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Rt Hon Ruth Kelly MP

Mr David Young
Chairman
Higher Education Funding Council for England
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Dear David

HIGHER EDUCATION FUNDING 2006-07

Introduction

1. I am writing to you to set out the details of the funding which we will be making available for HEFCE for 2006-07.

2. We will enter a new era next year with the introduction of variable fees and bursaries, and the abolition of up front charges to eligible students: a challenge to which Higher Education Institutions have responded very well. Against that background, I want to give the sector continued clarity about our strategic priorities. We do not expect all institutions to try to do the same things to the same extent. The diversity within the Higher Education system in this country is a strength, and we expect the Council to continue to use the various funding streams at its disposal to support excellence across the full range of activities which institutions undertake, whilst encouraging each institution to define and implement its distinctive mission. In the same way, I know that institutions themselves will build on the decisions they have already made in the light of their prospective increased income from sources other than the Council - for instance, by offering generous support packages and bursaries - and become even more responsive to the diverse needs of the students they educate.

3. But there are two major priorities that I am asking the Council to pursue, not just in the funding allocations it decides in the short-run, but in developing strategy for the longer-term. The first is to lead radical changes in the provision of higher education in this country by incentivising and funding provision which is partly or wholly designed, funded or provided by employers. A strategy of growth through employer-led provision will ensure that the HE

department for

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sector is fulfilling that vital part of its mission that delivers the skills that the labour market needs. It will introduce new sources of finance that will allow us to grow the country's high-level skills base more quickly than the public purse alone could afford. And it will yield a richer, more diverse range of provision. This may include more opportunities for: part-time study and short-cycle courses; a curriculum that changes more quickly in response to learner and employer demand; a more diverse range of providers, including reinforcement of the role of FE colleges in delivering HE; and new private provision. The allocation I am making will allow you to fund proposals for employer-led growth, and I welcome the commitment that you have already given to my officials of your support for this agenda.

4. The second is on widening participation in HE for people from low income backgrounds, where in spite of the recent progress we have made we do not perform well enough. Low rates of participation in HE among the lowest socio-economic groups represent entrenched inequality and in economic terms a waste of human capital. I am therefore asking the Council to explore options for additional support for widening participation in 2006-07, building on the work that has already been done in understanding the costs to institutions.

Funding totals and priorities

5. I am pleased to be able to confirm the provisional figures for 2006-07 we set out in last year's grant letter, with the addition of the £20 million we agreed in November to provide from the Department to support part-time students from non-traditional backgrounds. The table attached at the end of this letter sets out the details of the funding available to HEFCE for this year. Total recurrent grant for teaching will rise by £228 million (5.3%). In allocating this funding to institutions, the Council will be able to maintain in real terms the overall level of grant per student that my predecessor announced in December 2004. The settlement provides enough funding for this growth, and also deliberately to support new initiatives and growth in employer-led provision. I have asked my officials to liaise with the Council to ensure that there is a robust action plan in place with some ambitious timetabled targets for what should be achieved, and I will look to the Council to report to me separately on this. We shall need to work closely to ensure that the funds available to you are well spent.

6. On widening participation, I am grateful for the work that the Council has done; and I note that you are already planning to allocate an extra £20 million in 2006-07 to support part-time students from non-traditional backgrounds. This is in addition to the extra £20m I announced would be available to the Council last November.

7. However, because of the priority I attach to widening participation for both full-time and part-time students and the extra costs associated with such students, I would like the Council to look at options for going further still in its support for widening participation, whatever their mode of study, and the retention of students who might otherwise be at risk of failing to complete their course. In this year, I would welcome a report from the Council as to how far it is able to do this within the totals given in this allocation. I am particularly keen that you should work with institutions to ensure that any increases in the widening participation allocations are used on the most effective interventions, including those that bear down on non-completion rates, taking account of the evidence available to you about what works.

8. I would also ask the Council to examine the relative weighting that it gives to widening participation in its allocations, looking in particular at the extent to which the current weighting covers the costs that institutions incur in pursuit of widening participation. It may not be possible for this analysis to be completed in time to influence allocations in 2006-07, but it would be available to inform future decisions. I also expect the Council will continue to look, with other relevant agencies, at improving the routes of progression between schools, FE and HE, in the light of the work going on following the Skills, 14-19 and Schools White Papers, and the Foster Review of Further Education.

9. Recurrent funding for research will increase by £95 million and capital funding will increase by £55 million (about 8% in both cases). These two funds may be used in appropriate cases to support institutions in receipt of grant for initial teacher training from the Training and Development Agency.

10. As indicated last year, the grant settlement over the period 2005-06 to 2007-08 is dependent on the assumptions we have made about the overall growth of the sector over the planning period. As usual, I expect the Council to carefully monitor progress towards strategic objectives and priorities, national trends in student growth and capital expenditure for next year and report to me in good time if there are signs that the trends and expected progress in these areas are out of step with our published plans. Consistently with the Department's standard practice in paying grant to Non-Departmental Public Bodies we reserve the right to adjust the Council's grant in response to any significant variations in setting the grant totals for future years.

Other priorities for Higher Education

11. There are two other high-level priorities which may not have significant funding implications, but where I would look to the Council to lead further progress. I very much welcome the work the Council has done, much of it with the HE Regulation Review Group (HERRG), on reducing bureaucracy. The Council's proposals for a "single conversation", and its support for the impending concordat on inspection and data collection, are encouraging, as are the proposals in the draft Strategic Plan. I would like you to continue your thinking and be prepared to offer leadership where necessary to support HERRG's successor in this area, as the sector prepares for the new environment of variable fees for 2006.

12. The second area is on equality of opportunity. In 1999, the then Secretary of State expressed his concern about the position on equal opportunities for HE staff. He asked the Council to ensure that all institutions have equal opportunities policy statements in place and to be accountable for their full and proper implementation. Since then, institutions have also been making preparations for future legislative duties relating to gender and disability. I would expect to see institutions continuing to contribute vigorously in this very important area in order to continue with the gains achieved so far. I am encouraged by the evidence of progress described in your recent report on the HE workforce in England, but our shared aspiration of seeing greater diversity among senior academics and managers in HE demands long term action planning rather than quick wins. I would ask the Council to continue to support institutions so that they can fulfil their statutory duties.

Efficiency

13. I am grateful for your close co-operation with the Department in reaching agreement on the efficiency savings to be made by 2008, as part of our overall commitment to reduce administrative costs in Non-Departmental Public Bodies (NDPBs) by at least 10% in real terms by 2007-8. I expect the Council's administrative costs to reduce to not more than £16.75 million in 2006-07.

14. I also expect HEFCE to continue to work closely with my Department and individual institutions to deliver further efficiency savings across the sector, thereby releasing resources for the delivery of front-line services.

Condition of grant – tuition fees

15. When I make the grant to the Council in April I will impose a condition relating to tuition fees under the Higher Education Act 2004. The effect of this condition will be that the Council will in turn be required to impose a condition of funding that institutions do not set fees which exceed the higher amount (if they have an access agreement in place) or the basic amount (if they do not). It will also be a condition of grant that the Council must impose a condition that institutions comply with the provisions of any access agreement in force and impose specified financial penalties if an institution has breached the terms of its access agreement or the relevant fee cap. Pursuant to these conditions, I will write to you again when the Council's grant is actually made available.

Best wishes
Ruth

RUTH KELLY

HEFCE Grant settlement			
Financial Year: all figures (except the unit of teaching funding which is £ real terms) are £ million in cash terms	2005-06	2006-07	2007-08
a. Recurrent grant for teaching	4339	4567	4773
b. Recurrent resources for Research	1204	1299	1389
c. Total Capital grants:	649	704	738
o/w teaching and other capital	442	468	472
o/w Research	207	236	266
d. Cost of capital and depreciation	-7	-7	-7
Total HEFCE (a+b+c+d)	6186	6564	6894
Student numbers (FTEs in thousands)	1117	1140	1161

Notes:

1. 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. The 2007-08 budget includes £9.5 million Departmental end-year flexibility planned to be carried forward from 2005-06 and 2006-07. Figures are net of a £69/70 million transfer of AHRB resources. Figures may not sum due to rounding.
2. The resources for each year include funding of £18m from the Department of Health for clinical academics' pay and £5m funding transferred to HEFCE for the Dance and Drama scheme.
3. The resources **exclude** funding from DTI and OST for the Science Research Innovation Fund and HE Innovations Fund.
4. Capital costs and depreciation are part of the Council's resource budgets and the maximum amount of resources it may consume. The amounts shown are subject to review and will be discussed further with the Council.
5. Student numbers are net of students to be funded through the TDA. Planned student numbers are derived from Annex P of the Department's Annual Report for 2005 and reflect new data unavailable at the time of last year's grant letter, while retaining the same rate of growth as the original planning assumptions.
6. The figures give an *implied* real terms unit of funding for teaching of £3790 in 2005-06 rising to £3820 in 2006-07 and 2007-08 to reflect the Department's additional support for widening participation (figures rounded to the nearest £10 and in 2004-05 prices).
7. As in previous years, funding takes account of institutions' costs in collecting tuition fees. This is valued at £5m in 2005-06, £15 million less than in previous years, to reflect the lower transaction costs under the new fees regime, as institutions will need to collect fees from fewer individual students thus freeing up an additional £15 million for institutions' priorities