

The Rt Hon Vince Cable MP

Secretary of State for
Business, Innovation and Skills

The Rt Hon David Willetts MP

Minister for Universities and Science

Tim Melville-Ross CBE
Chairman
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28 June 2011

Dear Tim,

HIGHER EDUCATION WHITE PAPER: STUDENTS AT THE HEART OF THE SYSTEM

Introduction

1. Today, we published our white paper on the future of higher education, "Students at the Heart of the System". This letter sets out the actions we are asking the Funding Council to take forward and describes the central role we see for it in the new higher education landscape. In taking forward these actions you will want to work closely, as necessary, with the Office for Fair Access, the Quality Assurance Agency, the Student Loans Company and the Office of the Independent Adjudicator as well as with sector representatives and institutions.
2. Our universities are strong and some are world-class: in research; in attracting international students; in education; and in contributing to the economy. They advance and share knowledge and understanding through teaching and research and lead new approaches to knowledge exchange which promote economic, social and cultural development. But the challenge they face is putting the undergraduate experience at the heart of the system: that is the central issue dealt with by the White Paper.
3. Our reforms are designed to deliver a more responsive higher education sector in which funding follows the decisions of learners and successful institutions are freed to thrive, in which there is a new focus on the student experience and the quality of teaching and in which alternative providers are encouraged to offer a diverse range of higher education provision. We want to achieve this within the framework of independent, autonomous institutions that has proved its success over time. The overall goal is a better higher

education system that is more responsive to student choice, that provides a better student experience and that helps improve social mobility.

Placing HE Funding on a Sustainable Basis

4. Last Autumn, the Coalition took bold action to put HE funding on to a sustainable basis. Over the period of the Spending Review, the public money that supports higher education will shift from block grants universities and colleges receive from the Funding Council towards repayable tuition loans made to students to take to the institution of their choice. In return, the Higher Education sector must be more responsive to students' choices and continuously improve the quality of their academic experience. Those Institutions which are successful in attracting students will benefit; those which cannot will have to change. These reforms will generate £3 billion in savings annually by 2014-15 on the Government supported element of the teaching grant and will also put more choice into the hands of students.

5. The Government will continue to provide a core grant to the Funding Council, for distribution between universities and colleges. By the end of the spending review period in 2014-15, the Council will still remain responsible for research, teaching and capital grant funding well in excess of £3 billion.

6. All areas of public expenditure must be prioritised, to ensure best value for money. This will be especially true for the Council's teaching grant allocation, as it reduces over the period of the Spending Review. Our priorities for this funding include:

- The additional costs of high cost subjects at undergraduate and postgraduate levels including, but not limited to, medicine, science, engineering and agriculture;
- Those subjects which are strategically important and vulnerable and require support to avoid undesirable reductions in the scale of provision;
- The additional costs associated with attracting and retaining students from non-traditional backgrounds, and disabled students, including the funding the Council provides to support widening participation and retention;
- The additional costs of high cost specialist institutions, such as art, some of which are relatively small;
- Services which support the whole higher education sector, such as the Joint Information Systems Committee, the Higher Education Academy and the Quality Assurance Agency;
- Costs associated with the transition to the new funding arrangements; and
- Funding to support institutions' knowledge exchange activities and their engagement with business and the community through the Higher Education Innovation Fund (HEIF).

7. We are asking the Council to consult, immediately, on how the operation of the teaching grant can best meet these priorities in 2012/13. We will confirm the Government's priorities for this funding in our Grant letter to the Council. In addition, the Council should implement all other aspects of its 20 December 2010 Grant Letter, maintaining its commitment to internationally excellent and world leading research, through the dual support system and effective collaboration with the Research Councils, charities and industry funders of research. The implementation of Higher Education Innovation funding on the basis of performance remains a priority.

8. We are also asking the Council to hold a consultation, in winter 2011-12, on the longer-term method for allocating remaining teaching grant in 2013/14 and beyond, to take account of the progressive implementation of our funding reforms. This should seek views on how the teaching grant can support a healthy mix of subjects (including science, technology, engineering and mathematics and strategically important and vulnerable subjects), students and types of institutions and on options for controlling student numbers for those students accessing loans or grants from the SLC. As the new funding system beds in, we would like you to monitor any emerging trends in student demand and in what institutions offer to inform how the teaching grant is prioritised in the future. In addition, we are asking the Council for advice on increasing the opportunities to attract employer or charity sponsorship for individual places, provided they do not create a cost liability for Government.

9. We have accepted the recommendations of Professor Sir Adrian Smith's review of postgraduate education. The Government's support for postgraduate teaching will also continue, as part of the HEFCE teaching grant, reducing from 2012/13 onwards, in line with reforms to funding for undergraduate teaching. As part of your consultation on teaching funding in 2013/14 and beyond, we would like the Council to consult on how this support should be allocated in future. We would also like you to review participation in postgraduate study, following the changes to undergraduate funding, as part of an assessment and evaluation of the impact of the funding changes. This review should consider what additional data should be collected about postgraduates, to help inform thinking on the longer term future of postgraduate funding. In addition, we recognise that students applying for taught postgraduate courses, such as master's degrees, would benefit from being able to access standard, comparable information about the range of courses on offer. We are asking the Council to work with UUK and GuildHE, to prepare proposals on whether a National Student Survey of taught postgraduates should be introduced, and whether to encourage institutions to provide a Key Information Set for each of their taught postgraduate courses. These proposals will be considered by the Higher Education Public Information Steering Group.

Responding to Student Choice

10. A central theme in our strategy for reforming higher education is to put student choice at the heart of the system. To achieve this, we must free up

the current, restrictive approach to institution level student number controls, while ensuring the cost to the public purse remains affordable. This will allow more students to attend the institution of their choice and institutions that can attract students to expand. We must also ensure that students receive good value and high quality from HE.

11. So, for 2012/13, we are asking the Council to free up student number controls on around a quarter of new entrant places. Our ambition is to increase the proportion of new entrant places freed from controls by the end of this Parliament. From year to year, every institution will have to compete for the student numbers outside its core allocation and the core will reduce every year. We are asking the Council to consult, immediately, on how this approach might operate, subject to the requirements we set out below.

12. As the first element, the Council should remove controls on those places taken by students who achieve AAB grades or above at A-level or equivalent. Our intention is that, in 2012/13, institutions should be able to recruit as many of such students as they can. AAB will represent a starting point, but our ambition is to widen the threshold over this parliament, ensuring that the share of places liberated from number controls altogether rises year on year. We will want the Council to monitor and advise us on the scope for progress in any given year, as we will wish to balance the need to drive improvement in the sector with protection for taxpayers and the avoidance of unnecessary turbulence.

13. As the second element, the Council should allocate up to 20,000 new entrant places in 2012/13 to make it easier for high quality, good value providers to offer more places, introducing competition into the higher education market to incentivise all institutions to operate as efficiently as possible. So, the Council should be looking to enable growth in institutions whose full-time fees average no more than £7,500 per annum (net of fee waivers) and can clearly demonstrate the quality of their provision.

14. It is for the Council to determine the process by which these places are allocated. But it should pay attention to value for money and quality, particularly encouraging bids from FE Colleges and alternative providers with the capacity to introduce new, or grow existing, higher education provision. This includes those who want to use an external validator with UK degree awarding powers, and FECs offering HNDs and HNCs. It has hitherto been difficult for some FE colleges to offer HE. This process is intended to make it easier for such institutions that can attract students to be able to expand to meet demand and the Council should take this into particular account in its allocations. The Government also expects both HEIs and FECs to behave responsibly when winding up existing or establishing new franchise agreements or validation arrangements, recognising the HEFCE currently has no power to intervene.

15. We expect to increase the number of places made contestable in this way in future years, to create greater dynamism in the allocation of places. It is important that those universities, and especially Further Education Colleges

and alternative providers, which wish to develop innovative and low cost approaches to delivering Higher Education are not inhibited by student number controls. We understand some providers wish to develop new teaching models, perhaps including two year degrees, and we would like to encourage this. We would like the Council to monitor the impact of this approach and its effect on supply and demand and to provide advice on its extension in future years. We will also want advice, as soon as feasible, on how this new model is operating in its first year.

16. You should also ensure, in freeing up student number controls, that provision of, and support for, Strategically Important and Vulnerable subjects is not disadvantaged.

17. For 2012/13, alternative providers which do not have places allocated to them by the Council are not subject to student number controls. Our intention, subject to Parliament, is to legislate to create a single regulatory system for 2013/14 and beyond, with all providers operating on a level playing field.

18. Students need easily accessible, accurate and reliable information on what they can expect from their courses to help them make informed choices. We welcome the work the Council has done with the sector to ensure that, by September 2012, all Institutions publish Key Information Sets (KIS) for each course, accessible from their websites. To complement this, we are also asking the Council, working with other bodies as appropriate, to develop options for improving the presentation of the Unistats website, so prospective students can make more useful comparisons between courses at different institutions.

19. Promoting wider access to higher education and supporting an excellent teaching and learning experience for all students remains a key priority for the Council. Successful introduction of the National Scholarship Programme and the work with the Director of Fair Access to ensure coherence between access agreements and widening participation strategic assessments remain an important focus. Every student deserves excellent teaching and the opportunity to contribute effectively in their own learning. To support this we want the Council to advise on how to implement the publication of anonymised information about staff teaching qualifications, the promotion and publication of student evaluation and the use of student charters.

A New Fit for Purpose Regulatory Framework

20. The current regulatory framework for higher education, including the role of the Funding Council, is largely set out in the Further and Higher Education Act 1992. It has served us well, respecting the paramount importance of institutional autonomy in driving excellence, while enabling public resources to be used to support high quality teaching and research. It now needs to be re-examined and updated in the light of the changes to higher education funding and of other developments in the sector, building on existing strengths.

21. Our aim is to create an open, dynamic and affordable higher education system, with more competition and innovation and a level playing field for new providers. In doing so, we want to retain a strong system of quality assurance while minimising the regulatory and administrative burden by adopting a risk-based approach. We will consult, this Summer, on our proposals for a single, transparent framework that covers all institutions that want to be part of the English higher education system - including further education colleges and other alternative providers - to be overseen by the Council. This consultation will set out our detailed proposals on the powers and sanctions the Council, as lead independent regulator, will need.

22. The new regulatory framework will need to ensure that Government can still control its financial exposure to students entitled to receive grants and loans. As more funding flows to institutions through graduate contributions, we believe the Council will need powers to attach conditions to accessing the student support system, over and above its current powers on setting conditions for receipt of teaching grant – including conditions applying to the number of Government-funded students an institution can recruit. We intend to legislate to create these powers. We are grateful to the Council for the work it is already doing, in partnership with the Student Loans Company, to think through the implications of new funding flows for institutions and your own organisation. We will welcome your advice here, in due course.

23. As part of the Council's revised regulatory remit, we plan to give it an explicit duty to promote the interests of students, where appropriate by promoting competition in the Higher Education sector, including through its funding decisions. This will complement the work of the Office of the Independent Adjudicator in relation to individual complaints. We will ensure that HEFCE has the necessary powers to take action, if evidence is found of widespread poor treatment of students.

24. The Council will continue to have a role reviewing the financial health and sustainability of all higher education providers in receipt of public support. We will consult on the powers the Council will need to take action in the public interest. The Council will also retain its role as principal regulator of higher education institutions in England that are exempt charities.

25. The UK approach to quality assurance is highly regarded. We intend that the Council should retain its current responsibility for securing the assessment of quality. But the quality assurance regime must also adapt to a changing environment and, in particular, become more risk based. We are asking the Council to consult on how this might best be achieved. We will consult on whether the Council needs additional legislative powers to introduce or operate a risk based quality assurance system.

26. We intend to bring forward the legislation in 2012 necessary to enable this new regulatory framework and give HEFCE the powers it needs. Subject to Parliament, we expect to introduce the new regime from 2013/14. In legislating, we will ensure that the Council sits within a framework of "arm's length" principles. In the interests of continuing to protect institutional

autonomy and academic freedom, a revised Financial Memorandum between BIS and HEFCE will set out both the limitations and the rights conferred to the Council.

Reducing Burdens from Information Collection

27. Higher education institutions are subject to a wide range of regulatory requirements and conditions reflecting the diversity and scope of their activities. Each of the organisations that collect data from Institutions has a specific need for the information they request but many will tend to collect the same basic details repeatedly. So, we are asking the Council, working with the Higher Education Statistics agency, the Higher Education Better Regulation Group and the Information Standards Board for Education, to redesign the information landscape for higher education in order to arrive at a new system that meets the needs of a wider group of users; significantly reduces the duplication and unnecessary burdens that currently exist, and results in timelier and more relevant data. You should also work with the Skills Funding Agency, to support simplification and alignment across both the higher and further education sectors. BIS will work with other Government Departments to reduce further the regulatory burden placed on Institutions, including looking at whether it is possible to reduce the costs currently incurred in completing corporation tax returns.

28. In addition, we are asking the Council to consult with the sector on radically streamlining the reporting requirements of TRAC. It must remain available as a benchmark for applications for research funding and is likely to continue to have a use in costing teaching. But you should look at how far TRAC requirements can be reduced and simplified as soon as is feasible, in the light of the wider changes to the allocation of the teaching grant.

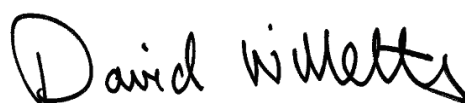
Conclusion

29. This letter supplements but does not change the guidance in our 20 December 2010 Grant Letter. We are grateful to the Council for the support it has given us in developing the proposals in our White Paper. We remain confident of your commitment in taking forward these changes in the interests of English higher education and its users.

Yours sincerely,

A stylized, handwritten signature in purple ink, consisting of a large, sweeping curve that ends in a small dot.

THE RT HON VINCE CABLE MP

A handwritten signature in black ink, written in a cursive style, reading "David Willetts".

THE RT HON DAVID WILLETTS MP