

November 2005/46

**Core funding/operations  
Invitation**

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Institutional plans to be submitted by  
Wednesday 15 March 2006

First-stage competitive bids to be  
submitted by Tuesday 31 January  
2006

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This document invites HEFCE-funded higher education institutions to submit institutional plans in order to release their formula funding allocation under the third round of the Higher Education Innovation Fund. It also invites interested, eligible HEIs to submit first-stage bids for the competitive funding element.

# Higher Education Innovation Fund round 3

## Invitation and guidance for institutional plans and competitive bids



Office of Science and Technology

HIGHER EDUCATION  
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# Higher Education Innovation Fund round 3

## Invitation and guidance for institutional plans and competitive bids

<b>To</b>	Heads of HEFCE-funded higher education institutions Other bodies with an interest in HEIF 3
<b>Of interest to those responsible for</b>	Interactions between HE and business, the public sector and the wider community; Contract and collaborative research; Continuing vocational education or professional development; Strategic planning; Regional economic development; Knowledge transfer
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### Executive summary

#### Purpose

1. Funding under the third round of the Higher Education Innovation Fund (HEIF 3) is designed to support a broad range of knowledge transfer activities which result in direct and indirect economic benefit to the UK. This document invites HEFCE-funded higher education institutions (HEIs) to submit institutional plans to release their formula funding allocations under HEIF 3, and invites interested, eligible HEIs to submit first-stage bids for the competitive funding element.

#### Key points

2. HEIF 3 is a joint initiative from HEFCE and the Office of Science and Technology (OST), and will provide funding to HEIs in England over the core period of August 2006 to July 2008. A total of £238 million is available over the two years 2006-07 and 2007-08. This includes up to £20 million as continuation funding for the successful Centres for Knowledge Exchange (CKEs) which were initiated in 2004 under HEIF 2.

3. Under this third round of HEIF, a formula funding allocation is available to all eligible HEIs, and we invite them to submit

institutional plans to release this funding. Provisional, indicative formula allocations and potential CKE allocations are published alongside this document on the HEFCE web-site. We are also inviting interested, eligible HEIs to bid for an award from a smaller competitive funding element (although given the limited number of bids that will be funded we do not expect every institution to apply). This document provides guidance notes and criteria for the submission of institutional plans and competitive bids.

4. English HEIs, and other interested parties, were consulted on the proposals for the fund through HEFCE 2005/36 in July 2005. This document explains how we have taken account of their views in finalising our approach; a summary of responses is at Annex D. The consultation document contains further background material which is not repeated here.

#### **Action required**

5. Institutional plans should be sent, by e-mail only, to [bct@hefce.ac.uk](mailto:bct@hefce.ac.uk), by 1700 on **Wednesday 15 March 2006**. First-stage competitive bids and updates for Centres for Knowledge Exchange should be sent by e-mail to the same address by **1700 Tuesday 31 January 2006**.

# Programme overview

## Background

6. The Government announced in its ‘Science and innovation investment framework 2004-2014’ that it would further increase the funding for HEIF. As part of the 2004 Spending Review it allocated funding to HEFCE and OST for a third round of the HE Innovation Fund: the total amount available for HEIF 3 over 2006-07 and 2007-08 will be £238 million. At the same time, public funding is being invested:

- through Research Councils’ new delivery plans
- through Regional Development Agencies (RDAs)
- for research and development (R&D) tax credits available to large and small businesses
- through other complementary schemes including the Science Research Investment Fund, the Department of Trade and Industry’s Technology Programme for Collaborative R&D and government-supported Enterprise Capital venture funds.

7. HEIF 3 will allocate funding, principally by formula, to eligible HEIs to support a broad range of knowledge transfer activities which result in direct and indirect economic benefit to the UK.

8. The first round of HEIF (HEIF 1, 2001-04) provided funding to enable HEIs to develop their capacity to respond to the needs of business and other partners. The 89 awards for HEIF 1 were announced in October 2001.

9. The second round (HEIF 2, 2004-06) 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. These included a network of 22 new Centres for Knowledge Exchange activity (CKEs), which were funded to provide specialised shared services for business and community partners and to be exemplars of good practice.

## Objectives

10. Science, innovation and knowledge transfer are key drivers of economic well-being and the quality of life. The 10-year framework set out the Government’s long-term objectives which, as well as requiring additional investment, require accompanying action to strengthen links between the knowledge base in HEIs and businesses and community interests. HEIF 3 will therefore develop from previous rounds of investment to:

- build on what has been achieved through earlier rounds of funding
- further develop and release HE knowledge
- support HEIs in building responsiveness to and engagement with business and other partners into their strategic missions
- extend and embed the capability for effective ‘third stream’ activity (alongside and integrated with teaching and research) across the entire diverse HE sector.

11. To meet these objectives, HEIF 3 will give further opportunity to HEIs to broaden the reach of their knowledge transfer activities, potentially extending into new areas including innovative types of interaction and partnerships. This will be enabled by a significant amount of formula-based funding to reflect HEIs’ potential, achievement and activities; and a smaller competitive bidding element to stimulate creative and innovative actions that will add value.

## Funding available

12. A total of £238 million is available over the two years 2006-07 and 2007-08. This includes up to £20 million as continuation funding for CKEs which were initiated in 2004 under HEIF 2 and can demonstrate success.

## Eligibility

13. All HEFCE-funded HEIs in England are eligible to receive formula funding – whether to be used individually or within a collaborative project or projects – and to apply for competitive funding.

However, we do not expect all HEIs to submit bids under the smaller competitive element.

## Timing

14. The planned timetable for implementing HEIF 3 will be broadly as published in the proposals (HEFCE 2005/36), see Table 1.

Table 1 **Timing of HEIF 3 implementation**

Announcement of final formula allocations	by January 2006
Deadline for first-stage competitive bids and updates on CKEs	31 January
Deadline for institutional plans	15 March
Deadline for second-stage competitive bids	early April
Acceptance of institutional plans	mid April
Assessment of competitive bids complete	late April
Funding begins	August 2006

## Key principles

15. The design of HEIF 3 is underpinned by five key principles, derived from the science and innovation investment framework. These principles, which were stated in the HEFCE publication 2005/36, have been strongly supported through consultation meetings and formal responses. They remain as follows:

- HEIF 3 is focused on promoting activities that result in both direct and indirect economic benefit to the UK
- HEIF 3 will support a broad range of knowledge transfer activities that benefit the ‘world outside’ HEIs, but which may not generate large amounts of net income for the HEIs themselves
- HEIF 3 is a national scheme with a regional dimension

- a substantial proportion (75 per cent) of third stream funding will be allocated on a more predictable basis to allow the retention of highly skilled staff and greater continuity
- a smaller amount (25 per cent), will be allocated by competition. The competition will be sharply focused on proposals with an innovative approach, and will support priorities which might include collaborative activities that capitalise on excellence and achieve economies of scale.

## Management of HEIF 3

16. As with previous rounds of HEIF, HEFCE will manage the fund on behalf of OST and HEFCE. The process for HEIF 3 has been subject to a regulatory impact assessment by HEFCE which shows that it would lead to a significant reduction in burden on the higher education sector, compared with the HEIF 2 process.

## Monitoring

17. Institutions will report individually on progress against their institutional plan as part of their existing annual monitoring statement (AMS) to HEFCE. The AMS process is based on risk and exception reporting. Separate arrangements may apply to successful collaborative bids, particularly where these are large or carry substantial risk, whether funded through the formula allocation or as a result of competitive bidding.

## Structure and rationale of HEIF 3

18. HEIF 3 competitive awards and the formula-based allocations will complement each other.

19. Allocating 75 per cent of HEIF funding by formula will result in greater predictability of income to HEIs and allow more strategic institutional planning, as well as reducing the administrative burden associated with a competitive bidding process. It will provide the means for HEIs to embed and further develop their knowledge transfer work, so that it becomes integrated into the institution’s mission as a sustainable activity.

20. The competitive element, 25 per cent, will encourage extension of the boundaries of effective



knowledge transfer and exchange. It will generate new, cutting-edge knowledge transfer practices and socio-economic benefits, building on HEIF 1 and HEIF 2 and learning from international good practice. We want to make sure these opportunities are not lost in our determination to move to a more predictable system for core third stream funding.

21. We plan to put a frequently asked questions (FAQs) page on the HEFCE web-site, to ensure that all HEIs can access the answers to any significant questions about HEIF 3.

## Formula funding element

22. Around £164 million will be allocated by formula. This formula will determine a conditional allocation for every HEFCE-funded HEI. Provisional, indicative formula allocations and potential CKE allocations are published alongside this document on the HEFCE web-site. Final formula allocations will be calculated after the data sign-off/confirmation process has been completed with each HEI. To release their allocation, each institution will need to submit an institutional plan for its third stream strategy, describing how that allocation is to be used.

23. The formula-based allocations will be the core funding provided via HEIF 3. Therefore if an institution wishes to continue and develop existing activities funded by HEIF 2, the funds should first come from the formula funding and not from the competitive part.

24. Allocations will generally be for two years from August 2006. Our aim is that any successor to this third round of funding will be close to and will build upon the overall structure established for HEIF 3. We will make changes to the structure, formula components and weightings beyond 2008 as appropriate, to reflect improvements in metrics and developments in the sector and its maturing third stream activities.

25. During the consultation with the sector and other stakeholders, there was general support for the proposed structure for formula funding. Therefore the formula will have three components: potential and capacity building; external income as a proxy for demand; and activities not best measured by income. These are described in more detail in paragraphs 30-50, and in Annex A.

26. Calculations derived from these basic components will then be subject to the following moderating factors (see also paragraphs 51 to 58):

- an **institutional minimum allocation of £200,000** (for the overall formula funding over the two-year period)
- an institutional **maximum allocation of £3 million** (for the overall formula funding over the two-year period)

- a **transitional factor** to ensure that no HEI suffers an unmanageable reduction in funding, from its awards under HEIF 2 and the Knowledge Transfer Capability Fund to its HEIF 3 formula allocation.

27. The formula is designed to encourage positive behaviours, without having substantial perverse effects. This requires that it should reflect the overriding aims of HEIF 3 as the main process for supporting the Government's policy in this area, be manageable and transparent, and be an evidently fair reflection of the diversity of the HE sector. The changes that have been made from the detailed structure proposed in HEFCE 2005/36, related to the factors used in the second and third formula components, are intended to contribute to these objectives.

28. The formula will not be perfect, because of the limitations of the available metrics as precise indicators of the wide range of activities which HEIF 3 is intended to promote, the relative infancy of some types of activity, and the difficulty of capturing the real impact of funding. However it will provide a major step towards a more refined process for potential application to any later rounds of HEIF. We believe – and the HE sector and other key stakeholders have supported this view – that the benefits of moving to a formula-based system of funding will significantly outweigh the imperfections in the formula or its detailed application.

29. The formula funding is allocated to individual institutions and it is intended to support both collaborative activity and single institution activity. The change in funding mechanism should not lead to HEIs abandoning effective collaborations – especially not those which have made significant progress but need further time and resourcing to develop their full potential. Collaborations have been a positive feature of the HEIF programme. We wish to strongly encourage good collaborations to continue (and expand), and new ones to form. To reinforce this approach, and to recognise the additional management and networking costs of collaborating, these additional costs will be considered as an eligible, indeed essential use of HEIF 3 funds.

## The three components of formula funding

### Component 1: potential and capacity building

30. This forward-looking component recognises that the academic staff of an institution embody much of its resource for knowledge exchange or transfer and innovation. The component therefore gives a scale-dependent baseline of funding to every institution to reflect its capacity and potential. It also ensures that every institution will receive an allocation, even those that may be relatively new players in this area, and may not have built up a demonstrable track record in third stream activity.

**31. The main measure of potential will be full-time-equivalent (FTE) academic staff from the Higher Education Statistics Agency (HESA) staff record.**

32. Continuing a theme raised during informal discussions before publication of our proposals, some respondents suggested that we should also use student numbers as a measure of knowledge transfer potential. We had not proposed to do this, as funding is already provided to HEIs directly in proportion to their student numbers through HEFCE funding for teaching, and teaching staff are included within the FTE academic staff count. However we do recognise that some student-focused activities can be an effective supplementary means or indicator of knowledge transfer by HEIs. Therefore we will take some account of student activity in the third component, using data from our annual data collection exercise, HESES, the Higher Education Students Early Statistics survey.

33. We also investigated the possibilities of using a non-linear dependence on staff numbers, to reduce the spread caused by the very large range of sizes of institution. However this produced significant complexities and would have required a degree of arbitrariness in selecting an algorithm.

### Component 2: external income

34. This component will recognise performance, using income as a proxy, which will provide a measure of the volume of third stream 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.

35. In the consultation there was significant discussion regarding the role of (revenue) funding from economic development and regeneration bodies, such as the RDAs, in enabling HEIs to engage in a range of activities for which commercial funding may not be available – but where economic impact is very significant. There is some regional variation in the need for and the availability of such funding. We acknowledge that using income as a proxy for delivery of benefit can provide some perverse incentives, but we do not believe that any reasonable alternatives for HEIF 3 have been identified through the consultation. So we will use simple measures of a variety of types of income. Having reviewed the choice of measures to be used, we have taken note of concerns expressed by the HE sector that we should use a mix which represents the breadth of the sector's knowledge base.

**36. We have concluded that the factors proposed, with the addition of data on the income from regional and other economic development and regeneration sources, are the most appropriate.**

37. The data collection processes for HESA and for the Higher Education-Business and Community Interaction (HE-BCI) survey have been under way for different periods, have different degrees of suitability for identifying the knowledge transfer activity which we wish to promote, and have differing levels of data completeness from question to question. Consultation responses referred to the above points, and responses from the HE sector generally called for either a combination of HESA and HE-BCI data or for HE-BCI data only to be used.

**38. Having examined the weaknesses and strengths of the different sources, we have accepted that the best choice to optimise the relevance and reliability of the calculation is to use a combination of HE-BCI and HESA data.**

39. The data to be used will be:

- HE-BCI data for income from contract research, consultancy and equipment services (where the residual ambiguity in the three definitions is mitigated by aggregation)
- HE-BCI data for regeneration and development income
- HESA data for income from non-credit bearing courses
- HE-BCI data for income from intellectual property
- HESA data (data from the Department of Trade and Industry after 2004-05) for income from knowledge transfer partnerships.

40. To ensure maximum accuracy in the formula calculation, we expect to ask HEIs to confirm the HE-BCI data that they have already provided and which will be used for calculating the final allocations. We will provide them with details of the HESA data being used. We will also ask for sign-off/confirmation of the proportions in which collaborative HEIF 2 funds have been shared between the collaborating HEIs. We will continue to work with stakeholders so that, over time, the reliability and completeness of the HE-BCI data will be fully acceptable for any future formula.

41. As recommended by respondents to the consultation, we have considered both 'absolute' measures of external income and either a ratio of external income per member of staff, or a ratio of internal income to institutional turnover (or HEFCE block grant). We have tested these relative measuring approaches, which have the merit of avoiding one sort of size dependence. However they are very size-sensitive, particularly to small differences in smaller HEIs with very different profiles, and lead to a range of results which are extreme and anomalous.

42. We have concluded that proportional approaches do not deliver sufficiently balanced benefits to the overall aims of HEIF to compensate for the disadvantages in the formula, which would require further complex compensatory moderation. **We have therefore decided to use absolute measures of income.**

### **Component 3: activities not best measured by income**

43. The third component was proposed specifically to recognise types of activity that are not reflected well by measuring absolute levels of external income, yet may provide a substantial and positive benefit to the economy.

44. Discussion over recent months and formal responses to the consultation proposals have revealed a strong demand across the HE sector for this third component. Many respondents requested that we consider raising the weighting of the component within the overall formula. A few respondents indicated that although they agreed with the principle of the third component, the lack of maturity and hence robustness of metrics at present suggest that it could be left out of the formula for HEIF 3. There was broad agreement that any third component should employ a broad base of indicators, although a substantial number of responses stated that the number of licences was an unsuitable item for this component since this would tend to duplicate the income from intellectual property in component 2. Many respondents recommended that substantial effort should be made to explore more robust metrics for the future.

45. We have taken note of the arguments for raising or lowering the value of the third component, and **have decided that for this round of funding we will weight this component at 10 per cent within the formula, as proposed in the consultation.**

46. **We have decided to use a basket of four items: the number of dedicated third stream staff, the level of engagement with small and medium-sized enterprises (SMEs), the level of engagement with non-commercial organisations, and the number of student placements. The number of licences granted will not be included.**

47. The third formula component will allocate funding in a different way to the other components, to take account of concerns over the limited robustness of the data, as explained in Annex A.

48. We will review the third component before any further round of formulaic HEIF funding takes place, in the light of experience and to assess related

progress in the development of any robust and relevant metrics. There should be no presumption that this component, or any of the metrics used in it for HEIF 3, will be used in any future funding round.

## Balance between components

49. The responses from the consultation recommended a wide range of weightings for the different components. As discussed above, although there were many views in favour of a higher weighting for component 3, there was no consistent case from responses across the sector for altering the balance between the other two components. We have concluded that – for this HEIF 3 funding round – the weightings should remain as proposed. We will review the overall balance in the light of experience, for any formula-based successor to HEIF 3.

50. The balance between the three components of the formula therefore remains as shown in Table 2.

## Moderating factors of the formula funding calculations

51. The amounts derived from the above three components (in staff numbers, income and other measures) will then be converted into raw funding allocations; these allocations will be added together and the following moderating factors will then be applied.

### Minimum allocation

52. An unmoderated formula based mainly on external income and size could lead to very small allocations for some small institutions, which are likely to be ineffective in delivering even a proportionate scale of institutional development and outcomes. There was strong support through the consultation for applying a minimum amount of funding for any institution, and general agreement that the level should be as proposed. **We will therefore set the minimum allocation at £200,000 for formula funding over the two-year period.** This is consistent with minimum funding amounts suggested in HEIF 2 and used for the Knowledge Transfer Capability Fund.

Table 2 **Balance between formula funding components**

Component	Purpose	Weight
1. Potential and capacity building	A forward-looking component to reflect potential and allow for capacity building. This is based on academic staff numbers.	45 per cent of funding
2. External income	A component to reward performance to date, using external income as a proxy to reflect the value which demand-side partners place on interaction with an institution. It excludes quality-related (QR) HEFCE research funding, and charity and Research Council funding.	45 per cent of funding
3. Activities not best measured by income	An activity-based component, rewarding current and desirable performance on measures other than income.	10 per cent of funding

## Maximum allocation

53. We proposed that the formula funding allocation to any one institution should also be subject to an overall maximum, so that no one institution receives funding which is disproportionate, to the disadvantage of the bulk of HEIs. There was general support for this, from HEIs of all sizes and profiles, with some recommending a slightly lower limit than we proposed (£3 million) and some a higher one. Having tested the effect of different limits we have decided that: **there will be a maximum of £3 million formula funding for each HEI over the two-year period.**

54. This maximum will not apply to funding received via the competitive bidding element, nor to any funds allocated for continuation of the CKEs initiated under HEIF 2. Taking CKE funding into account, this is reasonably consistent with the limits for HEIF 2.

## Transitional factor

55. In the consultation, strong views were expressed in favour of the proposed ‘transitional factor’ to protect individual HEIs against an unmanageable drop in funding from HEIF 2 to HEIF 3, and the resourcing problems resulting from a stop-go approach. 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 the single controlling component in a formula. However we recognise that some institutions are committed to plans under HEIF 2 which were creditably far-sighted and ambitious and have not had much time to deliver results – for example in terms of increased external impact and income that could feed back into the HEIF 3 formula. **We have therefore decided to apply the transitional factor.**

56. Any funds used to provide this transitional protection would necessarily come from the overall formula ‘pot’, which would reduce the amount remaining for distribution to all other institutions. Some respondents called for a higher level for the transitional factor, or a phased approach with different levels in the two years. We have evaluated the effect both on institutions which would benefit

from this factor and on the remainder which might as a consequence receive less.

57. **We concluded that the transitional factor protection will be set at 75 per cent. In other words, no institution will receive less than 75 per cent of its previous allocation under HEIF 2.** We will also consider any persuasive case made by individual HEIs for their funding to be profiled, to ease the transition between their HEIF 2 and HEIF 3 funding levels.

58. This ‘previous allocation’ will be counted as the sum of: any HEIF 2 single institution award, plus the identifiable and confirmed share of any HEIF 2 collaborative award in which the institution was a partner, plus any funding from the Knowledge Transfer Capability Fund. This factor will be applied within the HEIF 3 formula calculation and will be separate from the institution’s funding from any HEIF 3 competitive award. In calculating this previous allocation we will not include any HEIF 2 funding received for leading or participating in CKEs, since any extension funding for these centres will be provided separately.

## Collaboration

59. The formula funding will be allocated to individual institutions rather than to consortia, as a natural result of the move towards a metrics-driven formula, but this does not signal a lack of support for collaborative activity. On the contrary, HEFCE and the Government are highly supportive of collaborations between institutions and with others which can enable and demonstrate, for example:

- visibility and promotion of a portfolio of what higher education can offer
- sharing ideas and spreading good practice
- testing alternative approaches
- provision of common services through a single source
- economies of scale
- smoothing and management of the flow of commercialisation deals
- grouping of HEIs that have clearly complementary strengths.

60. Some previous HEIF-funded collaborations 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 for individual bids).

61. The balance of consultation responses expressed concern that HEIs may be reluctant to pool their individual institutional funding allocations, leading to a reduction in collaboration. This concern has been widely and repeatedly stated, although some have advised that good and productive collaborations would not be vulnerable. However, we recognise that collaboration places significant demands on administration and project management resources, particularly for an HEI leading a consortium.

62. We have therefore re-considered the possibility of providing a financial ‘collaborative boost’ – a small funding supplement to institutional allocations, to offset the extra costs where a significant proportion of the activity will be undertaken collaboratively. There was no consensus from responses that such extra funds would have a significant positive effect.

63. Calculating the extra funding would also make the formulaic funding approach more complex, and put extra burden on institutions, who would have to justify their case for receiving it. Several respondents recommended aspects of non-financial support, such as good practice guidance for the management of collaborations. We expect to take up some of these.

64. **We therefore do not propose to provide extra funds for collaboration. But to reinforce the commitment to effective collaboration that adds value we will:**

- **explicitly recommend that provision be made, by lead and partner HEIs, for the additional costs of collaboration, and we accept that these reasonable costs will be an eligible use of HEIF 3 formula funding**

- **expect that HEIs will look first to the extension and development of their HEIF 2-funded collaborations, for the application of their HEIF 3 formula-based core funds.**

65. We will expect institutional plans either to confirm that previous, effective collaborative actions will continue (recognising that some change may be necessary or possible depending on the formula funding allocation), or to give a persuasive reason why they should not.

## **Centres for Knowledge Exchange (CKEs)**

66. A government commitment was made to fund CKEs, begun under HEIF 2, for a period of up to five years from their inception.

67. **We will provide up to an additional £20 million to fund a third and fourth year of the 22 CKEs from 2006-08, provided they show satisfactory performance.** This funding will be additional to and separate from the main formula calculation and the competitive bidding process. Therefore, the limit on formula funding discussed above (paragraph 53) will not affect the amount allocated for CKEs.

68. There has been general support for the continuation of funding, particularly by the relevant institutions; however, reservations have been expressed that the assessment of ‘satisfactory performance’ should be stringent. In determining whether to continue funding any centre, we will take particular note of delivery against targets, any departures from the originally agreed plan, any significant delays in making important spending commitments, and evidence that centres are demonstrating the characteristics listed in the original (HEIF 2) invitation to bid (HEFCE 2003/58, paragraph 34 of Annex A).

69. Lead institutions in receipt of funding for a CKE are expected to submit to HEFCE a concise update of progress against the plan for which their centre is being funded through HEIF 2. This update should be no more than 1,500 words. In addition to the evidence called for in paragraph 68, it should

include: strategy and high level plans for the next two years, evidence of user validation of the added value provided, and explanation of the distinctiveness of the CKE compared with other knowledge transfer activities. If necessary HEFCE will discuss the progress with lead institutions, in the light also of the reports provided in 2005. Where satisfactory performance is demonstrated, funding will be awarded generally according to the previous plan, although there will be some scope to revise and extend these plans in the light of experience.

70. We expect institutions to reflect the role of CKEs in the context of their wider institutional plan – by explaining how their HEIF 3 formula funding and that for the CKE demonstrate an integrated approach. We would also expect that any continuation funding for CKEs would be shared between any collaborating HEIs in a similar proportion to that for the original funding for the CKE through HEIF 2. This would be subject to any other agreement between the partners, and confirmation by HEFCE.

## The institutional plan

71. Each institution should submit its institutional plan to HEFCE. Acceptance of this plan by HEFCE is necessary to enable the institution's formula funding allocation to be confirmed and released. The plan should:

- be high level, focused on third stream strategy
- set out the rationale and broad areas of activity for which the funding will be used
- describe approximately how the allocated funding is to be divided between the institution's own internal activity and any collaborative work with partners
- state the outcomes which are intended.

72. Plans should be no longer than 1,500 words and follow the template provided in Annex B: in particular, activity and outcomes should be entered into appropriate categories. This will allow comparison across institutions and will highlight the breadth of funded activity. We will publish the finally agreed plans (possibly on our web-site),

though we will consider any requests for the omission of specific content on the grounds of commercial confidentiality.

## Regional needs and regional economic strategies

73. Institutions should consider, in an integral way, how to address regional and sub-regional needs within their plan. We encourage and expect institutions to discuss their plans with partners with a stake in regional economic development, and especially their RDA – or with more than one RDA if appropriate, for example in the case of multi-campus institutions, or trans-regional plans.

74. We recognise and welcome the fact that HEIs are diverse, and that their regional, national and international approaches will understandably and validly reflect their individual missions. HEIs should explain their particular approach to regional priorities, including the relevant regional economic strategies, and ensure that the rationale for their approach and level of co-ordination with RDAs and others is clear.

## Assessment

75. We expect that, by following the guidance, institutions will submit plans which we can accept without difficulty. However, if in HEFCE's judgement a plan does not deal adequately with certain of the explicit criteria (see paragraphs 77-78), we will advise the institution on what improvements and adjustments are needed, and allow a reasonable time for discussion with and assistance from HEFCE/OST, leading to resubmission. Through this process we expect that all institutions will provide an acceptable plan and their allocation will be released. However HEFCE and OST reserve the right to withhold the allocated funds, and if necessary eventually to return them to the main budget, if an institution fails ultimately to submit an acceptable plan.

76. Although the plans are to be quite short and generally strategic, the planning stage is crucial – both to ensure that the core formula funding is spent in line with the overall aims of HEIF 3, and to give a firm basis on which low burden monitoring can safely be applied.



### Explicit criteria

77. Plans will need to demonstrate:

- a. How the plan fits in the context of the third stream mission of the institution (or institutions in the case of most collaborative plans), and the sustainable integration of this into the HEI's overall mission.
- b. The rationale of how the planned activities will address strategic objectives and related benefits in the context of a coherent institutional third stream strategy.
- c. How the HEIF 3 formula allocation will be spent on eligible, appropriate knowledge transfer and related activities, with an emphasis on how they respond to demand and the related outcomes they will achieve. This should show a sufficiently broadly-based (especially in larger HEIs) but sensibly focused range of activities, appropriate to the strengths, size and resources of the institution; and helping to embed the cultural shift and optimise the use of the knowledge base. (Rather than abandon a productive activity, we are likely to suggest that the institution should work collaboratively with one or more others to achieve economies of scale.)
- d. How the activities fit with plans for the CKE, if appropriate, and the proposed activities and outcomes for development of an existing CKE.
- e. Any collaborative aspects of the proposal, including the rationale and explanation of the decision on whether or not to collaborate, and how any collaboration will support sharing ideas, spread of good practice, economies of scale or shared risk.
- f. Evidence of discussion of plans between the institution's HEIF programme managers and regional stakeholders (RDAs and others), including the opportunity for them to offer constructive challenge.
- g. That proper planning and rigorous project and risk management is being undertaken to ensure timely and co-ordinated actions, within the institution and between any collaborating parties.

- h. Value for money related to high level budgets (with due regard to full economic costing procedures), ensuring actions are cost-effective and aimed at generating identifiable impact.
- i. How the formula allocation is used as core funding, providing continuity in terms of the appropriate development – not simply extension – of previous third stream work (including CKEs or work not necessarily funded by HEIF), in breadth, scale or quality in pursuit of concrete benefits to the economy and society. This may include training plans for relevant professional staff, as appropriate.
- j. The impact (direct or indirect) of the planned actions upon the economy and society, referring to external target beneficiaries, contribution to sustainable growth, and impact on the institution itself and on any partnerships formed in a collaboration.

78. HEFCE will assess the plans against the explicit criteria described above and will seek advice and comments from its Regional Advisory Groups (which include representatives from RDAs, Government Offices, and local Learning and Skills Councils). We expect that these bodies will have been closely involved in the development of the institutional plans and therefore will not have a formal decision-making role regarding their approval.

# The competitive element

## Discussion of issues raised in consultation

79. This section discusses a number of key issues raised in consultation responses about the proposed competitive element of HEIF 3 and our reaction to them. Paragraphs 105-150 contain the guidance on how to bid and how bids will be assessed.

80. Most responses recognised the benefits of collaboration. However, a small number said that we should not exclude the possibility of bids from individual institutions, since they could potentially have a high impact in an innovative way. In the light of this we have decided that bids from individual institutions will be eligible. However we expect that, given the scale of impact we are looking for, the best bids will be collaborative, in that whether they involve one HEI or more, they will also involve further active partners such as businesses and other users or knowledge providers.

## Innovation and continuation of HEIF 2 collaborations

81. The aim of the competition is to complement the core HEIF 3 funding. It will allow successful institutions to undertake/pilot activities that might be more risky, or difficult to obtain funding for in the first instance.

82. In the consultation, many respondents were supportive of the idea of using the competition to drive forward innovation in the sector, but a number expressed concern over the emphasis on novelty and the constant 'churn' this could create. Others recognised the benefits of innovation, but were concerned about the lack of support for extensions of existing good collaborations under HEIF 2.

83. We recognise the value that some previous collaborative projects have brought and we would re-emphasise that funding is available to all institutions under the formulaic allocation. An institution's share of a HEIF 2 collaborative project is included in the calculation of the transition factor. Some respondents suggested that if their HEIF 3 allocation is reduced from the HEIF 2 level then the first thing to be cut would be collaborative projects.

84. Our view is that institutions should decide on their own priorities. If they believe that collaborations are providing useful ways of delivering their desired outcomes then we would expect them to continue to take part in the collaboration, rather than pull out just to maximise spending that they alone control. In some cases we accept that this may lead to a rationalisation in collaborations. However, given that we are already putting in place a safety net with the transition mechanism in the formula, we do not intend to give any further special status to those who were successful in a collaborative bid under HEIF 2.

## Timing

85. Some HEIs, while supporting the idea of innovative projects, have indicated they feel that the two-year timescale may be too short to deliver major outcomes, and requested a longer duration of funding, for example the possibility of continuation funding for a second two-year period. We recognise that final impacts may be difficult to judge, but we believe that two years of significant funding is enough time to show whether the approach is working.

86. In addition, we wish applicants to consider, from the outset, what sort of exit strategy they intend for the project. What do they expect to do once the HEIF 3 competitive funding ends? The answer to this is likely to vary for different types of project. Some HEIF projects which commit a substantial amount of their funding to, for example, continuing professional development courses, may need to have a high level of initial spend on creating and piloting new teaching materials and processes. In such a case, future activity could continue at a significantly lower cost level. Other projects may be a small-scale experiment where, if successful, the approach could be replicated in multiple locations. Others still may be a large-scale experiment which, if successful, we would expect further partners to join.

87. Many of the concerns stem from the recognition that starting up a collaborative project can take significant time, and that it may be difficult fully to start up the project in the short period

between announcement of awards (currently planned for April 2006) and the start of funding (August 2006). This could be particularly true where significant staff recruitment is necessary, although we do not think this will be the case for all projects. We are therefore proposing to introduce some flexibility about the start point. **We will call for bids for a two-year package of work, but we are prepared to consider agreeing a start date deferred by up to 6 months.** Combined with the notice period, this would give nine months or more to recruit staff, which we believe should be sufficient.

### Size

88. Some have argued that larger projects should not predominate, or that larger projects will be more difficult to get off the ground in a two-year timescale – particularly if they are innovative. We recognise these concerns, but re-state our desire for the competition to complement the formulaic HEIF 3 funding stream. We do not believe it would be appropriate to have a large number of small competitive projects being run separately alongside the many institutional plans which will be supported by the formulaic funding. **Therefore we confirm our wish to fund a small number of projects of sizeable scale and impact, and that the indicative range is between £3 million and £5 million.**

### Regional aspect to projects

89. Some respondents to the consultation suggested that projects within a region should be given a higher priority. Our view is that we do not need to prioritise any particular type of collaboration. Projects that take place entirely within a region will be eligible under the competition, but HEIF is a national scheme, and there is no requirement for collaborations to be limited geographically – particularly if the issue being addressed by the collaboration is a national one.

90. Some respondents referred to the precedent of regional scoring in HEIF 2, and called for projects to be pre-selected within the region by RDAs before being put forward for selection at the national level. Our view is that the HEIF 3 competition, as a focused smaller part of HEIF 3 funding, is very different from the HEIF 2 process (where a

competition distributed all the funding). In particular we see it as a testing ground for new approaches to knowledge transfer, on behalf of the sector as a whole, not just the successful institutions.

91. We will therefore not be using a system of regional pre-selection of proposals. Some proposals may be based on regional interactions, but there is certainly no requirement for this – other proposals may be based on national or international collaborations. Also, there will not be a regional quota (such as a minimum or maximum number of collaborations per region). Projects should stand on their own merits. The form of this competition means that the full regional implications of a project will not always be immediately clear: some projects may have a flexible configuration of partners and we are not seeking a prescriptive division of funds between partners.

### Two-stage bidding

92. There was very broad support for the use of a two-stage bidding process in order to minimise burden. **We are therefore adopting this proposal,** and making use of a structured application form, shown at Annex C, to ensure that bids focus on the key questions for assessment. We believe that this will help to identify the best projects rather than just the most well-crafted bids.

### Managing the quantity of bids

93. We consulted on approaches to managing the number of bids to the competition. It is clear from the interest shown at consultation meetings, and from some of the formal responses, that a large number of institutions are interested in applying.

94. Several consultation responses, often from the larger institutions, suggested that it was not necessary to limit HEIs to one bid as lead institution, as proposed. However the main thrust of responses was that it was reasonable to limit bids in this way. Most respondents agreed that it was not appropriate to try to further limit the number of bids by setting a maximum number of bids an HEI could be involved in as a partner; this was viewed as potentially counter-productive.

95. We are therefore limiting the bids as follows:

- each HEI can put forward only one bid as the lead institution
- there is no limit on the number of bids an institution may participate in as non-lead partner – although we would advise a degree of caution, given the likely success rate of bids.

96. If an institution puts forward more than one bid as lead institution we reserve the right to eliminate excess bids by a method of our choosing.

### Priority areas

97. We consulted on whether particular areas of activity should be singled out to receive priority. However the majority of views were that in a competition for innovative ideas it is better to keep the field open and not impose limits by trying to pre-judge priorities. **Consequently we are not listing any priority areas for this competition, and the ‘match with priority area’ assessment criterion, proposed in the consultation document, will not be used.**

98. As stated previously, the panel may decide to recommend a balance of types of activities or subject/sector focus, and any such decision will be made in the light of the range of bids received. There is no predetermined type of activity that will automatically receive priority status.

### Institution types or academic disciplines

99. Some concern has been expressed in responses and consultation discussions that the competition is realistically only for certain types of organisation or academic disciplines. For example, some smaller institutions thought that it would not be possible to be involved in a bid of the proposed scale, and some have suggested that the competition will focus only on science, engineering and technology (SET) disciplines.

100. This is not the case. With regard to institution type, although we have advised caution that not every institution should expect to apply, **the competition is not aimed at any particular type or size of institution.** Rather we simply wish to avoid any sense that all HEIs are expected to bid, even when they may not have a particularly strong or

persuasive project proposal and have little chance of success. Smaller and specialist institutions are certainly welcome to apply for the competition, and it may be that in order to achieve the desired scale and impact such projects would include multiple partners, perhaps of differing sizes.

101. The consultation document stated that recommendations would be made to the Science Minister, as well as the HEFCE Board; and that the assessment panel would be chaired by the Director General of Research Councils. Some respondents inferred from this that – in contrast to the formulaic funding – there is a special emphasis in the competition on SET subjects only. This is not the case: their involvement reflects the fact that, as with HEIF 2, the majority of the HEIF 3 funding comes via the OST and the ‘science’ budget. However, the OST is responsible for the health of the research base and knowledge transfer across the whole range of academic disciplines (as is HEFCE), and funds the Arts and Humanities Research Council and the Economic and Social Research Council as well as the more SET-oriented Research Councils.

102. **We stress that the competition is not focused on any one group of academic disciplines.** Indeed, given the request for innovative projects, it may be that several will be focused on knowledge and expertise outside the traditional SET disciplines that have been perceived to be the traditional targets of knowledge transfer.

103. Further concerns have been expressed that the winners of the competition have been pre-determined. This is certainly not the case: the competition is entirely open. All bids will be submitted to the scrutiny of the assessment panel and no institution or consortium has preferential status.

104. We recognise concerns that the overall make-up of the panel might affect the results. Several respondents felt that the ‘user side’ representation on this panel should not be restricted to large businesses, but should include representatives from public sector and non-commercial beneficiaries of knowledge transfer and reflect the needs of smaller businesses. In appointing panel members, we are mindful of these concerns.

## Guidance on applying for competitive funding

105. Taking account of the range of responses to the consultation document, we intend to proceed with the competition, which is aimed at stimulating innovative collaborative actions. The following paragraphs set out the scope and rules of the competitive element of HEIF 3.

### Aim and scope

106. The aim of the competition is to complement the activity funded by the formulaic allocation of HEIF 3, in particular by offering opportunities to pilot new ideas and approaches to knowledge transfer for the benefit of the economy, society and higher education as a whole.

107. The competition is intended to improve the full spectrum of knowledge transfer activities (including enterprise education) across the broad range of disciplines covered by the diverse English HE sector. It does not identify specific priority areas for preferential treatment.

### Eligibility

108. The competition is open to all HEFCE-funded HEIs.

109. All projects must be innovative. This is covered in more detail below.

110. It is for bidding HEIs to choose and explain the structure which they believe will lead to the strongest bid. Projects can be run by a single HEI or as a collaboration including more than one HEI. However, given the scale of impact we are looking for, we expect that whether they involve one HEI or more, the best bids will be collaborative, in that they will also involve active partners such as businesses, public organisations and other users or knowledge providers.

111. Any eligible HEI can submit a maximum of one bid as the lead institution. **HEIs should not feel under any expectation to submit a bid.** Only a small number will be selected for funding, and we do not expect HEIs to take on the burden of preparing a bid unless they believe they have a realistic prospect of success.

112. There is no requirement for institutions to be of a particular size, or to be in a pre-existing HEIF collaboration. However, we expect that many applications are likely to be based on collaborations of multiple institutions. We are not setting a maximum number of participants for collaborations, recognising that involving more partners can bring benefits, but can produce additional difficulties in terms of management and co-ordination. In the past, for larger collaborations especially, some projects have had a small core executive team, drawn from some partners, steering and managing the project. The other partners have associate status – taking part in project activities, but not having a direct management role.

113. Although there is a limit on the number of bids that an HEI can lead, there is no limit on the number of projects in which an HEI can be involved as a partner.

114. Where a partner is not itself an eligible (English) HEI, we expect that such a partner would bring additional knowledge, expertise, finance or other resources to the collaboration. However, in some instances it may be appropriate and cost effective for HEIs to purchase certain services from the partner, to optimise the deployment of HEIF 3 funds in delivering the planned outcomes and impact. The funds may not simply be shared with non-eligible HEIs or other partners. The criterion must always be that any HEIF 3 resources are to be used for the direct or indirect (but identifiable) benefit of the nation's economy.

### Duration

115. Project applications should be for up to two years. Funding is available from August 2006. However, to reflect possible difficulties with starting up projects, where the HEI makes a persuasive case for doing so, we will consider:

- allowing a start date of up to 6 months later, with an end date up to 24 months after the eventual start date
- a rising funding profile over the first 6 months of a 30 month funding period (or indeed a degree of front loading).

### **Budget available and size of projects**

116. The total funding available in this competition is up to £54 million. However, if insufficient quality bids are submitted, we reserve the right not to award all of this. We are looking for projects of significant scale and impact. We think this can be achieved by projects of between approximately £3 million and £5 million (over the two-year period). It is unlikely that a project would be funded for more than £5 million. For larger projects, we would expect greater impact and evidence of relevant active partnerships.

### **Funding beyond the competition period**

117. We do not intend to set aside specific funding for the continuation of HEIF 3 competitive projects beyond 2008. Institutions involved may wish to continue the activity through use of future HEIF formulaic funding, through provision of their own resources, or through other funding routes. The HEIF competition projects are an opportunity to test out an approach on behalf of the sector – continuation within the successful HEIF 3 collaborating institutions is not the only goal.

### **Innovation**

118. The competition is intended to complement the formulaic funding by providing the opportunity to put into practice new ideas that might be difficult to attempt using the mainstream ‘core’ formula funding or other funding sources.

119. Therefore, all bids should demonstrate a significant level of creativity and innovation, applied to generate impact, effect change and deliver concrete benefits. Innovation could be generated in a number of different ways. For example, it might be demonstrated in:

- new interdisciplinary combinations of knowledge
- tackling a gap in the market or weakness in a current knowledge transfer area
- new and ground-breaking partnerships, including international ones
- novel approaches to the use of resources in knowledge transfer
- alternative business models to bring added benefits to knowledge transfer

- original and promising applications of technology or processes
- applying an existing knowledge transfer approach to new user groups, which may include those not currently engaged with higher education
- significant scaling-up of existing collaborative knowledge transfer practice
- innovative proposals led by smaller and more practice-based HEIs, which may include larger HEIs, working closely with business and other partners.

120. Proposals are likely to be for actions which entail more originality or novelty, uncertainty and therefore risk, as well as the aim and realistic prospect of high benefit. We are looking for projects that will drive forward improvements in the practice of knowledge transfer across the sector. Therefore projects that represent current sectoral practice, but which have simply not so far been applied within the particular bidding institutions, would not count as sufficiently innovative.

121. All bids will be innovative, exploring and proposing new approaches to deliver new benefits. We will expect bidders to set out how they intend to evaluate the results, benefits and lessons learned from their activity; what they will do to ensure that generic good practice which has resulted can be made accessible to other HEIs and stakeholders; and how their exit strategy will enable continued value to be delivered.

### **Types of project**

122. The HEIF 3 consultation document gave an indicative list of the types of activity and nature of projects that a competition might encourage. These are developed further below.

- a. **Interdisciplinary 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 welcome new approaches which encourage this multi- and inter-disciplinarity.

- b. **Intra-regional and inter-regional projects** aimed at meeting the needs of identified groups of users in a particular geographical area. This could be a particular business sector in a region, or at the level of a sub-region or city, or several regions. Such projects may involve interaction with RDAs or other regional development bodies.
- c. **Projects with a national focus.** These might bring together partners to work on a particular issue, subject discipline, business sector or public sector activity. It may involve partnerships with national bodies in addition to HEIs.
- d. **International collaboration.** Knowledge transfer activities between HEIs in England and counterparts 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. They 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.
- e. **Shared ventures between different types of HEI** with complementary 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 relies on one profile of institution or activity.
- f. **User-responsive projects** that address the current issues of a particular group of users – such as a business sector, or particular public service (either of which could include supply chains). Although for funding purposes the HEIF project must be led by a single HEI, ideally proposals should respond to the needs of the particular user group, and in that sense be ‘demand-led’, rather than driven by the aim to find outlets for supply-side knowledge. An effective project in

this area is likely to involve representation from the user community or a representative or trade body in the joint design and management of the project.

- g. **Creation of new areas of engagement.** Given the emphasis in the Lambert Review of business-university collaboration, and the 10-year science and innovation investment framework, we would be interested to see projects aimed at engaging with business (often SMEs) and other organisations that have little history of engagement with the HE sector and/or little history of focus on innovation. Such projects might benefit from proximity of the HEI or HEIs and the organisations, or might involve working closely with providers of innovation advice beyond the HE sector.

123. Projects may of course cover several of these dimensions simultaneously. The list is given as a guide to encourage potential applicants to think broadly about the way that projects might be conceived and work. It is not exhaustive and, since we are looking for innovation, we do not intend to be prescriptive: other types of project are acceptable.

124. In making its final selection, the panel may choose to ensure that a reasonable spread of projects is available. This may include, for example, selecting a mix of different types of activity or partnership, whether along the lines of those outlined above or otherwise.

### **Existing HEIF 2 collaborations and the innovation requirement**

125. We recognise that there is some concern over what happens to existing HEIF 2 collaborations. We wish to reiterate that the main core funding for HEIF 3 is the formulaic funding, and we hope that this funding will be used to support collaborative activity where appropriate. Many good collaborations were started under earlier funding rounds, and we expect that a high proportion of these will continue, drawing on funds from the formulaic HEIF 3 allocation, and from business and other partners.

126. Should a HEIF 2 collaborative partnership wish to put forward a bid under HEIF 3, a simple continuation of what has gone on before (with no or only modest changes to project content, or with the addition of a just a few extra partners) is very unlikely to be successful. The HEIF 3 competition is not simply an opportunity to seek a ‘top-up’.

127. **Nonetheless existing HEIF 2 partnerships are welcome to apply to the competition.** This could be through a wholly new proposal, building on the good working relationship between partners. The possibility of further innovative development of an existing project is not ruled out. The degree of innovation required need not be extreme: it may be appropriate for some HEIF 2 collaborations to put in a bid under the HEIF 3 competition that can demonstrate a natural but significant and substantial new development.

128. Some purely illustrative examples are:

- a collaboration which is successfully delivering enterprise training may wish to develop new materials (and pilot teaching) of enterprise training applied to a particular area, not currently part of its programme and not well catered-for, such as for the creative industries
- a collaboration which builds a new range of types of knowledge transfer interactions onto an existing, HEIF 2-funded strategic partnership with a particular user constituency.

129. Other collaborative patterns will be very welcome, and there will be no special treatment for bids that happen to resemble these examples.

130. Current collaborations should consider whether a development which they are considering would represent a solution to a demand-side problem – such as filling a gap in the market – rather than being a supply-side-driven way of varying their activity to qualify for additional funding. Potential bidders should also consider whether their current team structure is still the most appropriate for the project under consideration, or whether to propose a more suitable mix of extra or different members.

## **Bidding process**

131. The competition will be run with a two-stage bidding process to reduce the burden on institutions. 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 approach to programme management.

132. The lead partners should be firm and the overall aims, core management and structure of the project should be defined. However, it may not have been possible at this stage for bidding institutions to have worked out all the details of the project, including the outcomes leading to the specified impact that has been planned, and the detailed arrangements for the full range of partners to be involved. We will therefore allow some flexibility for any partnership to be finalised at a later stage.

133. The first-stage bids will be assessed, and those which are judged to be most promising will be invited to submit a full second-stage application. We expect that we may invite more applicants than the likely number of successful projects for this second stage, in order to keep a degree of competition, but the probability of success for applicants at this second stage will be quite high. The second-stage applications will be assessed to determine the final successful projects.

## **Assessment process and assessment criteria**

134. Eligible bids will be scored against a number of criteria. Due to the two-stage process and the short form of the stage one application, the assessment processes for the first and second stages will focus on and test different aspects of the overall criteria.

### **Stage 1**

135. The criteria that will be used by the panel to make their assessments of stage 1 bids are set out in Table 3. The application form has been designed to help applicants show their compliance with these criteria.



Table 3 **Criteria for assessing stage 1 competitive bids for HEIF 3 funding**

1. <b>Innovation</b>	<p>A minimum level of innovation is an essential criterion. A particularly high degree of innovation would be a positive factor to consider in the wider assessment. Projects with the minimum but comparatively lower innovation content could score highly in other areas. A project could be innovative in a number of ways. For example:</p> <ul style="list-style-type: none"> <li>• a new type of partnership (but not simply a new set of HE partners that conforms to similar types of earlier partnership)</li> <li>• a new approach to knowledge transfer</li> <li>• using an existing approach to a new class of users, or in relation to a new discipline.</li> </ul>
2. <b>Impact</b>	<p>To be successful, projects should demonstrate that they will have a significant impact. This should be explained principally in terms of the impact on the world outside HEIs, but impact on the HEIs involved should also be outlined. Good projects will have a longer-term impact on the practice of knowledge transfer within the HE sector as well as on business and other end users.</p>
3. <b>Outcomes and deliverables</b>	<p>Experience indicates that those projects that can clearly articulate the expected outcomes and deliverables from the outset stand a better chance of being successful in adding value.</p> <p>At this stage we do not need to have final definitive targets, but rather an indication of the types and scale of outcomes and deliverables.</p>
4. <b>Articulation of need</b>	<p>We are not seeking innovation for innovation's sake. Projects that can clearly articulate and justify the need for the proposed project will score more highly – a good bid would be able to both:</p> <ul style="list-style-type: none"> <li>• identify a gap in current knowledge transfer provision and</li> <li>• set out why it would be difficult to fund this project in other ways.</li> </ul> <p>User verification or independent evidence for this would be valuable, although this need not be detailed at stage 1.</p>
5. <b>Quality of partnership and user involvement</b>	<p>The assessment will take account of the value added to the project by the various HE and other partners.</p> <p>External user involvement is not an absolute requirement, but projects that can demonstrate this will score more highly – in particular where the user community are involved in the design, management and evaluation of the project. Evidence of support through matched funding will be a further strength but is not, in itself, essential.</p>
6. <b>Appropriate exit strategy or continuation</b>	<p>The HEIF 3 competition funding is generally for a maximum period of two years. How will the project make an impact beyond that point and not simply cease without any onward transfer of benefit? For example, projects may:</p> <ul style="list-style-type: none"> <li>• be an intentionally time-limited development of new methods, materials, metrics or models to be used in future by the wider HE sector</li> <li>• aim to become self-sustaining through generating income from users or subscriptions from other HEIs or through brokering a functional and sustainable user or supplier relationship</li> <li>• have prior commitment from host institutions or other sponsors for further support if initial indications are positive.</li> </ul> <p>Projects which intend to continue in the future but depend completely on the expectation of extension funding (with no early commitments) will score low marks on this category.</p>

136. The innovation and impact criteria have particular importance. Given the aims of this competition, a project should be essentially innovative. Projects judged not to be sufficiently innovative will be eliminated from further assessment. But beyond this minimum level, the degree of innovation will be a positive factor for consideration alongside the remaining factors.

137. There will be no minimum 'score' requirement for the other individual criteria. The assessment panel will evaluate the strengths and weaknesses of the bid as a whole as well as summing the scores given to individual aspects of assessment.

## Stage 2

138. The stage 2 assessment criteria will be finalised in the light of the content and quality of bids submitted at stage 1 and our experience in assessing these. The criteria will be set out clearly for those who are successful at stage 1 and are invited to apply for stage 2.

139. The criteria are likely to be based on:

- further detailed testing of aspects of the stage 1 criteria above
- a value-for-money assessment based on financial projections and clear definition of the anticipated deliverables
- credibility of the team, including its ability to manage a significant project or programme
- evidence of commitment and engagement of partners (including users)
- commitment to independent project evaluation and dissemination of results.

140. It is possible that, as part of the stage 1 assessment, the panel expresses reservations about particular aspects of a stage 1 bid, but nonetheless recommends that it should be invited to continue to stage 2. In this case, we will give appropriate feedback to the applicant and may ask for the identified aspects to be addressed as part of the application in stage 2.

## Assessment panel

141. We will appoint an assessment panel to consider the bids received and plan that the panel will consider bids at both the first and second stages.

142. HEIF 3 is jointly funded by OST and HEFCE, and the panel will be required to make formal recommendations to the Science Minister and the HEFCE Board, whose decisions will be final. The panel will be chaired by OST's Director General of Research Councils, strongly supported by HEFCE's Director for Research and Knowledge Transfer, and the other members will be representatives from a range of stakeholder groups. Although the panel may be assisted by officers from OST and HEFCE and consultants, the recommendations will be those of the panel.

143. The stakeholder members have not yet been appointed but we expect them to be drawn from the HEI sector (including representative groups), business (large and small), public users and RDAs. In making these appointments we will aim for some degree of balance across profiles of institutions and areas of knowledge transfer. As with previous competition rounds, we intend to make public the names of these members after the assessment process is complete.

144. We will ask the panel to ensure there is a reasonable balance of awards from across the suggested range of activities. This does not indicate that one of every possible type of activity will be selected. It does mean that if the highest scoring bids are all clustered around a particular type of activity, we expect that only the best of these may be chosen and then good bids in other areas. Where two or more stage 1 bids are of a similar nature, we may indicate to the bidders that we would look favourably on a joint bid.

145. 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.

### **Publication of bids**

146. We intend to publish the plans associated with successful HEIF 3 bids to help inform the HEI sector and other stakeholders, subject to considering any specific requests for the exclusion of any commercially confidential parts of the plans.

### **Application form**

147. The structured application form for stage 1 of the competition is included as Annex C and can be downloaded separately from the HEFCE web-site (with this document, under Publications).

148. All bids must use this form, be submitted electronically and adhere to the maximum word limit, using the word amounts given in each question as guidance. To be fair to all bidders we reserve the right to ignore information beyond the word limit, and to disqualify bids that blatantly disregard these requirements.

149. At stage 1, please do not include any further supporting information, such as attachments or links to web-sites. These will be ignored.

### **Expectation to bid**

150. As previously stated, no institution should feel under any pressure or expectation to put in a competitive bid. Given the small number of projects which we expect to fund, the chances of success are limited. It is entirely appropriate and acceptable for an institution to concentrate on delivering value through its formulaic allocation.

# Annex A

## Details of HEIF 3 formula

1. The formula has three components, each of which has a percentage weighting:
  - component 1 – potential and capacity building, 45 per cent
  - component 2 – external income as a proxy for demand, 45 per cent
  - component 3 – activities not best measured by income, 10 per cent.
2. The available funds (£164 million) are split into three weighted ‘pots’ or components. So, for example, the external income component will determine how 45 per cent of the total formula funding is distributed.
3. Within each component pot, funds will be allocated pro rata according to each institution’s proportional ‘score’ (for components 1 and 2) or ranking (per factor in component 3) relative to all other institutions. In the proportional cases, if an institution scored 1,000 and the total score of all institutions was 20,000 then the institution would be allocated 5 per cent of the relevant funding pot available.
4. After calculating the indicative set of allocations, adjustments will be made for the:
  - overall minimum of £200,000, the smallest overall formula allocation which any institution will receive
  - maximum of £3 million, the largest overall formula allocation which any institution will receive
  - a transitional factor, ensuring that no institution will receive less than 75 per cent of the sum it received under HEIF 2 (that is, the sum of its single institution award, and its share of any collaborative award and any Knowledge Transfer Capability Fund award, but excluding the share of any HEIF 2 funding for a Centre for Knowledge Exchange).
5. The calculation of the allocations will be managed to ensure that the total of post-adjustment figures lies within the total sum available for the formula funding part of HEIF.

### Component 1: potential and capacity building

6. This component is based on data on staffing from the HESA staff record. We will use 2003-04 data or that from 2004-05 if available and validated in time.
7. We will take the FTE number of academic staff, that is staff:
  - whose activity is recorded as academic and whose time is charged to an academic cost centre
  - who have a permanent or fixed-term contract of employment with the institution
  - who have worked in the relevant year. This could, for example, be a person who worked for the full 12 months at 10 per cent of full time (counted as 0.1 FTE) or a person who worked for only three months all of which was full time (counted as 0.25 FTE)
  - who have been funded for this time from general institutional funds or by the NHS – general medical, general dental practice or Department of Health.

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

### Component 2: external income

8. Table 4 sets out the metrics that will be used to calculate the external income component of the HEIF 3 formula. We will use 2003-04 HESA finance data and 2003-04 HE-BCI data.
9. 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. These will not be incorporated in the formula calculation. Letting out of student residences in vacation time is an example of this category.

- 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. 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. Intellectual property income is in this category.
- c. Some activities which are important aspects of knowledge transfer, in differing guises, across the HE sector. 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; and access to HEIs’ academic or testing facilities. We intend to use a set of these in the income component of the formula, plus information on income (revenue not capital) from economic development sources as indicated in Table 4, following the confirmation of data by HEIs.

Note that existing core funding for research – quality-related (QR) research funds from HEFCE and research grants from Research Councils – is specifically excluded from the ‘contract research’ totals.

**Table 4 Metrics that will be used to calculate the external income component of the HEIF 3 formula**

HESA	<ul style="list-style-type: none"> <li>• Income from non-credit bearing courses (from the Finance Statistics Return, FSR, Table 5a head 2)</li> <li>• Income from Knowledge Transfer Partnerships (from FSR Table 5b head 4a(ii))</li> </ul>
HE-BCI	<ul style="list-style-type: none"> <li>• Income from intellectual property rights (from Table 4c)</li> <li>• Income from contract research (from Table 1b)</li> <li>• Income from consultancy (from Table 2a)</li> <li>• Income from equipment and facilities (from Table 2b)</li> <li>• Income from regeneration and development (from Table 3)</li> </ul>

10. Including data for contract research, consultancy and equipment services from the one source minimises the effect of the variable reporting and use of definitions by HEIs across and between these categories.

### **Component 3: activities not best measured by income**

11. Some relevant types of activity are already measured in the HE-BCI survey. We will use the following data (proportional to each HEI’s ranking against the sector at large) to give a broad representation of the sector’s range of activity:

- dedicated third stream staff
- SME engagement
- sandwich student placements (from the HESES survey)
- engagement with non-commercial (including social and civic) organisations.

12. The mechanics of the calculation will be as follows: the formulaic funding associated with component 3 (£16.4 million) will be divided equally between the activities listed in paragraph 11 above. Each institution’s ranking will be calculated separately from data provided for each of the four activities in the basket. In view of the high sensitivity to any data variations of these rankings at the lower extreme, we will apply a smoothing factor at the bottom of the range, which will then be used to derive pro-rata funding allocations. The raw funding amount for the institution, from component 3, will be obtained by adding together the allocations from the four activities.

# Annex B

## HEIF 3 institutional plan template

*Do not exceed an overall limit of 1,500 words; do not cross-refer to web addresses or add annexes. Please use Arial 10pt font.*

**The institutional plan is intended to be high level, with persuasive evidence of the following.**

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**A. Mission** The plan in the context of the third stream mission of the institution (or institutions in the case of most collaborative plans), and the sustainable integration of this into the HEI's overall mission.

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**B. Strategy and benefits** Third stream strategy; strategic objectives and related benefits which the activities will address in the context of a coherent institutional third stream strategy.

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**C. Activities and outcomes** Describe how the HEIF 3 formula allocation will be spent on eligible, appropriate knowledge transfer and related activities, with an emphasis on (i) how they respond to demand and (ii) the related outcomes they will achieve. There should be a sufficiently broadly-based (especially in larger HEIs) but sensibly focused range of activities, appropriate to the strengths, size and resources of the HEI.

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**D. Centre for Knowledge Exchange (CKE)** (if relevant) Show how the CKE's activities fit with the strategy and remainder of the planned activities, explaining the plans for extension of the existing CKE collaboration and the proposed outcomes.

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**E. Collaboration** Any collaborative aspects of the proposal, including the rationale for the decision on whether or not to collaborate and how any collaboration will support sharing ideas, spread of good practice, economies of scale or shared risk.

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**F. Regional dimension** The approach to regional priorities, relevant regional needs and economic strategies – including explanation of any decisions not to respond to them, reflecting discussion of plans between the HEI, RDAs and others.

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**G. Planning, project and risk management** Effective operational plans, processes and organisational structures; assessment and mitigation of related risk.

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**H. Cost effectiveness** Illustration of value for money related to high level budgets, ensuring actions are cost-effective and aimed at generating identifiable impact.

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**I. Continuity** How the proposal builds on actions leading up to HEIF 3 and how it will prepare the ground for 2008 onwards. In the case of continuation of existing activities, how these reflect development in breadth, scale or quality in pursuit of concrete benefit, rather than simple extension, including compatibility with any CKE activity.

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**J. Impact** Intended impact of the plan in terms of direct or indirect benefit to the economy and society.

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Authorisation by head of institution .....

Date .....

# Annex C

## HEIF 3 Competition – Stage 1 application form

*Do not exceed an overall limit of 1,500 words. Do not cross-refer to web addresses or add annexes. Please use Arial 10pt font.*

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**Name of project/programme:**

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**Amount of HEIF 3 funding applied for:**

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**Lead institution:**

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**Other explicitly committed partners (HEIs and others) – if necessary please summarise:**

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**Headlines/short description [maximum 50 words]:**

---

**General summary of project proposal [approx 200 words]:**

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---

Explanation of innovative nature [approx 200 words]:

---

Description of planned impact [approx 200 words]:

---

Indication of key outcomes and deliverables [approx 200 words]:

---

Articulation of need [approx 200 words]:

---

Rationale and benefits of the partnership including user involvement [approx 200 words]:

---

Sustainability or exit strategy [approx 200 words]:

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Authorisation by head of institution .....

Date .....

# Annex D

## Summary of responses to the consultation on HEIF 3

1. A total of 131 responses to the HEIF 3 consultation (HEFCE 2005/36) were received. Respondents comprised the following.

Respondent	Number
English higher education institutions	100
Collective responses	
HE consortia	9
RDAs	6
HE regional associations	4
Other	4
National HE representative bodies	2
University association groups	2
Professional knowledge transfer bodies	1
Business	1
Government department	1
Research Councils UK	1

2. Responses included over-arching remarks on the aims and general structure for HEIF 3, answers to the specific consultation questions, and general comments on some related themes. The comments below correlated closely with the outcomes of consultation meetings held by HEFCE and the OST across England, during July to September 2005.

3. There was widespread welcome for the move to a more predictable, sector-wide approach to third stream funding, embodied in the substantially formula-based proposals. It was generally agreed that proxies for both forward-looking (potential) and past performance aspects should be incorporated in the formula. Respondents also strongly supported the retention of a smaller competitive element.

4. The following paragraphs summarise the key points raised, with particular attention to their recurrence among responses.

### 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.

5. Overall there was a preference for using both HESA and HE-BCI data for this component. Approximately one-third of respondents favoured these combined sources, while a quarter favoured the exclusive use of HE-BCI data. A significant number suggested using HESA exclusively. The great majority of respondents declared that it would be preferable to use HE-BCI data in future, albeit with further refinement of definitions.

6. Approximately one-quarter of respondents were in favour of simple absolute income measures, while about 20 per cent preferred relative income measures.

7. One-third of the collective respondents, including national HE representative bodies, expressed concerns about the use of income as a measure for the formula, while generally acknowledging that other measures might be even less suitable. An income measure was perceived as disadvantageous to HEIs where SMEs and non-cash-rich interactions feature strongly in their knowledge and customer base, which do not yet generate substantial external income but are still doing important work in knowledge transfer. This view also emerged from individual HEIs. Recognising that income is a proxy for demand, which is in turn a proxy for impact, some collective respondents also considered that this is not an accurate measure of the impact on the economy. However, no currently plausible alternatives were identified.

## 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.

8. The great majority of respondents welcomed the inclusion of the third component. Many respondents, including several national bodies, felt that it should be given a heavier weighting in the current formula for HEIF 3 and should include a wider range of indicators, while several felt it should be given a greater weighting in the future. Metrics which most respondents would prefer to see in component 3, in order of popularity were:

Student enterprises/graduate start-ups	1
Student placements undertaken	2
Enterprise education	3=
FTE third stream staff	3=
Number of community, voluntary, and non-commercial organisations supported	4=
SME interactions	4=
Extent of engagement with national/regional regeneration	5

The metric which most respondents would prefer not to use in component 3 was the number of licences granted.

## 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.

9. Several HEIs judged the proposed balance between the formula components to be appropriate for HEIF 3, but the majority called for a range of changes in the balance. Some recommended a higher weighting for components 1 or 2, without consensus. An increase to component 3 was the most recurrent feature (although some called for it to be excluded entirely), with reductions in one or both of the other components. Respondents who

suggested change mainly clustered around the following configurations (components 1: 2: 3):

- 40:40:20
- 33:33:33
- 45:35:20
- 35:45:20
- 50:50:0

10. Referring to both the short-term and long-term implications of the funding method, a number of respondents, including national bodies, commented that the HEIF 3 formula as proposed (with high staff and income weighting) could significantly favour the larger research intensive HEIs. This potential outcome was perceived by some as a bias which they would wish to be reduced.

## 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.

11. There was a strong consensus on this question: although several respondents were opposed to the transitional factor, the great majority were in support of it. Almost one-third also called for an increase to the proposed percentage (from 60 to as much as 80 per cent), while some called for a phased approach giving more relief in the first and less in the second year. Use of a higher percentage for smaller HEIs was also suggested.

## 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.

12. An overall majority of respondents agreed that the collaborative financial ‘boost’ discussed should not be applied, and that collaborations should be justified through their added value to the HEIs and others. One-quarter, including several regional bodies, felt that additional funds should be provided, and expressed the concern that good, existing collaborative partnerships might otherwise be dismantled. As well as a general call for strong

non-financial encouragement of effective collaboration to be expressed in the final guidance for HEIF 3, two national bodies called for more information to be collated centrally to allow the much-needed dissemination of good practice related to collaborations.

## 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.

13. Few respondents disagreed with the characteristics proposed in the consultation document, and a number of HEIs specifically supported the proposed encouragement of new, innovative and strategic collaborations. Several responses expressed concern that innovation should not be given excessive emphasis, in view of the number of existing collaborations which would need to balance sustainability with the risk of highly innovative new departures, and the difficulty of generating innovation rapidly in the limited timescale of HEIF 3.

14. Several respondents argued that the competition guidance should not to be too prescriptive about types of activity carried out and the choice of user partners. Few respondents commented on the priority areas (giving more attention to the evaluation criteria), but those areas that received most approval were as follows in descending order of support:

Collaborations which feed into wider economic agendas and are user demand-led	1
Collaborations which further encourage engagement with RDA economic regeneration agendas	2
Critical gaps in current provision, eg in sector type and nature	3=
Proof-of-concept activities	3=
Environmental sustainability and the use of resources	3=
Collaborations which enable interdisciplinary knowledge transfer	3=

## Consultation question 7

- We invite views on the evaluation criteria which should be used for the competitive element.

15. Many respondents supported the proposed criteria and recommended that the criteria should be inclusive. The evaluation criteria most frequently suggested were as follows, ranked according to descending order of support:

Sustainable value creation and impact	1
Real demonstrable demand	2
Evidence of previous successful track record in managing large scale collaborations in this arena	3
Innovative application of expertise	4=
Inclusion of risk assessment in plan	4=
National and international significance	4=
Evidence of the links to other initiatives and how the interface will be managed to secure value for money	4=
Transferability within and beyond HE sector	4=

## 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.

16. The likely response rate was judged by HEIs to be fairly high (compared with the proposed approximate number of awards to be made), but few HEIs could advise on how to manage the number of bids given the relatively small proportion of funds for this element. Several opposed any restriction on the numbers of bids in which HEIs could lead or participate, while a smaller number were in favour of such restrictions, mostly regarding the lead role. Some respondents recommended that there should be more awards with more modest funding per award, rather than the proposed 10-20 awards at £3-5 million each. The main reason given was the practical difficulties imposed by the two-year funding period, combined with the need to be innovative and develop productive new partnerships.

17. The proposed two-stage assessment method was warmly welcomed by many and in total received general approval.

## **General observations**

### **Duration of scheme**

18. Concerns were expressed about the two-year cycle of HEIF funding rounds, calling for this period to be extended, primarily for reasons of sustainability and results assessment. These comments were particularly focused on the collaborative competitive element of HEIF 3, which – it was suggested – would benefit from a similar approach and timescale to that of CKEs (potentially five years).

### **Coverage of third stream spectrum**

19. Many respondents welcomed the perceived encouragement for a broader range of engagement, and the explicit inclusion of international collaboration, public sector, and civic and community interactions as eligible activities. However a number felt that the last two were still lacking recognition and that the agenda appears to give undue emphasis to SET subjects.

### **Regional points**

20. Some respondents, both collective and HEIs, asked for clarification on the regional dimension of HEIF 3, and referred to both the impact of the impending reductions in European regeneration funds and the value of a more explicit role for RDAs in assessment processes.

### **Timing**

21. A major business association proposed that HEIF 3 should be delayed by 12 months to allow more time to develop the data and metrics for informing a formula. There was no support for this delay from other respondents.

# Annex E

## HEFCE regional consultants

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# List of abbreviations

<b>AMS</b>	Annual monitoring statement
<b>CKE</b>	Centre for Knowledge Exchange activity
<b>FTE</b>	Full-time equivalent
<b>FSR</b>	Finance Statistics Return (HESA)
<b>HE</b>	Higher education
<b>HE-BCI</b>	Higher Education-Business and Community Interaction survey
<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution
<b>HEIF</b>	Higher Education Innovation Fund
<b>HESA</b>	Higher Education Statistics Agency
<b>HESES</b>	Higher Education Students Early Statistics survey
<b>KTCF</b>	Knowledge Transfer Capability Fund
<b>OST</b>	Office of Science and Technology
<b>QR</b>	Quality-related research (funding)
<b>R&amp;D</b>	Research and development
<b>RDA</b>	Regional Development Agency
<b>SET</b>	Science, engineering and technology
<b>SME</b>	Small and medium-sized enterprise



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