

Higher Education Funding Council for England

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| Title | Reductions to grants for 2014-15 and 2015-16 academic years |
| To | Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education and sixth form colleges |
| Of interest to those responsible for | Finance, Planning |
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| Enquiries to | HEFCE institutional teams – for contact details, visit www.hefce.ac.uk/contact/search/ |

Dear Vice-Chancellor or Principal

Reductions to grants for 2014-15 and 2015-16 academic years

1. This letter sets out the measures we are adopting to secure a saving of £150 million in funding for the 2015-16 financial year (April to March). The 2015-16 financial year overlaps with both the 2014-15 and 2015-16 academic years (August to July) and therefore allocations to institutions for both academic years are affected.

Background

2. On 4 June, the Chancellor of the Exchequer announced a number of measures to bring down public debt in the current financial year¹. These included £3 billion in departmental savings, of which £450 million is attributable to the Department for Business, Innovation and Skills (BIS). On 21 July, the Secretary of State wrote to notify us of a consequential saving of £150 million to be made solely from the grant provided for teaching; the funding that the Government ring-fences for research has been maintained². This is a revision to the announcements in the grant letter from BIS of 29 January 2015.

3. This reduction inevitably results in a reduction to funding we are able to provide to institutions. We previously warned institutions that we reserved the right to review our allocations for the 2014-15 and 2015-16 academic years in the event of such changes to the grant available to us³.

4. Subsequent references to years in this letter relate to academic years, unless stated otherwise.

Securing savings

5. In implementing changes, we are making savings in the first instance from funds that have not yet been allocated and from transitional allocations. This will minimise the impact on core recurrent teaching grants already announced. The intention is to ensure that the short-term viability of institutions is not put at risk.

6. The savings we are able to make from funds that have not yet been allocated total £60 million, and comprise:

- a. £37 million previously set aside to support an expected increase in student numbers in 2015-16⁴. We will not now make such an allocation for 2015-16. We recognise that this

will result in institutions delivering additional activities in the year on the basis only of the tuition fees they will receive. However, student numbers in 2015-16 will inform our formula teaching grants for 2016-17.

b. £13 million from 2015-16 funding for national facilities and initiatives, primarily through a reduction of £10 million to the Catalyst Fund budget. Allocations to institutions from the Catalyst Fund that have already been confirmed are not affected.

c. £10 million through the implementation of grant reductions for 2015-16 for institutions that over-recruited against their student number control in 2014-15, or did not offset in 2014-15 such over-recruitment in 2013-14. Indicative 2015-16 grant adjustments for the individual institutions concerned were shown in the report on adjustments arising from recruitment against the 2014-15 student number control, enclosed with Corinna Chandler's letter to institutions of 13 February 2015. The Secretary of State's letter to HEFCE of 21 July now confirms that we should implement these reductions.

7. Due to the scale of the reductions required by Government, our Board has decided that we will no longer provide the two one-off transitional research allocations previously announced for 2015-16, securing a saving of £52 million⁵. Funding for these one-off allocations had not been from ring-fenced research funding. Given that recurrent research funding has been maintained, we can no longer justify providing this supplementary funding at the expense of more significant reductions to core teaching grants and therefore we will not be making any payments in relation to transitional research funding from Teaching sources. However, taking note of the Secretary of State's request to protect transitional STEM support we are working with BIS to see whether the £28 million previously allocated for this purpose can be found from other sources. We will separately contact those institutions previously eligible for this funding once these discussions have been completed.

8. All of the above savings relate to 2015-16, but the reduction to our grant also affects the funding we have available for 2014-15. We will therefore secure the residual saving of £38 million through a pro rata reduction of 2.4 per cent to all elements of recurrent teaching grant for 2014-15⁶. Most elements of recurrent teaching grant for that year already incorporated a reduction of 5.85 per cent, although we were able to mitigate this in certain priority areas⁷. We have taken this into account in now implementing a pro rata reduction across all recurrent teaching grants for that year.

9. We recognise that this announcement may well be too late for higher education institutions (HEIs) to be able to reflect these changes to grant in the financial forecasts they submit to us later this month (requested in 'Annual accountability return requirements: financial forecasts submissions', HEFCE Circular letter 10/2015). However, where possible, we would request that HEIs confirm in their financial forecast commentary whether or not they have included them. We will take account of the changes in our assessments of HEIs and may contact institutions to discuss the implications.

Implementation

10. In October 2015, we will notify institutions of changes to the adjusted 2014-15 teaching grants we announced in March 2015⁸. These revised grant tables will incorporate the pro rata reduction of 2.4 per cent. This reduction, and any other changes for individual institutions to 2014-15 grant, will be implemented through our grant payments from November 2015. We do not intend to reissue 2014-15 grant tables to institutions before October 2015, but institutions will

need to reflect any changes relating to 2014-15 in their accounts for that year (i.e. the current academic year). Any cash repayments due will be confirmed as part of the October announcements.

11. Some elements of teaching funding for 2014-15 are subject to our three-stage recalculation process⁹. This means they are due to be recalculated in 2016 to reflect individualised student data for 2014-15 reported by HEIs to the Higher Education Statistics Agency and by further education and sixth form colleges on the Skills Funding Agency's Individualised Learner Record. Other elements are not subject to this three-stage recalculation, but are nevertheless also affected by this latest pro rata reduction.

12. In our March 2015 guidance to institutions, we had said that we would not implement changes in October to adjusted 2014-15 teaching grant allocations that are subject to our three-stage recalculation process if the total change to the institution's teaching funding amounts to less than £20,000 or 20 per cent, whichever is the higher¹⁰. This was to avoid processing relatively small changes that might prove unnecessary when final allocations are calculated in 2016. Because of the new requirement to implement a reduction of £38 million to 2014-15 grant and reflect this in our payments to institutions during the current financial year, we will no longer apply this threshold in processing changes to 2014-15 grant for October 2015: the allocations announced then will include all those that we are able to confirm, however small.

13. The pro rata reduction of 2.4 per cent affects some of the parameters in our teaching funding methods for 2014-15. In particular:

- a. The scaling factor for high-cost funding for new-regime students will change from 1 to 0.976.
- b. The scaling factor for funding for old-regime students (both mainstream and employer co-funded) and for new-regime students attending courses in London changes from 0.9415 (reflecting the previous 5.85 per cent reduction that applied) to $0.9415 \times 0.976 = 0.9189$ (equivalent to a reduction of 8.11 per cent).
- c. All allocations related to our student opportunity funding for disabled students will also be reduced by 2.4 per cent, including the previously announced minimum allocations.

14. Reductions to 2015-16 grant for institutions that over-recruited up to 2014-15 (as described in paragraph 6c) will be implemented through our grant payments between November 2015 and January 2016.

15. It is possible that further changes to academic year 2015-16 grants may be required. This is because the funding we have available for that year is also dependent on the grant to us from Government for the 2016-17 financial year, and this is still to be announced. The warnings we have previously given about possible changes to 2015-16 grants therefore continue to apply, and institutions should continue to plan their budgets for 2015-16 and beyond prudently.

Yours sincerely

Professor Madeleine Atkins
Chief Executive

¹ See <https://www.gov.uk/government/news/chancellor-announces-4-billion-of-measures-to-bring-down-debt>.

² See www.hefce.ac.uk/funding/govletter/.

³ In relation to 2014-15, see paragraph 24 of our 2014-15 funding agreement with higher education institutions and paragraph 48 of our 2014-15 funding agreement with further education and sixth form colleges, both of which are available from: www.hefce.ac.uk/funding/annalocns/1415/institutions/ under 'July 2014 announcement'. In relation to 2015-16, see paragraphs 10 and 11 of 'Recurrent grants 2015-16', HEFCE 2015/05.

⁴ See paragraph 14c of HEFCE 2015/05.

⁵ These comprised £28 million to mitigate the impact on institutions of changes to the amounts of quality-related research (QR) funding allocated for some science, technology, engineering and mathematics (STEM) subjects; and £24 million to provide further support for research degree programme supervision. See paragraph 20e and Tables 1 and 2 of HEFCE 2015/05.

⁶ This applies to all recurrent teaching grants included in Table 1 of 'Recurrent grants for 2014-15: Adjusted allocations' (HEFCE 2015/06) and any further amendments to those figures for other reasons will also be subject to the 2.4 per cent pro rata reduction.

⁷ See: 'Funding for universities and colleges for 2012-13 to 2014-15: Board decisions', HEFCE Circular letter 04/2014.

⁸ See 'Recurrent grants for 2014-15: Adjusted allocations', HEFCE 2015/06.

⁹ See 'Guide to funding and student number controls 2013-14 and 2014-15: How HEFCE allocates its funds and controls student numbers', HEFCE 2014/06.

¹⁰ See paragraph 4 of the technical guidance for HEIs and paragraph 4 of the technical guidance for further education and sixth form colleges on 2014-15 adjusted allocations, both of which are available from www.hefce.ac.uk/funding/annalocns/1415/institutions/ under 'March 2015 announcement'.