

Skip to: [main content](#) | [section navigation](#)

[News](#) > [2009](#) > [22 December 2009](#) > **Grant letter**

22 December 2009



*The Rt Hon Lord Mandelson
Secretary of State for Business, Innovation & Skills
Mr Tim Melville-Ross CBE
Chairman
Higher Education Funding Council for England
Northavon House
Coldharbour Lane
Bristol
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22 December 2009

Dear Tim,

Higher Education Funding 2010-11

1. I am writing to you to confirm the Council's budgets for 2010-11, and the objectives that the Government looks to you to meet in spending the funds allocated to you.
2. The economic situation is extremely challenging, and across the public sector we are all facing difficult choices. As those choices are made, I look to HEFCE to continue to do all it can to maximise the economic, social and cultural impacts of higher education, for both the short and longer term. The "Economic Challenge Investment Fund" demonstrated the ability of universities to respond speedily and effectively to meet important needs. In the period ahead, greater efficiency, improved collaboration and bearing down on costs will need to be combined with a commitment to protect quality and access. We will also need to focus on the long-term strategic goals set out in *Higher Ambitions: The future of universities in a knowledge economy*. The Council's advice, and our consultation with the sector, helped us develop this document, and I hope its general principles will now influence all your work.

Wider and fairer access to higher education

3. I look to you to continue to do all you can to widen access to our higher education system. Our ambition is wide-ranging; from more local vocational study opportunities for those with little recent educational experience, to more help for our most talented young people to go to highly selective universities, whatever their background. In this task you will be able to build on the good progress that has been made in recent years, and the energy and expertise we have within the sector. In the Spring, Sir Martin Harris will be reporting to me on the next steps for promoting fair access to the most selective universities, and his recommendations may well be relevant to your work.
4. *Higher Ambitions* set out the importance of increasing the variety of undergraduate provision. We want to see more programmes that are taken flexibly and part-time and that a learner can access with ease alongside their other commitments. We also wish to see more programmes, such as foundation and fast-track degrees, that can be completed full-time in two years. The underlying theme is providing for diversity. Over the next spending review period, we will want some shift away from full-time three year places and towards a wider variety of provision. I would like you to assess current trends in demand; to lead a debate on how diverse provision can be encouraged; and to give

me initial advice by Summer 2010. Your thinking here will of course feed into HEFCE's review of the teaching funding method, which will also take account of the conclusions from Lord Browne's independent review of higher education funding and student finance.

Equipping Britain's workforce for the global economy

5. We still need more skilled people in those industries which have the potential to drive future growth in our economy, such as those highlighted by the CBI, the UK Commission for Employment and Skills and in New Industry, New Jobs. We want higher education capacity to grow in these priority areas, and we look to universities to respond to the national need. Universities already have good links with employers and relevant sector skills councils, and a well-developed capacity to create new courses for their own students and localities. But, as we signalled in *Higher Ambitions*, I am also asking you, in consultation with all interested parties, to devise new funding incentives for higher education programmes that deliver the higher level skills needed. This will require a robust way of identifying those programmes and activities that make a special contribution to meeting economic and social priorities, and a mechanism to redeploy funds, on a competitive basis, to those institutions that are able and willing to develop new or expanded provision in these key areas. I do not underestimate the challenge of doing this. Nevertheless we need to make rapid progress in this area. I would like you to report in Spring 2010 on the issues and options, and by Autumn 2010, I would want you to have a firm timetable for implementation in the academic year 2011/12.

Research, innovation and knowledge transfer

6. On research, securing greater economic and social impact will be important over the next year. I want you to continue to develop proposals for the Research Excellence Framework, following the consultation that ended on 16 December. These should provide significant incentives to enhance the economic and social impact of research. *Higher Ambitions* made clear the Government's presumption in favour of more, rather than less, research concentration, especially in the high cost, scientific disciplines. I should be grateful for your views, in time to inform the 2010/11 allocations, on how to achieve this, alongside our commitment to supporting research excellence. I would also like you to promote increased flexibility in career paths for researchers moving between commercial businesses and universities.

The student experience of higher education

7. A high quality student experience, with excellent teaching well supported by the latest technology, is vital for our universities to continue to flourish. The evidence is that our universities do provide such an experience, but we cannot be complacent. I welcome the action that you are planning, with the Quality Assurance Agency (QAA) and the sector, to improve quality assurance, so that new arrangements can be introduced for the academic year 2011/12. In addition, in *Higher Ambitions* we said that all universities should publish a standard set of information setting out what students can expect in terms of the nature and quality of their programme. This should set out how and what students will learn; their own study responsibilities; what that knowledge will qualify them to do; and what facilities they should have access to. Students should know about the opportunities for international experience, and how new technologies are integrated into their programmes. All universities should also be expected to demonstrate how their institution prepares its students for employment. I am asking you to work with the QAA and the UK Commission for Employment and Skills to develop proposals, in consultation with student representatives and the sector. I hope that universities will start to make much of this information available in the applications round for admission in 2011/12, with new arrangements fully in place the following year.

Engaging with communities and the wider world

8. Universities contribute to the wider world, at local, community and global levels. Over the next year I hope you will support the work of the new International Education and Research Advisory Forum, chaired by David Lammy. You will also be supporting the taskforce chaired by Lynne

Brindley, charged with making recommendations on how we can enhance our leadership in global online learning. I look forward to receiving the taskforce's final report in the Autumn.

9. I welcome the work the Council and the sector have done over the past year to ensure the development of carbon management strategies for all higher education institutions. I hope universities and colleges will show leadership in this area, both in reducing their own emissions, and in seeking to include sustainability in their teaching and research.

Financial support for the HE system

10. The Annex to this letter sets out the funding figures for 2010-11. Compared to the figures in last year's grant letter, these include the £180m efficiency savings announced in the 2009 Budget, which you are already implementing; and the deduction of £83m following the letter sent to you by my predecessor in October 2008. In addition, it has been necessary to make an adjustment of £135m from your baseline to meet additional pressures, in particular the higher than expected costs of student support during the economic downturn. It is for you to take final decisions on how to allocate the revised figures. But we are agreed that you should aim to deliver the further savings in ways that minimise impact on teaching and students. I also wish to protect research funding. To achieve these goals, we have agreed to switch £84m from your capital baselines, so that the reductions to the teaching grant can be held to £51m.

11. My predecessor repeatedly made clear to the higher education sector the risks of student over-recruitment putting unmanageable pressures on our student support budgets, (in his letters to you in October 2008, and in January 2009). David Lammy reiterated this warning in July 2009. They both made clear that any over-recruitment could result in a transfer of HEFCE grant back to this Department in that or future years. Nevertheless, some institutions have recruited above their permitted numbers for 2009/10. The grant for teaching has been adjusted downwards, inter alia, as a result of this over recruitment. I am now asking you to make the appropriate adjustments to the allocations of those institutions that have over-recruited, at a rate of £3,700 per full time undergraduate and PGCE student recruited above the permitted level. This figure represents the average cost to the Government of providing student support.

12. In July 2009, David Lammy wrote to you saying that an extra 10,000 students could be recruited, compared to the numbers in the January 2009 grant letter, without the penalty for over-recruitment applying. This was a one-off increase in recruitment for 2009/10 only, responding to the particular needs of the time, and it will not be repeated in 2010/11. I repeat the warning of last year that any over-recruitment by institutions in 2010/11 could again result in a transfer of HEFCE grant back to this Department in this or future years.

13. In the current difficult economic circumstances, there is a particular need to exercise discipline on pay in higher education, at all levels and in all areas. I am pleased that universities made a realistic pay offer in 2009. Over the next year, moving towards a sustainable position on pensions within the sector will be a key challenge.

Condition of grant on regulated tuition fees

14. Under Section 23 of the Higher Education Act 2004, the Secretary of State has imposed a condition on grants to the HEFCE, and to the Training and Development Agency for Schools (TDA), requiring them in turn to impose a condition on financial support given to the governing body of a relevant institution. This condition requires the governing body of each institution to ensure that the fees payable for a course of higher education by a student who is eligible for financial support under the Student Support Regulations do not exceed either the basic amount specified in the Education (Student Fees) (Amounts) (England) Regulations 2004, as amended (being £1,310 for the 2010/11 academic year) – or, where the institution has in force an Access Agreement approved by the Office for Fair Access (OFFA), the higher amount specified in those Regulations (£3,290 for the 2010/11 academic year).

Conclusion

15. Looking beyond 2010/11, it is clear that together we face a more challenging public spending climate. The strong increases in higher education funding over the past ten years have enabled universities to maintain, renew, and enhance their facilities; remove the pay gap that had opened between academic salaries and comparator professions; and invest in developing their capacity to attract funding from non-public sources. The challenge and opportunity now is for each higher education institution to focus on developing the areas where it can achieve excellence, to control costs, and to build new partnerships for the future.



Peter Mandelson

Annex: HEFCE budgetary information for 2010-11

HEFCE Grant settlement

Financial Year: all figures are £million in cash terms except employer co-funded provision and growth in core funded students which are in thousands.

		2009-10	2010-11
a	Recurrent Grant for Teaching	5076	5027
b	Recurrent Resources for Research	1509	1618
	Total (a + b)	6585	6645
c	Total Capital Grants	938	404
	o/w Teaching and other capital	572	237
	o/w Research	366	167
d	Science and Research Funding	315	271
	o/w HEIF	99	113
	o/w RCIF and SRIF Transitional	216	158
e	Non-cash budgets	-29	-29
	Total (a+b+c+d+e)	7809	7291
Additional Funding			
f	Voluntary Matched Giving	23	62
	Growth in Core Funded Students (FTEs in thousands)	30	40
	Employer co-funded provision (FTE) numbers	7	15

Notes

1 The amounts set out above are the Council's resource and capital budgets. They represent the maximum amount of resource and capital that the Council may consume in pursuance of the priorities agreed with the Department for the Spending Review period. Figures may not sum due to rounding. Funding must not be moved between the recurrent, capital and non-cash resource lines.

2 Recurrent resources exclude the Science contribution and the Research Capital Investment Fund. These are shown as separate lines. It includes funding for employer co-funding investment and participation, HEFCE administration, £3.5m for the Erasmus fee waiver and £5m for institutions' costs in collecting tuition fees.

3 The funding for 2010-11 reflects the reduced baseline of £180m derived from efficiency savings in the 2009 Budget. Additionally, there is a reduction of £83m to reflect the fact that 20,000 fewer Additional Student Numbers (ASN) than planned at the start of the CSR period were allocated. There is also a further reduction of £135m from the baseline to meet Departmental pressures, in particular the additional costs of student support at a time of economic downturn. This is split between a £51m reduction in the teaching grant and a £84m reduction in the capital baseline. The total capital grants figure is £250m lower than the indicative allocation given in the 2008 Grant Letter because of the capital bring forward from 2010-11 announced in the 2008 Pre-Budget Report. In addition, HEFCE capital commitments will need to reduce by £51m, because End Year Flexibility for capital programmes, which had been anticipated in allocations to institutions coming into CSR 2007, has not been confirmed.

4 The non-cash budgets are cost of capital and depreciation: £370k depreciation; -£7m cost of capital; -£28m release of provision; and provision take up of £6m. These budgets will change in 2010-11 as a result of the Clear Line of Sight project, which alters their coverage. Revised figures will be provided when they are finalised.

5 I will write to you separately about the additional allocations for the Access to Learning Fund and FE Initial Teacher Training bursaries which are not included in the figures given above.

6 Core funded students refer to those students who do not have an existing HE qualification at an equivalent or higher level, or where this is not the case are still eligible for teaching grant because of the nature of their course. Some of this growth (around 20,000 additional places) comes from redistributing funding away from students who are studying for equivalent or lower level qualifications. We estimate that there were 1.14 million fundable FTE students in the 2007-08 baseline. Figures are rounded to the nearest five thousand students.

7 The planned Unit of Funding was set at the beginning of this CSR period at £4,140. It is rounded to the nearest £10 and expressed in 2007-08 prices. In 2010-11, the cash terms Unit of Funding will be £4,220 and £3,950 in 2007-08 prices (using the GDP deflators published by HM Treasury on 09 December 2009). This takes account of £164m efficiency savings made in the Teaching Grant following the Budget 09 and the £51m teaching grant reduction to meet Departmental pressures, particularly the additional costs of student support at a time of economic downturn.

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