with a reported disability, and a higher than average proportion coming from Participation of Local Areas (POLAR) quintiles 1 and 2. Respondents also noted our parallel consultation on recurrent funding for 2021-22 (OfS 2021.01), and commented on the impact of the proposal to reduce recurrent funding for arts subjects.
 - d. Recognising the decline in part-time student numbers in recent years, there was broad support for our proposed priority category 3, part-time and other forms of flexible provision, for capital investment to directly support the development and expansion of flexible and part-time provision that will both widen participation and reflect the use of IT and other technologies.

OfS response

Our consultation on recurrent grant for 2021-22 identified the high proportions of students studying design and creative and performing arts, as well as media, journalism and communications, who have a reported disability, particularly in relation to cognitive or

learning difficulties and mental health conditions.¹⁹ It also identified students from both subject groups as having a higher than average proportion coming from POLAR quintiles 1 and 2. In reflecting this, respondents did not generally set out the relationship between these characteristics and any particular needs for capital funding.

The focus in the bidding competition on high-cost subjects identified as strategically important (which excludes a number of courses that are expensive for providers to offer, such as music, dance, drama and performing arts, art and design and media studies), applies to only one of three categories under which providers may bid. The other categories, and our approach to scoring bids, give scope for providers to be able to bid successfully in relation to other disciplines. We welcome the support expressed for the priority category relating to part-time and flexible modes of delivery, which we believe can help support access to higher education for those who need more flexibility in how they study.

¹⁹ See www.officeforstudents.org.uk/publications/consultation-on-recurrent-funding-for-2021-22/.



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