July 2005/36

Free

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Core funding
Consultation

Comments should be sent to HEFCE by Wednesday 5 October 2005

This document invites comments from all interested parties on proposals for a third round of funding under the Higher Education Innovation Fund (HEIF 3). HEIF 3 will provide funding to higher education institutions in England over the period August 2006 to July 2008.

Higher Education Innovation Fund round 3

Funding proposals

Office of Science and Technology

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

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Higher Education Innovation Fund round 3
Funding proposals

To	Heads of HEFCE-funded higher education institutions Other bodies that will potentially be involved in the HEIF 3 initiative, including business-related organisations
Of interest to those responsible for	Interactions between HE and industry, the public sector and the wider community; Contract and collaborative research; Continuing vocational education; Strategic planning; Regional economic development; Knowledge transfer
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Executive summary

Purpose

1. This document is a joint consultation from HEFCE and the Office of Science and Technology (OST) on proposals for a third round of funding under the Higher Education Innovation Fund (HEIF 3). HEIF 3 will provide funding to higher education institutions (HEIs) in England over the period August 2006 to July 2008.

2. These proposals for HEIF 3 should be considered in the context of government policies for enhancing the volume and effectiveness of collaboration between higher education (HE) and business and other organisations in the wider community outside the HE sector, such as health and other public services, local government and the voluntary sector (referred to hereafter as ‘other partners’). The continuing development and embedding of HEIF contributes directly to these policy aims, and it will enable HEIs to interact with and complement other publicly funded initiatives.

Key points

3. Under the third round of the Higher Education Innovation Fund we propose to make available a formula funding allocation to all eligible HEIs and will invite them to submit institutional plans to release this funding. We will also invite interested, eligible HEIs to bid for an award from a smaller competitive funding element.

4. A total of £238 million will be available over the two years 2006-07 and 2007-08. This includes £20 million as continuation funding for the successful Centres of Knowledge Exchange which were initiated in 2004 under HEIF 2.

5. We welcome the views of HEIs and others on the strategic priorities and funding proposals for this third round of the HEIF initiative.

6. Comments are invited on any aspect of HEIF 3, and in particular regarding:

- the source(s) and type of data for the external income (second) component of the formula element of HEIF 3
- the inclusion of a third component in the formula element, to reflect activities that generate little or no income
- the balance of funding between the three formula components and the longer as well as short term implications of the formula
- a transitional factor to protect HEIs from a large drop in funding compared with HEIF 2
- encouragement and appropriate support for collaborations
- the types of collaboration and priority action areas for the competitive element
- the evaluation criteria for the competitive element and approaches to managing the quantity of bids.

Action required

7. Responses should be sent, by e-mail only, to bct@hefce.ac.uk, **by Wednesday 5 October 2005.**

8. This is a joint consultation, and responses will be shared with OST. A summary of responses and any resulting actions will be published alongside the full HEIF 3 guidance document.

Introduction

Background

9. The Government announced in the Science and Innovation Investment Framework[1] 2004-2014 that it will further increase the funding available for HEIF to £110 million a year by 2007-08. As part of the 2004 Spending Review the Government has allocated funding to HEFCE and OST for a third round of the HE Innovation Fund (HEIF 3). At the same time, public funding is being invested:

- through Research Councils' new delivery plans, in particular for their growing emphasis on engaging with business and other partners in the design and delivery of their research programmes
- through Regional Development Agencies' developing support for business innovation as part of their regional economic strategies and their specific targets for increasing the interaction of business with the UK knowledge base
- for R&D tax credits available to large and small businesses under which R&D contracted out to HEIs is eligible for tax credit, reducing the net cost to business
- through other complementary schemes including the Science Research Investment Fund, the Government's Technology for collaborative R&D programmes, and government-supported Enterprise Capital venture funds.

10. HEIF 3 will allocate funding to eligible higher education institutions (HEIs), principally by formula, to support a broad range of knowledge transfer activities which result in direct and indirect UK economic benefit.

11. The first round of HEIF (HEIF 1, 2001-2004) provided funding to enable HEIs to develop their capacity to respond to the needs of business and other partners. A total of 89 awards for HEIF 1 were announced in October 2001.

12. The second round of HEIF (HEIF 2, 2004-2006) provided funding to HEIs to support activities to increase their capability to respond to the needs of business and other partners where this would lead to identifiable economic benefits. A total of 124 HEIF 2 awards were made, 46 of which involved collaboration between HEIs. In addition, a network of 22 new Centres for Knowledge Exchange activity were funded, as proposed in the Government's White Paper on the future of higher education, to provide specialised shared services for business and community partners and to be exemplars of good practice.

13. Building on the policy commitments in the Science and Innovation Investment Framework 2004-2014 and on the previous rounds of HEIF, this consultation deals with the basis for delivering the third round of HEIF.

Objectives

14. Science and innovation are key drivers of economic well-being and the quality of life. The 10 year framework set out the Government's long term objectives, including a challenging goal of raising UK investment in R&D to 2.5 per cent of GDP by 2014. To achieve these objectives will require additional investment. But it also requires accompanying action to strengthen links between the knowledge base in HEIs and businesses and community interests. The Government has recognised that developing these links requires investment to build capacity and provide incentives. HEIF 3 will therefore develop from previous rounds of investment to:

- build on what has been achieved so far by skilful deployment of earlier rounds of funding
- further develop and release HE knowledge and expertise for (direct and indirect) economic benefit
- support HEIs in building their engagement with business and other partners into their strategic missions
- extend and embed the capability for effective third stream activity across the entire diverse HE sector
- enhance the responsiveness of HEIs to the needs of business and other partners.

1 Although referred to in the Science and Innovation Investment Framework, HEIF funding is not exclusively aimed at Science/Engineering/Technology subjects. As the document makes clear, in this context science should be interpreted in the broad sense of the knowledge base.

15. To meet these objectives, HEIF 3 will also broaden the reach of knowledge transfer activities, extending into new areas, including innovative types of interaction and partnerships. We propose that these aims should be enabled by a significant formula-based element of funding (see paragraphs 25-62), to reflect HEIs' potential, achievement and activities and a smaller competitive bidding element (see paragraphs 63-94), to stimulate highly creative and innovative actions.

Eligibility

16. All HEFCE-funded HEIs in England are eligible to receive formula funding – whether to be used individually or within a collaborative project – and to apply for competitive funding. We do not expect all HEIs to submit bids under the smaller competitive element.

Timing

17. The likely timetable for implementing HEIF 3 will depend in part on the degree of support and consensus which we receive through this consultation; however the provisional timing is detailed in Table 1.

Key principles

18. The design of HEIF 3 is underpinned by the following five key principles, derived from the Science and Innovation Investment Framework:

a. HEIF 3 is focused squarely on promoting activities that result in both direct and indirect economic benefit to the UK.

b. HEIF 3 will support a broad range of knowledge transfer activities that benefit the world outside but which may not generate large amounts of net income for the HEIs themselves.

c. HEIF 3 is a national scheme with a regional dimension.

d. A substantial proportion (75 per cent) of third stream funding should be allocated on a more predictable basis to allow the retention of highly skilled staff and greater continuity.

e. A smaller amount (25 per cent), would be allocated by competition. The competition would be sharply focused on proposals with an innovative approach and support priorities which might include collaborative activities which capitalise on excellence and achieve economies of scale.

Management of HEIF 3

19. As with previous rounds of HEIF, HEFCE will manage the fund on behalf of OST and HEFCE. The proposed process for HEIF 3 has been subject to a Regulatory Impact Assessment by HEFCE. The assessment shows that the HEIF 3 proposals would lead to a significant reduction in burden on the HEI sector, compared with the HEIF 2 process.

Monitoring

20. Institutions will report individually on progress against their institutional plan as part of their annual monitoring statement to HEFCE. Separate arrangements may apply to successful collaborative projects, whether funded through formula allocation or under the competitive bidding allocation.

Table 1 **Provisional timing of HEIF 3 implementation**

Call for institutional plans and competitive bids	early November 2005
Announcement of formula allocations	early January 2006
Deadline for outline competitive bids	mid January
Deadline for institutional plans	early March
Deadline for second stage competitive bids	late March
Acceptance of institutional plans	mid April
Assessment of competitive bids complete	late April
Funding begins	August 2006

Detailed proposals and consultation questions

Structure and rationale of HEIF 3

21. HEIF 3 will have two elements: a formula funding allocation and a smaller competitive bidding allocation. Allocating a substantial amount of HEIF funding by formula will result in greater predictability of income to HEIs as we continue to develop a permanent funding stream for knowledge transfer, as well as reducing the burden of bidding activity that is associated with a competitive process.

22. Formula funding means a move away from the unpredictable nature of a wholly competition-based structure. This greater stability will allow institutions to plan ahead with greater confidence, which should also help address some staff recruitment and retention difficulties that currently exist.

23. We believe that the competitive nature of a bidding process in previous rounds has encouraged excellence and led to creative risk taking and new ideas, and we want to make sure this is not lost in our determination to move to a more predictable system for core funding. We therefore propose to allocate 75 per cent of the £218 million to institutions via a formula, and allocate the remaining 25 per cent to collaborations led by an HEI via a competition, in order to stimulate a high level of innovation.

24. The HEIF 3 competitive awards and the formula-based allocation will complement each other. The formula allocation will provide the means for HEIs to embed and further develop their knowledge transfer work to the extent that it becomes integrated into the institution's mission as a sustainable activity, while the aim of the HEIF 3 competition is to generate new, cutting-edge knowledge transfer practices and socio-economic benefits.

Formula funding element

25. Around £164 million of the main funding available for the third round of HEIF will be allocated by formula. This formula will determine a conditional allocation for **every HEFCE funded HE institution.**

26. Allocations will be for two years from August 2006. We intend that the overall structure established for HEIF 3 can continue beyond 2008, although we expect that the relative weightings of the formula's components (and some sub-elements of the components) may need to change in the light of developments in the sector and improvements in metrics.

27. HEIF is a wide-ranging funding programme that supports a significant variety of activities across a diverse higher education sector. We have tried to reflect this in the design of the formula. This has led to the proposal for a balanced formula with the following three components:

1.	A forward-looking component to reflect potential and allow for capacity building. This would be based on academic staff numbers.	**45 per cent of funding**
2.	A component to reward performance to date, using external income as a proxy to reflect the value which the demand-side places on interaction with an institution (excluding QR, charity and Research Council funding).	**45 per cent of funding**
3.	An activity-based component, rewarding current performance on measures other than income.	**10 per cent of funding**

28. The above percentages show the suggested proportion of the overall HEIF 3 fund which might be allocated through each formula component respectively. Detailed specifications proposed for the formula components are set out at Annex A.

29. Calculations derived from the basic component formula element would then be subject to the following adjustments:

- an **institutional minimum** of £200,000 (for the formula funding over the two year period)
- an **institutional maximum** of £3 million (for the formula funding over the two year period)
- a **transitional factor** to ensure that no HEI suffers a substantial decrease in funding level, guaranteeing that they will receive at least 60 per cent of their allocation under HEIF 2 (and/or as appropriate the Knowledge Transfer Capability Fund).

30. In designing the formula, we are aiming for predictability, simplicity, transparency and fairness. Ideally the formula will encourage positive behaviours, without having perverse effects. However, whatever the final design of the formula, it will be immature; it is unrealistic to expect it can be perfect. This is inevitable given the nature of the HEIF funding programme – the wide range of activities it promotes, the relative infancy of some types of activity, and the difficulty of simply capturing the real value-added outcome and impact of funding. However, we believe that the benefits of moving to a formula-based system of funding will significantly outweigh the imperfections in the formula.

31. The formula funding allocations are to comprise the largest element by far, and they are intended to be the core funding provided via HEIF 3. All HEFCE-funded HE institutions will receive a conditional allocation. To release that allocation the institution will need to agree (with HEFCE/OST) an institutional plan for its third stream strategy describing how that allocation is to be used.

32. As this is the core funding, if an institution wishes to continue and develop certain existing HEIF 2 funded activities, the necessary funding should come from the formula funding and not from the competitive part.

33. Although formula funding is allocated on an individual institution basis, rather than to collaborations, it does not indicate a move away from support for collaboration; rather, it is a reflection of the change in funding mechanisms. Collaborations have been a positive feature of the HEIF programme. We wish strongly to encourage good collaborations to continue (and expand), and new ones to form.

34. The formula we propose has two dimensions – the three main components of the formula, and the adjustments made (floor, cap, transitional relief). The rest of this section covers these in turn.

The three components of the formula funding

Component 1 (potential and capacity building)

35. This forward-looking component gives a scale-dependent baseline of funding to every institution to reflect the capacity and potential of the institution. This baseline funding ensures that every institution will receive an allocation, even though they may be a relatively new player in this area, and may not have built up a demonstrable third stream track record.

36. We are proposing to use full-time equivalent (FTE) academic staff from the HESA record as the measure of scale. This is because it is the academic staff that tend to represent the knowledge assets of an institution, and it is through staff that much of the knowledge transfer work is carried out. Since this component is intended to reflect potential, this number will be based on total academic staff, and not just on those currently engaged in knowledge transfer. During our informal discussions, it has been suggested that we could also use student numbers as a measure of scale. Although we recognise that student-focused activities are often a good means of knowledge transfer, we do not propose to follow this approach – funding is already provided directly in proportion to student numbers through the teaching funding stream, and teaching staff are included within the FTE academic staff count we are proposing.

Component 2 (external income)

37. This component will recognise performance, using income as a proxy, which will provide a measure of the volume of activity and the value that demand-side partners place on it. Having such a **performance-based** measure will reward success and create incentives for greater interaction with business and other external organisations.

38. We propose to use a simple aggregate measure of a variety of types of income. We believe there are two main ways of doing this: using data from HESA, and data from the higher education-business and community interaction (HE-BCI) survey.

a. **HESA data** has a long history and is generally accepted as being robust by the higher education community. However, this data collection was never designed with knowledge transfer in mind, and while the data are robust at an institutional level, the breakdown into HESA categories does not correspond meaningfully or reliably with knowledge transfer based activity. Using HESA measures risks both capturing income that does not strictly come under the knowledge transfer umbrella and excluding some relevant activity. It is possible that this mismatch could become worse, since the choice of HESA category under which to report income would have a direct effect on an institution's formulaic income under HEIF 3.

b. The annual **HE-BCI** survey began just five years ago, and has suffered from some lack of completeness and consistency in reporting. However it has the advantage of being designed very much with the knowledge transfer agenda in mind, and captures measurements of the types of activities we wish to promote. The HE sector has been aware for several years that these data may be used to inform funding. While there are some concerns over its robustness, this has improved significantly in the last two years – and the overall data for each HEI are now subject to scrutiny and audit (as is HESA data).

39. Both approaches have shortcomings, and while many in the HE sector are in favour of using the HESA survey at present (because of unease over the perceived robustness of data returned under the HE-BCI survey), we believe that over time, the balance of preference will shift towards HE-BCI.

40. Informal discussions raised the issue of whether simple 'absolute' measures of external income are most appropriate. Alternatives which were considered included measuring either a ratio of external income per member of staff, or a relative increase in external income compared with an earlier period. Our view is that the simple measures are most appropriate at this point in time, but that it may be appropriate to 'blend' in other measures, such as those mentioned, for future rounds.

Consultation question 1

We invite views on:

- the approach which should be taken for Component 2 of the formula – whether to use data exclusively from either HESA or HE-BCI, or use data from both sources, or using HESA data for HEIF 3 with the intention to use HE-BCI for future rounds
- the use of the simple absolute measures of external income.

Component 3 (activity-based)

41. It is clear from discussions that relying on external income alone when deciding funding allocations would have a number of disadvantages at this stage of third stream development. It would penalise those institutions that are relatively new to this area of activity and who have limited results to show from income-generating work. For example it may disadvantage institutions (or faculties within them) that emphasise work with sectors or firms that tend to be less 'cash-rich' – for example, creative industries, small and medium-sized enterprises (SMEs). Assisting these users may be less likely to result in significant income that would be recognised in a formula, yet may still have a substantial and positive benefit to the economy. In addition, an income component may not reflect certain types of activity that, while not generating significant income, are nonetheless in the public interest (for example, social, civic and cultural events, free seminars for business, activities involving the existing student base, and staff exchanges).

42. We therefore propose a **third component** to the formula, based on types of activity that are not reflected well by measuring external income. A

proposal for how this could work is at Annex A. We are keen to hear views on the merits of this proposal and whether it can be improved, for example whether additional metrics or other indicators could be included in the component. Given the immaturity of and difficulty in establishing robust data in this area, we propose that this component be given a relatively low weighting at this stage.

Consultation question 2

We invite views on the proposal to have a third component to reflect activities that generate little or no income, and in particular the metrics within that component.

43. We believe that the three components together provide a balanced formula. For HEIF 3 we propose that the funding allocated via the third component – which is the least robust – is 10 per cent of the total formula funding, with the rest of the funding allocated equally between the external income and forward-looking component (45 per cent each). Beyond HEIF 3, we would hope to be able to retain the three-component structure, but it may be appropriate to adjust the balance – for example, increasing the third component to reflect improved data, and reducing component 1 to reflect more established activity.

44. Further details on all three components are at Annex A.

Consultation question 3

We invite views on the balance of funding between the three formula components. We also invite respondents to consider both the longer and shorter term implications of the proposed funding design.

Moderating factors of the formula funding calculations

45. The amounts derived from the above three components (in staff numbers and other measures) would then be converted into raw funding allocations; these allocations would be added together then subjected to the following adjusting or moderating factors.

Floor

46. A mechanistic formula based on external income and size could potentially lead to very small allocations in the case of some small institutions, at a level which is likely to be ineffective in delivering results. We think that there should be a minimum funding amount that an institution should receive. **We believe this 'floor' amount should be a minimum of £200,000** (over the two year period). This is consistent with minimum funding amounts suggested in HEIF 2 and used for the Knowledge Transfer Capability Fund (KTCF). It should provide enough for at least one member of staff and a certain amount of programme budget to undertake activities, although in practice an institution may prefer to spend its funding on a portion of several people's time.

Cap

47. We believe that the formula funding allocations should be subject to a cap, so that no one institution receives a level of funding which is disproportionate or greatly out of pattern – perhaps stemming from a large one-off injection of income generation. The aspiration is that all institutions should play a part in the HEIF 3 agenda, and we want to make sure there is sufficient funding available to do this and to support the development of potential – for all sizes and profiles of institution and all levels of third stream maturity. **We therefore propose that the maximum amount an institution can receive from the formula element should be £3 million.** This is some way above the maximum institutional bid allowed under HEIF 2. This cap would not apply to funding received via the competitive bidding element, nor to any funds allocated for continuation of Centres for Knowledge Exchange which were initiated via HEIF 2.

Transitional factor

48. The HEIF 3 formula marks the start of a newer, more predictable approach to funding knowledge transfer. Given the previous nature of the HEIF programme – with its entirely competitive approach – we do not believe it would be fair to use the HEIF 2 allocations as a baseline component in a formula. However, in the informal discussions, strong views have been expressed in favour of a **'transitional factor'** to protect individual HEIs against a large drop in funding from HEIF 2 to HEIF 3. Some institutions will have put forward ambitious bids under HEIF 2 and been successful, getting more than might be expected under a formula system. They were rewarded for their ambition and the quality of their bids. A big fall would create problems for sustainable resourcing resulting from the stop-go nature of funding. It would effectively penalise these institutions who are only just starting to get going with the HEIF 2 programme, and will not have had much time to deliver results – for example in terms of increased external income – that could feed back into the HEIF 3 formula. A transitional adjustment would ensure that institutions do not receive less than a certain percentage of the allocation they received under the previous funding round.

49. But any funds set aside for this purpose effectively reduce the amount available for other institutions. There is a need to balance protection from a major drop in funding for those who did well in HEIF 2 against a risk of penalising those who did less well, who would not be able to benefit from such transitional arrangements.

50. We believe that it is possible to strike a balance through careful setting of the percentage at which the transitional arrangement will apply. **We are therefore proposing that there should be a transitional factor adjustment** and suggest that this is set at 60 per cent of an institution's HEIF 2 (and KTCF) allocation: no institution would receive a HEIF 3 formula-based allocation of less than 60 per cent of what they received from HEIF 2/KTCF. In performing this calculation we would first subtract any Centres for Knowledge Exchange funding received from the HEIF 2 amount to be protected, since any further Centres for Knowledge Exchange funding is to be provided separately. Our initial modelling suggests that this would redistribute between £10 and £15 million of the HEIF 3 funding, which we believe offers a reasonable balance.

Consultation question 4

We invite views on the transitional factor and whether setting aside £10 to £15 million represents an appropriate balance between the above two considerations.

Collaboration

51. The formula funding will be allocated to individual institutions. This is a natural result of a move towards a metrics-driven formula – it does not signal a lack of support for collaborative activity. Indeed, HEFCE and the Government believe that third stream activity is often enhanced by collaborations between institutions and with others. Such collaborations can enable, for example:

- sharing ideas and spread of good practice
- testing alternative approaches
- provision of common services through a collective source
- economies of scale
- smoothing and management of 'deal flows'
- grouping of HEIs which have clearly complementary strengths.

52. However, HEIs have not always been proactive in collaborating with each other, and while some HEIF collaborations may have arisen naturally and been generated organically, a small minority may have come about partly as a result of an expectation that they would be more attractive in a competition, or in order to release more funding (the HEIF 2 maximum was larger for collaborative bids than individual bids).

53. As we move to formula funding, the concern has been expressed that HEIs may be reluctant to pool their individual institutional funding allocations and that this could lead to a reduction in collaboration. Collaboration requires some added

administration and hence cost, particularly for an HEI leading a consortium. Some from the HE sector suggest that good collaborations **will still** be supported by institutions despite this and that incentives are not necessary, because of the evident added value of the collaborative action. However, there may be some adverse effect at the margins, particularly where collaboration results in benefits mainly at a 'public good' level rather than accruing directly to every institution. This risk might be mitigated by providing a small funding supplement to institutional allocations, to offset the extra costs where a significant proportion of their activity will be undertaken collaboratively (rather than giving a major incentive to collaborate, which might lead to some 'expedient' collaborations).

54. **We have therefore considered whether a small 'collaborative boost' adjustment should be introduced** to ensure that good collaborations are not discouraged. Such an adjustment could work in different ways.

55. A collaborative boost would show how collaborative activity is valued by Government and HEFCE. However, it would make the formulaic funding approach more complex, and add extra burden to institutions (who may have to justify their case for receiving the collaborative boost). So far, the views expressed in informal discussions on this have been mixed.

56. At this stage, while we do want to see good quality collaboration taking place, we are not persuaded that a collaborative boost would have sufficient beneficial impact to offset the drawbacks set out above. We therefore do not propose to have a collaborative boost, subject to the views of respondents.

Consultation question 5

We invite views on the proposal that there should not be a specific financial incentive for collaborations. We also invite views on whether there are other non-financial means to provide support for good collaborations.

The institutional plan

57. To 'release' the formula-based allocation, each institution will need to submit its institutional plan to HEFCE. This will be a high level plan, focused on third stream strategy and setting out the rationale and broad areas of activity for which the funding will be used, approximately how the allocated funding is to be divided between any partners, and particularly the outcomes which are intended. The plan should be designed to:

- explain how it fits with the institution's overall mission
- demonstrate how the activities will contribute to a coherent institutional third stream strategy
- demonstrate that the HEIF 3 allocation will be spent on appropriate knowledge transfer and similar activity
- identify its intended impact
- ensure that proper planning is in place
- ensure that activity will take place on a cost-effective basis, aimed at generating identifiable impact
- ensure a reasonable mix of activities will take place
- describe the collaborative and/or regional aspects of the proposal
- reflect concrete discussion of plans between the HEIF programme managers and Regional Development Agencies (RDAs) and others, and offer the opportunity for constructive challenge
- show how the proposal builds on actions leading up to HEIF 3 and how it will prepare the ground for 2008 onwards.

58. Plans should follow a common format provided by HEFCE – in particular with activity/outcome entered into appropriate categories. This will allow comparison across institutions and will highlight the breadth of activity. Plans, once agreed, will be published. We will consider whether they can be published in an interactive manner, possibly on a web-site, searchable by the various categories in the plan.

Regional needs and Regional Economic Strategies

59. Institutions will want to consider how to address regional needs within their plan. We would encourage and expect institutions to discuss their plans with their RDA – or with more than one relevant RDA if appropriate, for example in the case of multi-campus institutions, or institutions near to RDA borders. HEIs are diverse, and their regional approaches will understandably and validly reflect their individual missions. They will all be asked to explain their approach to regional priorities, including the relevant Regional Economic Strategies.

60. Specific guidance will be given on both the substance and the format of the plan. HEFCE will assess the plans against explicit criteria described in the invitation document. In assessing the plans HEFCE may seek advice/comments from the Regional Advisory Groups (which include representatives from RDAs, Government Offices, and Learning and Skills Councils). However, neither the Regional Advisory Groups nor RDAs will have a formal decision-making role in relation to the plans, since we expect that these bodies will have been closely involved in their development.

61. In the majority of cases we would expect institutions following the guidance to be able to submit a plan which would be acceptable in the first instance. However, HEFCE may find that a plan does not deal adequately with certain of the explicit criteria, and in such cases the institution will need to adjust the plan to address weaknesses. In such cases, institutions will be given advice on what needs to be improved and allowed a reasonable timetable for discussion with and assistance from HEFCE/OST leading to resubmission. The planning stage is a way of ensuring that the funding is spent appropriately, and is not a means of reducing the number of institutions receiving funding; we expect that all institutions will write an acceptable plan and their allocation will be released. However we reserve the right to withhold the allocated funds, and if necessary eventually return them to the main budget, should an institution fail to submit or re-submit an acceptable plan.

62. Plans are likely to be accepted in the first instance if they fully demonstrate:

- the proposed activities are eligible (for example, knowledge transfer, focused on revenue and not capital spending)
- proposed actions which are cost-effective (for example a very small institution should not propose setting up a disproportionately-staffed technology transfer function; a single institution would not be expected to propose operating a seed fund with limited funds). Rather than abandon an activity we are likely to suggest that the institution work collaboratively with another to achieve economies of scale
- proposed actions which are sufficiently broadly based: particularly in the case of larger institutions, we would expect the HEIF 3 plan to cover a range of activities – this will help to achieve a cultural shift and optimise the use of the knowledge base. However, this does not mean every 'box is to be ticked', and some focus is desirable
- appropriate development of previous work, in breadth, scale or quality in pursuit of concrete benefits, including compatibility with any Centres for Knowledge Exchange activity.

Competitive funding element

63. We propose that 25 per cent of the main funding available for HEIF 3 will be allocated via a strongly focused competition to stimulate highly innovative ideas, approaches and ground-breaking partnerships.

64. The competition is open to all HEFCE-funded HEIs. However we do not expect all HEIs to submit bids. All projects must be led by one such institution, although collaborations involving other organisations will be eligible.

65. Project applications should be for up to two years starting in August 2006. The competition will support only a small number of sizeable projects – this is likely to amount to 10-20 projects of £3 million to £5 million.

66. All applications should be collaborative, and we would like to encourage various types of collaboration including:

- collaboration on interdisciplinary activity
- both intra-regional and inter-regional collaboration
- international collaboration
- collaborations between HEIs with different profiles; bringing together complementary aspects of the knowledge base, especially those involving both knowledge generation and practice-based activities
- collaborations responsive to the demands of business or other users, stimulating the formation and focus of the partnership.

This will help to ensure that the outcomes and lessons are shared more widely and may bring additional benefits such as economies of scale.

67. All projects should offer a high degree of innovation, and not be simply a continuation of existing activity. Many good collaborations were started under earlier funding rounds, and we hope that a high proportion of these will continue, drawing on funds from the formulaic HEIF 3 allocation, from business and other partners for support.

68. So, the competitive element is to encourage the best new ideas and approaches and partnerships, and not simply to continue existing projects (which should be done with the core formula funding) or to top-up core knowledge transfer funding allocated by formula.

69. In some cases, such project proposals may be both large and novel and carrying significant risk, and so are unlikely to come forward under the plans for the formula funding. When any such new approaches have been tested and evaluated via successful projects funded through the competitive award, institutions may then wish to continue that activity with their core funding for any further round of HEIF after HEIF 3.

70. In comparison with teaching and research, the knowledge transfer mission is a relatively new one for HEIs, and there is still much to be learnt about the most successful approaches and models of working. The competition will enable the launch of highly innovative projects and piloting of ground-breaking approaches and partnerships, without hindering the development and embedding of the mainstream knowledge transfer activity.

71. To reduce the burden on HEIs of competitive bidding, we wish to introduce a two stage process. The first stage will be a short form, standardised application. The most promising of these will be invited to submit a fuller application which will be subject to final assessment.

72. Taking part in the competition will be demanding, requiring the development of new approaches to knowledge transfer, building an effective collaboration, and the willingness to devote the management time to set this up rapidly and ensure success. Institutions should not feel under any expectation to put in a bid to the competition. Given the large number of institutions which are potentially eligible (all HEFCE funded HEIs) and the low number of projects sought, we anticipate that many, if not most, HEIs will decide not to devote significant time to writing a bid with a numerically limited probability of success; they may wish to concentrate their efforts on successful delivery of their plans for the formulaic element of HEIF 3.

73. The minimum requirement for a wholly English collaboration would be two HEIs – we would permit trans-national collaborations involving one England HEI and one non-England HEI (which could be another UK institution) – however, we would expect that in most cases, collaborations would involve more HEIs than this. Collaborations should be designed so that each participant has a clear and essential role in the project. We would expect the extent of the collaboration to reflect the nature of the activity, and the complexity of working together (clearly, some tasks will be easier to coordinate than others). The assessment of bids will consider the value added by each participant, to avoid any inclusion of participants on a superficial basis.

74. Bidders should be clear that the competition funding will be for the two-year period only; it

should not be assumed that there would be explicit continued funding for the project thereafter. Of course if the project is successful then the institutions involved may wish to continue activity from within their formula allocation under any future funding – and it may be appropriate to consider institutions' commitment to doing this as part of any assessment of a bid. Once such projects have been tested and proved their worth, other institutions may also wish to adopt the new approaches developed, either independently or through joining with these successful collaborations.

Types of project encouraged

75. All bids should demonstrate a high level of creativity and innovation, applied to generate impact, effect change and deliver concrete benefits. To give some examples, this might be manifest in:

- new combinations of knowledge
- new and ground-breaking partnerships, including international ones
- novel approaches to use of resources in knowledge transfer
- alternative business models to bring added benefits to knowledge transfer
- original and promising applications of technology or process
- applying an existing knowledge transfer approach to new user groups
- innovative proposals led by smaller and more practice-based HEIs, which may include larger HEIs, working closely with business and other partners.

76. Proposals are likely to be for actions which entail an enhanced degree of novelty, uncertainty and therefore risk, as well as the aim and realistic prospect of high benefit. A modest change in project content, the addition of a few extra partners or other modest changes to an existing collaborative project, will not be successful. However, this should not rule out existing and established consortia from submitting a proposal – providing that, like other bidders, they are able to propose a particularly creative or innovative departure in the actions and approach adopted, and the new types of partners engaged.

77. Since all bids will be highly innovative, exploring and proposing new approaches to deliver new benefits, we will expect bidders to set out how they intend to evaluate the results and lessons learned from their activity and how they will disseminate this more widely.

Types of collaboration

78. As we wish to promote innovation, we will not set out narrow boundaries for the types of activity we are prepared to fund, since this might omit something interesting that had not been anticipated. However, the following types of collaboration are examples that would be particularly welcome:

- **Collaborations to encourage inter-disciplinary knowledge transfer.** Some of the most interesting and progressive examples of knowledge transfer are those in which ideas and techniques developed in one discipline are applied to, or combined with, those in quite separate disciplines. We would particularly welcome new approaches which encourage this multi- and inter-disciplinarity.
- **Intra-regional and inter-regional collaboration.** The first two rounds of HEIF have led to a welcome increase in collaboration between institutions in the area of knowledge transfer. With a few exceptions this has tended to be between institutions within the same region – often brokered and supported by the local Regional Development Agency. We would certainly encourage such collaborations in the future – many of which could expect to receive funding via the formula funding route. We also wish to take the benefits of this type of collaboration a step further, and we would particularly welcome collaborations that cross regional boundaries, which may be nationally focused or have a specific business or public sector focus.
- **International collaboration.** We would welcome applications for knowledge transfer activities between one or more HEIs in England, and HEIs in other countries where good practice in knowledge transfer exists and/or where collaboration is highly likely to enhance the delivery of benefits to the UK economy. Applications will need to demonstrate a

genuine value-added collaboration and are likely to include substantial sharing and commitment of financial and knowledge resources between the English and international partners, for example through joint collaborative projects with business, or collective funding of proof-of-concept activities. Proposals based on innovative collaborations between English HEIs and those from any other country in the UK, Europe or beyond will be considered.

- **Collaboration between different profiles of HEI,** bringing together complementary but different aspects of the knowledge base. This could include both knowledge-generation and practice-based expertise. Such an approach has the potential to reach a wider user base than one that relied on one type of institution or activity.
- **User-responsive collaboration.** This theme was suggested in our informal discussions and would entail collaborations of institutions, addressing the current issues of a particular group of users – such as a business sector, or particular public service (which could include supply chains). Although for funding purposes the HEIF collaboration must be led by a single HEI, ideally proposals should respond to the needs of a particular user group, and in that sense be 'demand-led', rather than driven by the aim to find outlets for supply-side knowledge.

Priority action areas

79. We do not propose to be prescriptive about the types of activity that would be allowed. But we may, in the light of consultation responses, or other government priorities, wish to suggest actions that would be particularly beneficial. This may be to address gaps identified in current knowledge transfer provision. For example, there may be a requirement for improving entrepreneurial learning in sectors such as the cultural industries, where traditional, high-growth business plan-based models may not be appropriate.

> **Consultation question 6**
> We invite views on the types of collaboration that should be encouraged in the competitive element, and views on any particular priority action areas that would benefit from support.

Bidding process

80. HEIF has been criticised in the past for imposing on all HEIs a burdensome and quite speculative bid-writing process. We wish to reduce the burden involved in writing competitive bids – this is particularly important now that the competition is not the core element of HEIF funding, and the potential number of successful projects will be small.

81. We are therefore proposing a two stage process for bidding. The first stage will require a short, structured application form setting out the key idea, the case for funding, objectives and benefits behind a project application, with an indication of the programme management approach. It may not be possible at this stage to have worked out fully all the details of the project, including the specific impact targets that might be set and the detailed arrangements for a complete range of collaborators to be involved in the project. We would allow flexibility for the partnership to be finalised at a later stage; however the lead collaborators should be firm and the overall aims, core management and structure of the collaboration should be defined.

82. These initial bids would be assessed. Those which are judged to be most promising would be invited to submit a full application under the second stage. We expect that for this second stage we may invite rather more applicants than the likely number of successful projects – in order to keep a degree of competition – but the numerical probability of success for applicants at this second stage would be quite high. The full applications will then be assessed to determine the final successful applicants.

Evaluation criteria

83. The call for bids will give guidance on the types of bids invited, and the explicit evaluation criteria that will be used.

84. Given the desire in particular for highly innovative ideas, it will be difficult to be specific about the evaluation criteria, but these are likely to include:

- innovation potential
- transferability across the HE sector
- match with priority area
- added value from collaboration
- value for money, in terms of direct or indirect economic impact
- credibility of team
- commitment to meaningful participation of other organisations (including the demand-side).

85. Matched or leveraged resources are highly desirable to maximise the benefits of a project and as an indicator of demand. However this will not be a requirement, given that we wish to encourage innovative, possibly risk-taking projects.

> **Consultation question 7**
> We invite views on the evaluation criteria which should be used for the competitive element.

Assessment panel

86. We propose to appoint an assessment panel to consider the bids received under the competition. We anticipate that the panel will consider the second stage bids in full, and may be assisted by others (including HEFCE and/or OST officials) in narrowing down the larger number of first stage bids. The panel will make recommendations to the Science Minister and HEFCE Board; their decision will be final.

87. The panel should contain representatives from a range of stakeholder groups: we would expect that, at the minimum, it would contain members drawn from the HEI sector, business, and one or more representative RDAs. It would be chaired by the director general of Research Councils UK, strongly supported by the chief executive of HEFCE.

88. In identifying high quality bids we will want to consider a balance of different types of project – so we may select a mix of the best bids from each of several areas. This will optimise the range of potential benefits, rather than simply choosing the best bids irrespective of focus.

89. In the unlikely event that we receive too few bids of sufficient quality and innovative value we may not allocate the full amount of funding set aside for the competition.

90. We propose that the plans associated with successful HEIF 3 bids be made public, to help inform the HEI sector and other stakeholders.

Managing the quantity of bids

91. Given the limited number of projects that can be successful, we will be looking for mechanisms to avoid an inappropriate number of bids, for example through allowing institutions to lead on only one bid.

92. As only 25 per cent of the HEIF 3 main funding is allocated through the competition, we would expect that many institutions will decide to concentrate on their institutional plans in support of the formula funding, and may decide against being the lead institution in a bid under the competition; this should be a wholly acceptable position. However, it is possible that many institutions will feel under pressure to try and maximise their funding by applying – perhaps more than once – within the competition. The risk is that there may be a large number of applications and the process may become excessively burdensome.

93. To streamline the process, and reduce burden on the sector, we are considering whether measures should be put in place to 'manage demand' for applications under this competition.

94. We considered whether individual institutions should be limited to participate in only one bid under the competition. However this could lead to key players being excluded from a significant collaboration – because they are already involved in

one project – even though that collaboration would significantly benefit from the participation of that institution.

95. We therefore propose that any institution will be restricted to leading only one HEIF 3 competitive bid. They may participate in a number of other bids.

Consultation question 8
We invite views on the likely response rate to the competition and on practical approaches for ensuring an appropriate quantity of bids.

Centres for Knowledge Exchange

96. There is already a commitment to fund Centres for Knowledge Exchange, begun under HEIF 2, for a period of up to five years from their inception.

97. We will continue this commitment, so the additional £20 million will be made available to continue Centres for Knowledge Exchange during the HEIF 3 period, provided they show satisfactory performance. The question of funding for the fifth year of the commitment period will need to be addressed following the outcome of the relevant Spending Review.

98. The allocation of funding to continue the Centres for Knowledge Exchange will be additional to and separate from the main formula calculation. Therefore, the cap on formulaic funding discussed would not affect the amount allocated for Centres for Knowledge Exchange.

99. Lead institutions in receipt of funding for a Centre for Knowledge Exchange will be expected to submit to HEFCE a low-burden and concise update of progress against the plan against which their Centres for Knowledge Exchange funding had been awarded under HEIF 2. Where satisfactory performance is demonstrated, the funding could be released according to the previous plan, although there would be some scope to revise and extend these plans in the light of experience.

100. Although funding for the Centres for Knowledge Exchange will be dealt with separately from the main formula and competitive funding, we would expect institutions to reflect the existence of Centres for Knowledge Exchange funding in their formula-based plan – in terms of explaining how their HEIF 3 formula funding would integrate with and complement the Centres for Knowledge Exchange activity.

Annex A
Details of HEIF 3 formula

1. We propose that the formula has three components, each of which has a percentage weighting.

2. The available funds are split into three 'pots' according to the weighting of each component. So, with a 45 per cent weighting, the external income component will determine how 45 per cent of the formula funding is distributed.

3. Within each component pot, funds are allocated according to each institution's 'score' in that component as a proportion of the total scored by all institutions. So if Institution X scored 1,000, and the total score of all institutions was 20,000 then Institution X represents 5 per cent of the total score, and would therefore be allocated 5 per cent of the pot available for this component.

4. After calculating this indicative set of allocations, adjustments would be made for the minimum, maximum, transitional factor and possibly collaborative top-up. To ensure that the post-adjustment figure matches the size of the total formulaic pot, the pre-adjustment allocations may then need to be scaled upwards or downwards (on an iterative basis).

Component 1 (potential and capacity building, 45 per cent weighted)

5. We propose to base this on data on staffing from the HESA records. We propose to use the full 'staff record' which is more detailed than the staff numbers from the finance record in the HESA resource (blue) book, enabling a more accurate calculation. We would take data on staff:

- whose time is charged to an academic primary cost centre
- who have worked at least 25 per cent FTE in the relevant year (this could, for example, be a person who worked for the full 12 months at least at 25 per cent of full time, or a person who worked for only three months all of which was full time)
- who have been funded for this time from general institutional funds – including the Teacher Training Agency – or from NHS.

Note that staff FTE numbers were used to inform part of the formula allocation of the first and second rounds of the HE Active Community Fund.

Component 2 (external income, 45 per cent weighted)

6. Table 2 sets out the metrics that could be used to calculate the external income component of the HEIF 3 formula.

7. As explained in the main text, there are two possible sources for the necessary data – HESA and HE-BCI. Table 2 sets out a possible data set for each option. A third possibility is that data from both sources could be combined.

8. Across the HE sector, HEIs carry out a wide variety of activities which can generate income, including:

a. Some which are heavily focused on their commercial value to the HEI, rather than acting primarily as vehicles for knowledge transfer or provision of specifically academic-based resource. Letting-out of student residences in the vacations, selling logo-marked consumer goods and provision of conference facilities (as distinct from academic-based events) are in this category. We do not intend to use such income as indicators of HE benefit delivered to the economy and society.

b. Others which may be firmly based on knowledge transfer and could develop to the stage of covering all their fixed and variable costs and generating profit, possibly competing directly with commercial organisations. Licensing income is in this category. In principle these are within the range which we wish to encourage through HEIF but we must be careful not to use public funds to subsidise them (State Aid and similar rules should not be breached). However the income they produce may represent a valuable HE contribution to the economy and society and could properly be represented in the formula funding component.

c. Some activities which are important aspects of knowledge transfer, in differing guises, across the HE sector at large. We wish to recognise several of these in component 2 of the formula (external income), while avoiding substantial overlap with mainstream research funding (recognised through QR and peer-reviewed Research Council and charity funding) or with teaching (recognised through teaching block grants). Examples are: commissioned 'contract' research – from business, government departments or other public or not-for-profit bodies, and perhaps from other countries (where the intention is to address particular demand-side interests or questions), consultancy, business-oriented short courses for professional development, access to HEIs' academic or testing facilities. We intend to use a limited but generic set of these in the income component, as indicated in Table 2.

9. Totalling, for example, data for Contract research, Consultancy and Equipment Services from one source minimises the effect of the variable reporting and use of definitions by HEIs across and between these categories. The intellectual property (IP) data are more accurate and complete from HE-BCI; however, the amounts being relatively small at present, data for this cycle could come from HESA or HE-BCI.

Component 3 (activity-based, 10 per cent of formula funding)

10. Some relevant types of activity are already measured in the HE-BCI survey. We propose to use the following three:

- dedicated third stream staff (to be used as a proportion of total academic staff)
- SME engagement (proportion of interactions)
- number of licences granted.

11. The mechanics of the calculation would be as follows: the formulaic funding associated with the

Table 2 **Metrics that could be used to calculate the external income component of the HEIF 3 formula**

HESA	• Research grants and contract income from UK industry and public corporations (from FSR Table 5b 3d)
	• Income from non-credit bearing courses (from NCBR)
	• Non-research income for services rendered, from Other Government Departments (from FSR Table 5b 4aiii)
	• Income from Knowledge Transfer Partnerships (from FSR Table 5b 4aii)
	• Non-research income for services rendered, from UK industry and public corporations (from FSR Table 5b 4aiv)
	• Income from intellectual property rights (from FSR Table 5b C4f)
	• Research grants and contract income from Other Countries (from FSR Table 5b 3g)
HE-BCI*	• Contract Research income (from Table 1b)
	• IP income excluding share sales (from Table 4a)
	• Consultancy income (from Table 2a)
	• Equipment service income (from Table 2b)
	• Continuing professional development and continuing education (from Table 2c)

* HE-BCI 2003-04 questionnaire

third component (we are proposing 10 per cent) would be further sub-divided equally between the three activities listed in paragraph 10 above, with institutions' funding being proportional to their relative score in those activities.

12. However, to allow the formula to reflect a wider range of valuable knowledge transfer, there are other areas of activity which we would like to include but where appropriate data are not currently available, for example:

- student placements
- student entrepreneurship
- engagement with non-commercial (including social and civic) organisations.

13. We would hope to be able to use numerical data for these areas in the future, but such data will not be ready in time for HEIF 3 calculations. So, we invite suggestions on how these or similar activities can be incorporated in the HEIF 3 third component (for example by objective benchmarking, where institutions might be scored on a simple scale, say 1 to 5). We also seek views on additional metrics which could be included without either adding significantly to the complexity of the formula or creating undue burdens on institutions.

Annex B
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List of abbreviations

FTE	Full-time equivalent
HE	Higher education
HE-BCI (survey)	Higher education-business and community interaction survey
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIF	Higher Education Innovation Fund
HESA	Higher Education Statistics Agency
KTCF	Knowledge Transfer Capability Fund
OST	Office of Science and Technology
QR	Quality-related research (funding)
R&D	Research and development
RDA	Regional Development Agency
SME	Small and medium-sized enterprise

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