

**The Rt Hon John Denham MP**  
Secretary of State for Innovation,  
Universities and Skills

Tim Melville-Ross CBE  
Chairman  
Higher Education Funding Council for England  
Northavon House  
Coldharbour Lane  
Bristol, BS16 1QD

21 January 2009

Dear Tim

### **HIGHER EDUCATION FUNDING 2009-10**

1. I am writing to you with details of our allocations to the Funding Council for 2009-10 and the priorities I wish to set for the Council for that year.
2. In economically difficult times, we must not lose sight of our long-term, strategic goals. By mid 2009 I expect to publish a framework for the future development of higher education, with proposals for ensuring our system remains world class over the next ten to fifteen years. I will look to the Council for advice as I develop these proposals, and I hope you will take a leading role in their implementation. Other themes that will certainly be relevant to that framework, and where I hope the Council will continue to focus during 2009-10, include engaging with business; widening access to higher education; supporting quality in HE; enhancing employability; sustaining world class research; and responding to climate change.
3. Equally, responding rapidly to the present economic challenge is vital. The economic situation brings some financial risks to higher education institutions, and these need to be managed. It should also focus attention on achieving and demonstrating value for public money. This sector enjoys a greater security of income and level of customer demand than many of the organisations and individuals with which it works. The past ten years have seen record levels of public investment. Now is the time for HE to show the value of this investment by reaching into local communities to offer practical help to individuals and businesses. That will mean thinking creatively

about the needs of students, of graduates and of employers. It will mean a willingness to experiment; to act quickly and decisively; to learn from each other; and to use national, regional and local networks to find out what is happening and respond. So, my chief priority for the Council for 2009 is to support and encourage the sector to use all of its huge capacity and autonomy to help deal with the consequences of current circumstances and to lay the foundations for the future.

### **Supporting the economy through recession and wider engagement with business**

4. I have been encouraged by the way higher education institutions have already responded in supporting individuals and businesses of all sizes. The reduction in Value Added Tax that the Chancellor announced last year in his Pre-Budget Report will deliver a real and significant reduction in the costs that institutions incur. Over this next calendar year, I hope these savings will help institutions to offer teaching, research and knowledge transfer in ways that help the economy and society to be in a strong position as we emerge from the global downturn.
5. I have already announced that as part of our measures to stimulate growth I am asking the Council to bring forward some £219.3m of capital spend from 2010-11 into 2009-10. £200m of this is from the Council's general HE capital budgets, and the remaining £19.3m is the final year of the SRIF Transition funding from the Science and Research budget. This investment in Higher Education is not only a sound investment for the future, but it will allow institutions to offer immediate and practical help to their regions and communities during the downturn.
6. Following my 2008 grant letter to you, the progress against the targets for employer co-funded places, and Foundation Degree growth, has been very encouraging. I hope you will continue to promote vigorously these core strategic priorities. They, along with innovations such as compressed degrees, have increased opportunities and diversity in the HE system, and over the coming year I would like the Council to consider whether further models are needed to meet the needs of employers and institutions. We intend to publish the next steps for our high level skills strategy shortly and I will want the Council to be fully involved in this.
7. I would like you to work with the sector as it finds innovative ways to support business. Promotion of STEM (science, technology, engineering and mathematics) disciplines should be a factor in all of

your activities, since these are subjects that employers consistently tell us they will need in the long term. I particularly welcome the development of your national STEM programme and acknowledge the progress that you have made in increasing opportunities for studying STEM at undergraduate level. Encouragingly, the supply of STEM graduates and postgraduates has increased in recent years particularly in physics, biology and mathematics.

### **Widening participation and fair access**

8. As you know, this Government continues to give very high priority to widening participation and fair access, and our recent New Opportunities White Paper set out some of our plans and priorities for younger students. I hope the Council will help us to take these forward, working with the LSC as appropriate. Last year, I asked you to support institutions to extend and strengthen their links with schools and colleges, and I am therefore pleased to see your proposal for increasing widening access funding to encourage institutions to develop and deepen these links. The recent National Council for Educational Excellence (NCEE) report confirmed that structural and systemic links with the earlier education sectors are key to supporting social mobility, and that institutions are already doing much good work, not least in supporting Academies and Trusts.
9. Part-time provision is also an important route into higher education for adult learners and I was pleased at the interest caused by Professor Christine King's contribution on this subject to the HE debate. The recently announced trebling of Professional and Career Development Loans, with improved headline interest rates and higher loans thresholds should support many more people who want to study part-time in higher education.
10. In my letter last year I said I would like to see a more prominent role for academic credit in higher education. I am pleased that most institutions are on track to credit-rate their main provision by 2009/10, to meet the original timetable set by the Burgess report, and I hope that this will soon be true of all institutions. Credit-based provision will promote more flexible learning patterns and will help to establish better progression routes into and through higher education. So, as part of our thinking about the HE framework, I will be considering if there is more we should be doing to support it.
11. I am delighted by the number of expressions of interest you have received under our new "University Challenge" initiative, which invited the Council to build on a track record of recent success by

agreeing funding for a further twenty new local higher education centres over the next six years. This level of demand confirms that the new “University Challenge” should be a priority for the Council in coming years.

### **Quality and oversight**

12. Maintaining our deservedly high reputation for quality is crucial. Claims of poor quality in the sector could damage its reputation, both here and overseas. I have already made clear that I believe the sector needs to have a quicker and more proactive method of responding to such claims. I am looking forward to the outcomes of the work which the Council has commissioned from the QAA, and want to keep in close touch with the discussions of the Council’s own recently established quality assurance sub-committee.
13. Strengthening the partnership between HE institutions and their students will be key to further quality improvement and enhancement by all HEIs. This is exemplified by the National Student Forum's first annual report. I would ask you to assist universities in identifying and disseminating good practice on priority areas identified by the NSF, helping national partners to improve information for applicants and ensuring that the Forum's proposals to help specific groups of students, for example disabled students, are reflected in your policy reviews.
14. I was encouraged by Steve Bundred’s July report on progress towards better regulation in the sector over recent years. You have clearly shared the Government’s concern to apply better regulation principles in higher education and I hope you will continue to embed these principles in all that you do.

### **Promoting excellence in research, science and innovation**

15. The Government is committed to a world-class research base that delivers strong economic impact. I repeat again our unequivocal commitment to the dual support system.
16. The coming academic year is the first in which research funding will be allocated by reference to the 2008 Research Assessment Exercise. In allocating your research funding, I expect you to continue to recognise and respond to the high cost and national importance of STEM subjects. I also expect the Council to continue to recognise and reward the highest levels of research excellence wherever it is found. I know that you will need to maintain high levels of funding for those institutions with the largest volumes of world-

class research whilst rewarding and nurturing pockets of excellence elsewhere. It is also important that you seek to remove barriers to research partnerships between universities and both charities and businesses.

17. Looking further into the future, I would ask you to work with the sector to explore ways to encourage collaboration between institutions with the largest volumes of world-class research and those with smaller pockets of excellence. This will enable our HEIs to respond to strong research competition from around the world, sustaining and growing major, world-class capability in institutions – and groups of institutions – that demonstrate high levels of excellence across a broad range of STEM subjects and other disciplines.
18. The Council is already working on the Research Excellence Framework, and has initiated the pilots exercise for bibliometric indicators of excellence. This should reduce the burden on institutions and take better account of the impact research makes on the economy and society. The REF should continue to incentivise research excellence, but also reflect the quality of researchers' contribution to public policy making and to public engagement, and not create disincentives to researchers moving between academia and the private sector. You are also considering wider aspects of assessment, including user-focused research and subjects where bibliometrics have not yet been fully developed. I look forward to seeing your proposals on the REF by summer 2009.

### **Tackling climate change**

19. Last year, I set out our ambition that capital funding for institutions should be linked to performance in reducing emissions. Following your advice to me, I am now confirming that such links should be in place for 2011-12. In May 2008 I asked you to finalise during 2008-09 a strategy for sustainable development in HE, with a realistic target for carbon reductions that would reduce carbon emissions by 60 per cent against 1990 levels by 2050 and at least 26 per cent by 2020. This former target should now be upgraded to 80 per cent, in line with Parliament's decisions in passing the Climate Change Act 2008. I hope that some of the capital expenditure I have asked you to bring forward into 2009-10 will support strategic, long-term action to tackle climate change, but institution-wide strategies to reduce carbon emissions are also needed.

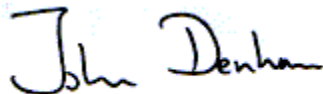
## **Student numbers and finance**

20. The Annex to this letter contains the detailed figures for grants in 2009-10, and the increases from 2008-09. For general institutional funding, and for the research base including the science budget, investment is at record levels. I wrote to you on 29 October asking that you allocate no more than 10,000 Additional Student Numbers (ASNs) in 2009/10, following my statement to Parliament explaining that the number of students receiving full or partial grants was exceeding projections. UCAS has since reported that numbers of full-time accepted applications to higher education for 2008/09 are at record levels. Figures from UCAS show that, on a like-for-like basis, the number of accepted applicants to full-time undergraduate courses rose from 413,430 to 442,443 between 2007 and 2008, a rise of 7.0%, and this comes on the back of a rise of 5.8% between 2006 and 2007. I am now confirming that you should not issue any further ASNs in 2009/10. Since our original funding assumptions were for 15,000 ASNs to be allocated, I am reducing the funding to you for the coming year by £19m compared with the indicative figure shown in last year's grant letter. At this stage you should not allocate any further Additional Student Numbers for 2010/11; I shall want to review the position later this year.
21. I also asked you to develop proposals to bear down on over-recruitment by institutions. I am now asking you to apply these proposals to minimise and preferably eliminate over-recruitment in 2009/10. Any over-recruitment in the coming year could result in a transfer of HEFCE grant back to this Department in that or future years, in order to meet the consequent unanticipated student support costs.
22. I am grateful for the savings the Council is helping HEIs to achieve across this CSR period, in areas including shared services, procurement, and from rationalising some special funding streams. The Council and the sector have improved value for money (VFM) in recent years and over the CSR07 period, including in areas covered by the Government's Operational Efficiency Programme (OEP). In the coming years all agencies in the public sector will need to achieve the greatest possible VFM. So I would like you, working with the sector, to examine further options and develop plans to deliver additional improvements in VFM in 2010-11 and beyond with a particular focus on those areas identified by the OEP.
23. I welcome the work the Council did last year to underpin the successful launch of our voluntary giving scheme and your commitment to administering it over three years. The attached

annex shows the costs of the matched funding elements of the scheme.

### **Condition of grant on regulated tuition fees**

24. Under Section 23 of the Higher Education Act 2004, the Secretary of State has imposed a condition on grants to 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 £1,285 for the 2009/10 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 (£3,225 for the 2009/10 academic year).

A handwritten signature in black ink that reads "John Denham". The signature is written in a cursive style with a large initial 'J'.

**JOHN DENHAM**

## Annex: HEFCE budgetary information for 2009-10

<b>HEFCE Grant settlement<sup>[1]</sup></b>		
Financial Year: all figures are £ million in cash terms	2008-09	2009-10
<b>a. Recurrent grant for teaching<sup>[2]</sup></b>	<b>4920</b>	<b>5076</b>
<b>b. Recurrent resources for Research</b>	<b>1444</b>	<b>1509</b>
<b>c. Total Capital grants<sup>[3]</sup>:</b>	<b>788</b>	<b>938</b>
<i>o/w Teaching and other capital</i>	497	572
<i>o/w Science and Research</i>	291	366
<b>d. Non-cash budgets<sup>[4]</sup></b>	<b>-29</b>	<b>-29</b>
<b>e. Science and research funding</b>		<b>315</b>
<i>o/w HEIF</i>		99
<i>o/w RCIF and SRIF transitional</i>		216
<b>Total HEFCE (a+b+c+d+e)</b>	<b>7123</b>	<b>7809</b>

<b>Additional Funding</b>	
f. Voluntary Matched Giving <sup>[5]</sup>	23
g. Access to Learning Fund	45
h. DTLL Funding (FE Initial Teacher Training Bursaries) <sup>[6]</sup>	12

Growth in core fundable students (FTEs in thousands) <sup>[7]</sup>	20	30
Employer co-funded provision (FTE) numbers	3	7
Planned minimum unit of funding (in £s real terms) for teaching for 2007 Spending Review period <sup>[8]</sup>	4140	4140

### Notes:

<sup>[1]</sup> The amounts set out above are the Council's resource budgets. They represent the maximum amount of resource 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.

<sup>[2]</sup> The resources for teaching exclude the Science contribution and the Research Capital Investment Fund. These are shown as a separate line. It includes funding for employer co-funding investment and participation, the HEFCE administration, £3.5m for the Erasmus fee waiver and £5m for institutions costs in collecting tuition fees

<sup>[3]</sup> The total capital grants figure is for 2009-10 is £200m higher than the indicative allocation given to you in last year's Grant Letter. This is because of the capital bring forward from 2010-11 announced in the Pre-Budget Report. Taken alongside the £50m brought forward into 08-09 (also from 2010-11), this means that your total capital grants allocation for 2010-11 will be £488m.

<sup>[4]</sup> The non-cash budgets are cost of capital and depreciation -£7m, release of provision of -£28m per annum and provision take up of £6m.

<sup>[5]</sup> Total voluntary matched giving totals £200m over three years to 2011-12. This is split over the three years: 2009-10 £23m, 2010-11 £62m and 2011-12 £115m.

<sup>[6]</sup> Funding for the FE Bursary Scheme is allocated through HEFCE, and the budget includes an amount, to be agreed each year, for HEFCE's administration costs. A Service Level Agreement (SLA) is drawn up each academic year to agree both the administrative fee and the actual budget to be allocated (including clawback from previous academic years).



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<sup>[7]</sup> Core fundable 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 will be 1.14 million fundable FTE students in the 2007-08 baseline, which will be adjusted over time to reflect new data. Figures are rounded to the nearest five thousand students

<sup>[8]</sup> The unit of funding is rounded to the nearest £10 and in 2007-08 prices. The real terms level of funding for teaching costs is the one determined for three years in 2004 prior to the introduction of the new student support arrangements and based on total level of recurrent resources to support teaching and full-time equivalent numbers of planned publicly funded students over the period covered by the 2004 Spending Review. This value has been rolled forward into the 2007 Spending Review. Figures reflect the GDP deflators published by HM Treasury in December 2007.