

July 2007/22

**Special funding  
Guidance**

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Proposals can be made at any time

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This guidance on our Strategic Development Fund (SDF) supersedes HEFCE 2006/15 and details changes we are making to the operation of the fund from 1 September 2007. The changes focus on increasing the flexibility and responsiveness of the approval process and highlighting the importance we attach to outcomes assessments. Proposals can be made at any time, and these will be assessed by us at regular intervals.

July 2007/22

# Strategic Development Fund

**Updated guidance – 2007 onwards**

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For ease of reference those sections which have changed since the last update 'Strategic Development Fund: Updated guidance' HEFCE 2006/15 are marked in **blue** below.

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# Strategic Development Fund

## Updated guidance – 2007 onwards

<b>To</b>	Heads of HEFCE-funded higher education institutions
<b>Of interest to those responsible for</b>	Planning, Finance, Senior management
<b>Reference</b>	2007/22
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<b>Enquiries to</b>	HEFCE regional consultant or regional higher education adviser

### Executive summary

#### Purpose

1. This document provides details of our Strategic Development Fund (SDF) with revised processes to be used from 1 September 2007 onwards for assessing proposals for funding and an increased emphasis on assessing long-term outcomes of projects. New processes will increase our flexibility and responsiveness so that we can assess proposals at more frequent intervals (with smaller scale and lower risk projects being assessed roughly monthly and larger scale and higher risk projects assessed roughly quarterly).

#### Key points

2. This revised guidance substantially reflects that given in 'Strategic Development Fund: Updated guidance' HEFCE 2006/15, with the sections on criteria and priorities, who can apply for funding and funding likely to be awarded largely unchanged. The purpose of the SDF remains to help us achieve our strategic aims and objectives, including the aim to sustain a high-quality higher education (HE) sector. Its overarching priority, reflected in the criteria for the fund, is to facilitate constructive development and change in the HE sector at a strategic level. From time to time we identify some specific priorities for the SDF, which are linked to our strategic plan.
3. We have revised sections of this guidance in response to issues raised by an internal audit of processes for the SDF and an external evaluation of the fund. We set out the main changes we have made at the start of each section. The main changes and developments are in the sections on assessment and approvals process, and evaluation and outcome assessment.
4. In particular, from 1 September 2007 our chief executive (using delegated authority), advised by our directors in the monthly meetings of our chief executive's group (CEG), will be

able to approve higher value awards – up from a previous maximum of £250,000, to £3 million – with linked additional student number (ASN) requests. From the same date, the SDF Panel (made up of HEFCE Board members) will also be able to approve awards worth more money – up from a previous maximum of £4 million, to £8 million, with linked ASNs. Projects valued at over £8 million will require approval from the HEFCE Board. Approval of ASNs is of course dependent on the overall availability of numbers. Projects at high risk levels will still need to go to higher levels of approval even if, on the basis of their value, they could be approved at a lower level.

5. We have also highlighted in this guidance the importance of a whole project lifecycle approach to project investment, development and management, so that the outcomes of past projects inform future investment decisions and then project management approaches. In line with this, we will be giving more attention to assessing long-term outcomes of projects and to evaluating the effectiveness of the SDF.

6. Up-to-date information about the fund is maintained under the SDF section on our web-site [www.hefce.ac.uk](http://www.hefce.ac.uk) under Finance & assurance/Finance & funding.

### **Action required**

7. There is no deadline for submitting proposals to the SDF. We will consider proposals at any time, and fit them into our approval process (as described in this guidance) throughout the year, with smaller scale and lower risk projects being processed roughly monthly and other projects being processed roughly quarterly. The changes we set out in this revised guidance are intended to increase the flexibility and responsiveness of the fund.

Universities and colleges should discuss any proposal with their regional team at HEFCE before submitting it. A proposal can be sent via e-mail to the relevant HEFCE regional team or to a policy officer if the proposal is for a specific priority programme as advised on the web-site.

## Background

We have shortened our account of the history of SDF in this section and included information on its evaluation and review

8. In January 2003, the Government's White Paper 'The future of higher education' announced the creation of a new Strategic Development Fund (SDF), to support change and innovation in the sector. The SDF built on our experience of funding large-scale structural change in the higher education (HE) sector through our previous Restructuring and Collaboration Fund (R&CF).

9. The SDF plays an important role in supporting the delivery of priorities from our own strategic plan and from Government.

10. Our new strategic plan ('HEFCE strategic plan 2006-11: Updated April 2007', HEFCE 2007/09) confirms that the SDF will continue to be a major mechanism for us and higher education institutions to use in sustaining a high quality HE sector, as well as, more generally, to help us achieve our aims and objectives.

11. We review the effectiveness of the management of the SDF from time to time, and make changes to processes accordingly. We conducted an internal review of the fund in 2005 and made a number of changes to the fund as a result. Changes at that time centred on strengthening the focus of the fund on our priorities and moving to a risk-based approach to approvals, monitoring and assurance. We issued revised guidance for the fund, reflecting these changes, in HEFCE 2006/15.

12. We commissioned an initial evaluation of the SDF from consultants SQW in 2006, which is being published with this revised guidance. The aim of the evaluation was to look primarily at achievements of projects supported from the fund (rather than the processes we use to allocate and manage grants). SQW concluded that the fund's projects are successful, to date – achieving their objectives and targets, making a positive additional contribution to projects (enabling projects to get started which wouldn't have happened otherwise) and attracting additional contributions from others. However,

SQW concluded that it is still too early to make a more fully-informed assessment of the outcomes being achieved by projects that the fund supports. Although the evaluation focused on achievements and outcomes, SQW did comment on processes which it felt might improve the future effectiveness of our management of the SDF so that outcomes may improve further. In particular, SQW concluded that both HEFCE and higher education institutions (HEIs) might take on a higher degree of risk in developing and approving SDF projects and that the SDF's processes, while sound, might be streamlined further, particularly for smaller and/or lower risk projects. SQW also concluded that the Council and HEIs should focus their efforts further on outcomes of investments, not just inputs, and what these can tell us. This information could then inform future decision making. So, those involved should look at the whole lifecycle of a project when making assessments. SQW made some additional comments on improvements in processes that flowed from these conclusions (see the report on the HEFCE web-site under Publications).

13. We have addressed residual issues from the internal review and the comments from the evaluation on processes in the changes outlined in this guidance.

## Criteria and priorities

The criteria and priorities of the fund remain unchanged from those set out in HEFCE 2006/15.

14. The purpose of the SDF is to help us meet our aims and objectives as set out in our strategic plan, including the aim to sustain a high quality HE sector. Within this main purpose, we have identified three broad priorities as the criteria for the SDF in the coming two to three years. These are:

- a. The development of substantial collaborative arrangements.
- b. Strategic change or development in institutions where they build on institutional strengths and/or provide benefits to the wider HE sector.
- c. Projects where the scale or degree of risk would be too great for a single institution to

undertake, but where the outcomes would provide significant benefits to the sector and meet our strategic priorities.

15. We expect to fund a wide range of proposals that meet one or more of these broad priorities, and which fit with our strategic aims and objectives.

16. From time to time, we will identify specific priorities to advance our strategic aims and objectives through the SDF (such as employer engagement with higher education). Further information on such priorities, including criteria and guidance, will be given in the SDF section of our web-site (under Finance & Assurance/Finance & funding) and through our regional teams.

## Who can apply for funding?

There has been no change to this section.

17. All HEFCE-funded HEIs are eligible to seek SDF support. Proposals can involve further education colleges or other partners outside the HE sector, provided that in every case there is an identified lead HEI. The lead HEI will receive funding from us on behalf of the partnership and be responsible for distributing the funding among the partners, supplying monitoring information on the progress of the project, and securing the exchequer interest in capital funding. The lead HEI is also responsible for overall accountability for the funding. All funding will be allocated in accordance with our statutory powers as set out in Section 65 of the Further and Higher Education Act 1992.

## Funding

### Amount of grant and repayable grant

We have added some more guidance on full economic costing (fEC) in this section.

18. We would normally expect to invest in proposals through a mix of grant and repayable grant. The mix will be determined by taking into consideration whether a proposal involves multiple funders; and/or whether it meets either our priorities or those of the sector as a whole – or largely those of

one institution. This mix of support reflects the premise of the SDF as being to share risk between us, HEIs and other partners, as well as to share an investment/benefit. Where a proposal includes a revenue stream, we would expect repayment of grant to be a first call on this stream, so that we can then re-use grant to meet other priorities for the sector.

19. There is no set amount for our investment in each proposal: each allocation will depend on the context of the proposal and availability of funds for that year. Also, the balance of investor priorities and hence the investment mix (including our contribution) for different SDF proposals will, quite properly, differ.

20. No interest will be charged on repayable grants awarded.

21. For repayable grants, we will agree the payment and repayment periods with the lead institution during the development of the initial SDF proposal. These arrangements should then form the basis of the business plan submitted to us and will be a prerequisite for any offer of a repayable grant to be made. We normally make repayable funding available over a maximum of three years. Repayment of this funding would begin after the institution received the final payment, with the repayment normally over a maximum of five years. Therefore the time from first payment from us to full repayment will be a maximum of eight years. Institutions should consider the impact of repayable grants on their annualised servicing costs and whether Council consent (see Financial Memorandum paragraph 63) is required.

22. The SDF is intended to support risk sharing and enable HEIs to consider from time to time the types of high-risk project that could provide imaginative leaps forward for the sector. For this reason we will on occasion consider providing a full (non-repayable) grant when this is warranted by the potential wider benefits and the perceived risks of the proposal.

23. SDF proposals should be constructed on a full economic cost (fEC) basis using the Transparent Approach to Costing (TRAC) system. Guidance on TRAC and fEC is on our web-site under Finance &

assurance/Costing and pricing. We note that HEIs need to look at all their costs and activities in devising fEC cost rates and different cost rates should be applied to different activities (such as research or teaching). HEIs should provide a rationale for the cost rate which they have used in calculating an SDF project business plan, and this rationale should be annexed to the business plan submitted to the Council. As part of developing proposals, and on a risk-based approach, we may wish to discuss further the basis for fEC calculations with HEIs that are not yet TRAC-compliant and/or in cases where the financial calculations are particularly complex (for example, partnership proposals involving further education colleges that do not have fEC systems in place). We advise HEIs to involve their finance departments at an early stage in preparing SDF proposals so that fEC and other finance issues are addressed early.

24. Requests judged by the Council to be for significant amounts of funding (whether incorporating repayable grant or not) will be tested within HEFCE to confirm the project, and the institution's own investment in it, is affordable. HEIs should indicate in their SDF proposal the extent to which the project is affordable with and without HEFCE support.

25. In devising SDF proposals, HEIs will need to consider the financial sustainability of what they propose, including ensuring that the proposal is fully deliverable from the contributions sought from us and from other sources.

26. As part of considering proposals, we will take into consideration the reasonableness of the fEC calculations for the project, as well as the reasonableness of the case for the mix of investment (related to priorities/benefits and risks). It is important to us that HEIs are costing proposals accurately and seeking the appropriate level of support from us, so that they are not over-committed, and hence are ensuring the long-term sustainability of their activities. However, we also need to ensure consistency of treatment, and that we are using our grant effectively, across all SDF proposals.

## Student growth

We have made changes to this section to dovetail with more flexible approaches we will be using for approvals of SDF projects set out later in the section on assessment and approvals.

27. Historically, we received applications for capital proposals to the SDF that were often underpinned by a separate bid for additional student numbers (ASNs). This approach was burdensome on institutions and high risk: institutions had to make bids to two separate allocation procedures and face the possibility that one of the proposals might be unsuccessful. Therefore, we changed this process some while ago. To reduce the burden on institutions seeking growth in student numbers as part of their SDF proposal, we now offer some of the student growth that we have available from time to time, dependent on Government spending decisions and other priorities for use of growth, to support major strategic projects via the SDF. Bids for ASNs can therefore now be incorporated within the SDF proposal.

28. Institutions seeking growth in student numbers within their SDF proposal should speak to their HEFCE regional consultant at an early stage, and follow the guidance at Annex A. Institutions should consider carefully when they intend to start recruitment, as the latest we usually announce numbers for the incoming September cohort is February of the same year. HEIs should also be aware that ASNs tend to be in high demand and should be prepared to set out the extent of the project's dependency on achieving some or all of the ASNs requested. Should growth be scarce or uncertain, we may not always be able to approve projects which are dependent on achieving ASNs.

29. We discuss in the section later on assessment changes we are making to the SDF approvals process so that projects at higher values than previously may be processed more flexibly and simply. We are now able to process SDF bids with ASNs on similar flexible lines from time to time, dependent on availability of growth. HEIs should discuss with regional teams the specific arrangements in place at any particular time for handling ASNs.



## Other funding streams

This section is unchanged.

30. We wish to use the SDF in as integrated a way as possible with other HEFCE funding. Therefore, proposals should identify any other significant HEFCE funding intended to be used for the project, for example the Science Research Investment Fund (SRIF), and comment on how the proposed SDF funding will complement the other funding. This will help to ensure that we understand the overall strategic and financial context within which the institution has made its SDF proposal.

## How to apply

In this section, we flag that we have adopted a streamlined approach for small projects (for funding less than £250,000). We have also put more emphasis on governance and management issues and on the need to assess the achievement of project outcomes. We have also introduced suggested word lengths for the documents that HEIs submit in their proposals (see annexes).

31. The SDF is not run on a fixed bidding timetable. We are happy to receive proposals at any time and we have an ongoing approval process.

32. The first step in putting together a proposal is for the lead HEI to discuss it with its HEFCE regional team who should be kept involved during all the key stages: first soundings about a possible project, consideration of draft proposals, and final submission of a full business plan. Successful proposals usually emerge after some months of discussion with us, hence institutions should include enough time for that when drawing up their project schedule. As we have noted above, involvement of finance colleagues, in HEIs and within HEFCE, at an early stage in project development is most valuable.

33. The format of all SDF proposals should follow the principles set out in HEFCE 2003/17 'Investment decision making: a guide to good practice', and, where applicable, those set out in HEFCE 2004/09 'Mergers in the higher education

sector: A guide to good practice'. HEFCE 2004/09 gives detailed guidance on the nature of business cases and business plans which may have wider application than mergers, and hence may be of help to institutions in developing all SDF proposals.

34. The proposal should be presented in the form of:

- a. A business plan (Annex A).
- b. A summary (Annex B).
- c. A key milestones plan (Annex C).

These should be sent as Word attachments by e-mail to the appropriate HEFCE regional team.

35. The business plan (see Annex A) should:

- have a level of detail that is appropriate to the scale of the proposal
- demonstrate links to the institution's strategy, and/or the priorities of the collaborating partners, and to our strategic priorities
- clearly identify the outputs and outcomes of the proposal, including when these may be realised and measurable (which may be some time after our funding of the projects ends). HEIs may be asked to discuss outcomes assessments with our regional teams and/or the SDF Panel on the timetable identified in the business plan for realising achievements
- identify any ASNs required, over what period, and the need for the ASNs and their contribution to project sustainability
- address the affordability of the proposal (including that the case reflects full economic costs – with the fEC cost rate rationale), that the investment mix is appropriate to the balance of the different parties' strategic priorities, that the project is affordable, including dependence on HEFCE support, and is sustainable
- identify and show how key risks are to be managed
- describe how the project will be governed and managed and who (named individual(s)) is accountable for delivery and achievement

- demonstrate that the whole proposal, and specifically the procurement options, is designed to secure value for money.

36. The summary (see Annex B) must provide an overview of the proposal and:

- describe how the project fits with SDF priorities and HEFCE's strategic aims, the institution's strategy, and priorities of any collaborating partners
- identify the key outputs and outcomes
- describe governance, management and accountability
- include a proposed grant payment profile (and, where appropriate, a proposed repayment profile) showing a breakdown of what funding from HEFCE and other sources will be spent on at relevant intervals in the project.

37. The key milestones plan (see Annex C) should:

- identify the key milestones of the project
- identify the key risks associated with each milestone and how these will be managed.

38. We may impose additional requirements on SDF proposals and additional terms and conditions related to the specific priorities that we identify from time to time. We may also occasionally seek additional information when assessing a proposal to reflect any special circumstances arising.

39. As part of making our approvals processes flexible, responsive and streamlined, we are undertaking a lighter touch approach for SDF proposals for funding under £250,000. Institutions should discuss the document requirements for these small scale projects with their regional team. Dependent on the risk and complexity of the project, it may be possible to approve awards through an exchange of letters, approved by the chief executive and relevant director(s) outside of the chief executive's group (CEG) cycle of meetings.

40. The information requested in proposals for SDF funding will enable us to agree an appropriate monitoring framework with the lead institution at the outset.

41. All proposals should be submitted by e-mail to the HEFCE regional team (or to the relevant policy officer if the proposal is for a specific priority programme as advised on the web-site).

## Considering proposals

This section has minor drafting changes.

42. To ensure transparency and consistency of approach, we will focus on the following areas when considering proposals:

- a. The extent to which there are other sources of funding.
- b. The scale of the impact, benefits, outputs/outcomes and sustainability of the proposal, for example:
  - fit with our SDF and strategic priorities
  - links with other HEFCE initiatives and compliance (for example with Quality Assurance Agency guidance)
  - changes to the institution's performance indicator benchmarks (for example, in widening participation)
  - if student numbers are required, the level, mode and price group; and the overall number of students benefiting
  - and cost per student full-time equivalent and/or m<sup>2</sup>
  - overall increase in sustainable research income
  - increasing links with and satisfying demand from business, the public sector and community, and raising the level of knowledge exchange/transfer and skills activity
  - increase in building areas, such as m<sup>2</sup>/environmental consideration of buildings
  - intensity of use of facilities or equipment
  - consideration of environmental sustainability, as well as economic and social sustainability.
- c. Whether the proposal is part of an institutional repositioning or recovery plan.

- d. The impact on the institution's exposure to financial risk and/or other risks, including the degree of support expressed by other stakeholders, especially from the region, for example the Regional Development Agency.
- e. The potential impact on other HEIs or further education colleges, particularly in regional or sub-regional contexts.
- f. The capacity of the management team to implement the proposal successfully.
- g. The affordability of the proposal, in terms of both capital costs and ongoing running costs; that it has been properly costed on an fEC basis; and that the investment mix is appropriate given the balance of priorities, benefits and risks.

43. The level of detail in the proposal should be appropriate to the scale of the project, with more detail for larger proposals. We give suggested word lengths in the annexes at the back of this report.

## Assessment and approval process

In this section, we have made slight modifications to the assessment template. We have made major changes to the approvals process in terms of allowing higher value projects to be approved at lower levels of authority, with a view to improving the flexibility and responsiveness of the process, and streamlining it. We also set out our intentions to monitor project value trends (that is, any unexpected trends in the levels of funding requested across proposals).

44. We will assess proposals in relation to SDF criteria, our strategic priorities and the considerations we set out in the previous section.

45. Our approval process is based on an overall risk assessment of each proposal. This reflects a general trend in the Council to use more risk-based approaches in how we conduct our business.

46. In assessing risk, the relevant HEFCE regional team will work closely with the institution, taking into account factors relating to the institution and

other partners involved, together with the following factors relating to the project itself:

- institution-related factors, including its overall financial position, the experience of managing projects similar in scope or complexity, and the extent to which the institution is involved in other major projects
- project-related factors, including scale and complexity, nature and range of funding involved, and how long-term sustainability for activity would be assured.

47. In addition, the regional team will also pay close attention to the benefits to be delivered. Together these factors will provide an overall assessment of the proposal that balances risks and benefits. Institutions are strongly advised to work closely with their HEFCE regional team to ensure that benefits are clearly identified, particularly in relation to specifying not only the outputs but also the outcomes expected.

48. The SDF is intended to facilitate projects that are high risk but that have potential for high rewards. Hence, we will not necessarily reject proposals just because they carry risk: if they also hold out substantial promise we will seek to explore ways with the HEI to mitigate risk. For example:

- a. If an HEI is developing an innovative type of provision that it has not previously supported, we might recommend working with an experienced partner to lower the risk profile of the project.
- b. If the type of provision is innovative for the sector as a whole, we might make a higher investment and hence accept more of the risk in return for wide dissemination of practice from the project.

49. Annex D shows, for information only, the template that the HEFCE regional team will complete as part of its overall assessment of proposals. Regional teams typically share project proposals and assessment templates in development with each other in their regional teams senior management (RTSM) group (involving regional consultants and advisers), and consult finance, assurance and policy colleagues, to check for consistency of approach across teams.

50. As previously, once the HEFCE regional team has concluded its analysis and assessment of an SDF proposal (including an overall risk assessment), it will be submitted for initial approval to the Council's CEG. This oversight by CEG (combined with discussion in RTSM, and with assurance colleagues) ensures broad consistency in treatment across regions and proposals – agreeing the risk assessment of proposals, the reasonableness of financial and investment cases, identifying any areas for amendment or further work, and identifying the appropriate next stage in the approval process (taking into consideration the risk assessment and levels of funding sought). (Proposals for funding under £250,000 that are appropriate for streamlined processing may be signed off by the relevant director(s) and approval given by the chief executive outside of the CEG cycle of meetings.)

51. Our Board has recently made changes to the Council's scheme of delegated authority that affect the approvals process for SDF projects once they have been submitted to CEG. Specifically, the Board has agreed to raise approval levels for the chief executive and the SDF Panel for SDF projects. So

from 1 September 2007, our chief executive may approve project funding valued up to £3 million (increased from £250,000). The SDF Panel's approval level has similarly been increased from 1 September from £4 million to £8 million.

52. In order to ensure systems are flexible and robust, a meeting of the CEG each month will consider SDF projects. So, SDF projects that are proposing funding of under £3 million in value and are low or medium risk may be approved for funding normally within a month of final paperwork being signed off by the regional team. The SDF Panel will continue to meet quarterly. Projects judged of higher risk (and those asking for funding of over £8 million) will, however, go to the Board for approval and hence may take longer. Regional teams will keep HEIs informed on the progress of projects in the approvals process which is summarised in Figure 1.

53. In line with our approach to increase responsiveness and flexibility of the fund, our Board may delegate authority for approval of ASNs linked to SDF bids to the SDF Panel or chief executive (usually within the context of a CEG meeting).

Figure 1 **Flowchart of SDF approval process**

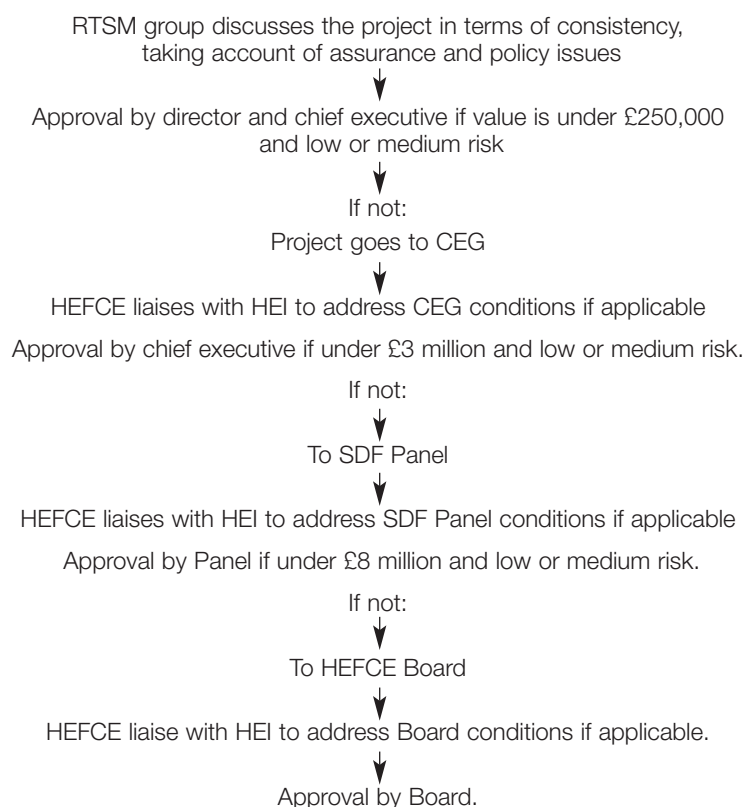


Figure 2 **Approval routes for SDF proposals from 1 September 2007**

	Proposals for under £3M in HEFCE grant	Proposals for between £3M and £8M in grant	Proposals for over £8M in grant
<b>High risk</b>	SDF panel	SDF panel + HEFCE Board	SDF panel + HEFCE Board
<b>Medium risk</b>	Chief executive	SDF panel	SDF panel + HEFCE Board
<b>Low risk</b>	Chief executive	SDF panel	SDF panel + HEFCE Board

Regional teams will be able to advise on the arrangements for approving ASNs with SDF proposals at any time (these arrangements may vary from time to time depending on the amount of growth that HEFCE has available, other priorities for the use of ASNs and the timing – in relation to Government spending decisions).

54. The approval levels for SDF proposals are summarised in Figure 2.

55. Our new streamlined processes should enable HEIs to gain our approval for funding earlier, which in turn should enable HEIs to get other funders on board and then start projects more quickly. This will allow us to use our funds more effectively and also enable HEIs to manage the timetabling of their projects more effectively. However, there is a risk that levels of funding requested may be formulated to fit them into desired approval levels. We understand that the approval levels might seem like a benchmark for the levels of investment that can be sought from the Council. However, these approval levels are designed to help us keep account of our funds and are not a sound basis for project and investment levels, given that projects and business cases funded through SDF may vary very widely. Using the approval levels in this way, could, as an example, constrain an HEI into pursuing too modest a project proposal and/or seek too modest a level of investment from the Council, which could

make the project unaffordable or unsustainable in the longer run. Our regional teams, CEG and the SDF Panel will be monitoring changes in project values following the introduction of these new approval levels and we have committed to a full internal review in 2008. We may consider issuing more formal guidance on these matters if trends are of concern.

## Terms and conditions

In this section we have added comment to clarify that we may on occasion place a time limit on an offer of grant for a project and that we apply some standard terms and conditions to all SDF projects and add some specific terms according to risk, priority and project characteristics.

56. All approved SDF proposals will be subject to our standard HEFCE terms and conditions at Annex F, as well as to the terms and conditions in line with options on monitoring, assurance and final reporting dependent on the risk level, which are also given in Annex F. There may also be additional terms and conditions relating to specific priority programmes. Depending on the nature of the proposal, additional project-specific terms and conditions may be agreed at the time of approval. The level of grant, repayable grant and ASNs and all terms and conditions for a specific project will be



agreed with the HEI in discussion with the regional team, and set out in the grant award letter, once approval has been given.

57. Our experience to date suggests that there are sometimes understandable delays in starting projects which significantly affect the project funding profile. We need to keep close oversight of the profile of spending to ensure that we are using funds effectively. We therefore include the requirement in Annex F that HEIs provide us with a realistic funding profile at the outset. We also ask that, where there are delays in starting the project, initiating the drawdown of HEFCE funding, or the project is put on hold for any reason, that HEIs explicitly advise us of the project status at least annually. If the project does not ultimately proceed, changes significantly or is excessively delayed, we reserve the right to review and withdraw our contribution. We may set a specific time limit on an offer of grant for a particular project from time to time, and regional teams will discuss this with HEIs at an early stage in developing the project.

## Monitoring and reporting arrangements

We have rolled a section of the previous guidance on interim progress reports into this section and clarified how monitoring reports should link to the key milestones plan.

58. In the past, we required monitoring reports for SDF projects every six months. However, as we move towards a more risk-based approach, we are tailoring our monitoring to the risk associated with each project. The relevant HEFCE regional team will work with the lead institution to agree a specific reporting process (frequency and style) appropriate to the level of risk, during the development of the proposal. A high risk project will normally require more frequent and in-depth monitoring than a low risk project (as an example, an e-mail to notify completion of a particular stage may be sufficient for a low risk project).

59. Monitoring reports, of a style and frequency agreed with us, should report progress against the key milestones (as outlined in the key milestones plan, Annex C) and identify new and changing

significant risks, and how these will be managed, where appropriate. Reports should also provide information on programme slippage. We recognise that there may be good reasons why progress against key milestones is not achieved, at least on the timescale or in the manner originally envisaged. If slippage is significant, we may wish to agree a revised funding profile, and the monitoring report should include a revised key milestones plan and expenditure profile. If new risks are identified, we may agree a revised reporting timetable.

60. The regional team will recommend the level of monitoring and reporting requirements (including the final form of assurance) to CEG or the SDF Panel (where applicable), who will make the final decision. We will then notify the lead institution of the requirements, so that these are clear from the outset. Our monitoring will extend to project completion (and into outcomes), and hence may take place after we have provided the final payment.

61. We will monitor the recruitment of ASNs awarded through SDF via the annual Higher Education Students Early Statistics process. In addition, progress against ASN targets will be monitored via progress reports. The frequency of such reports will be agreed at the outset with the relevant HEFCE regional team.

62. We will seek to minimise the administrative burden in all cases. As an example, if an institution has indicated in its SDF proposal that it intends that the implementation of the project will result in an improvement in some of its performance indicators, we can monitor this via the Higher Education Statistics Agency's Performance Indicators exercise.

63. For institutions involved in collaborative arrangements, we expect to receive progress reports from the lead institution on behalf of the collaborating partners.

64. An institution should notify us at the earliest opportunity if an SDF project changes significantly, and not wait for the next formal report to do so.

65. We would expect project managers in the institution to work with the appropriate HEFCE regional consultant and regional team in preparing progress reports. We will make sure we get the best value out of the information provided by HEIs so

that, as an example, monitoring reports inform and support our policy developments.

## Final reporting

This section has been revised slightly to reflect simplified assurance arrangements.

66. As detailed in Annex F, we will agree at the outset of the project the form of assurance and final report required at the end, which will depend on risk assessment.

67. We will usually require a final report on a project and this should detail what has been achieved with the funding we have provided and highlight any lessons or good practice that might benefit the sector.

68. We will always want some form of assurance. The form this assurance takes will depend on our risk assessment. At a minimum, we will require a letter from the designated officer stating the project has been completed and that the funding has been used for the purposes intended. We may also ask for a final audit report or a self-certification in accordance with Assurance Practice Note 1/04.

## Evaluation and outcome assessment

We have added paragraphs in this section on outcome assessments.

69. We will conduct periodic evaluations of the SDF. As noted in paragraph 12, we conducted an initial evaluation this year, which informed this changed guidance. We intend to continue to evaluate the fund every two to three years. Evaluations will include case studies that demonstrate the contribution that the fund has made to achievement of our strategic aims and objectives. If subsequent evaluations result in significant changes to the operations of the fund, we will publish revised guidance.

70. We believe that assessment of outcomes from projects is of vital importance both to HEIs themselves and the Council. Such assessments should form part of an overall lifecycle approach to

projects (and to the fund overall) so that successes and lessons learnt from completing projects inform investments and project development and management of the next cycle of projects. As well as conducting periodic evaluations of the fund in total, our regional teams may ask to be kept informed by HEIs of outcomes of major, strategic or transformational projects, which may come to fruition some time after our funding ends. We may also invite HEIs with such major projects or portfolios of projects to attend the SDF Panel to discuss outcomes at an appropriate point.

## Equality legislation

This section is unchanged.

71. Institutions should bear in mind their legal duties under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 (from December 2006) and the Equality Act 2006 (from April 2007) to carry out impact assessments on all new policies, proposals and initiatives where they might have any affect on race, disability or gender equality for both staff and students. If any adverse impact on equality and diversity is expected, we would expect an institution's proposals to refer to this, as well as an explanation of the measures they will put in place to mitigate this impact. Guidance on how to assess the impact of institutional policies is available in HEFCE 2004/37 'Conducting impact assessments for equal opportunities in higher education – a guide to good practice'.

## Freedom of Information Act 2000

This section is unchanged.

72. We are subject to the Freedom of Information Act 2000. This may result in proposals, communications between us and the institution, information arising from this work, or the outputs from the work undertaken being subject to disclosure if a relevant request is made to us. We will comply with such requests in accordance with the Act and our own policies.

## **SDF web-site**

This section is unchanged.

73. A section of the HEFCE web-site provides information on the SDF. This lists all the projects funded through the SDF, as well as up to date information on current specific priorities, and guidance on these. It is updated on a regular basis and can be accessed at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Finance & assurance/Finance & funding.



# Annex A

## Business plan

This annex has only been modified by inclusion of a reference to outcomes and to the need for an fEC cost rate rationale.

1. The lead institution must provide us with a business plan appropriate to the scale of the project. The business plan should address the criteria and priorities set out in this guidance (as well as any criteria or guidance relevant to projects that address specific priority programmes). It must also enable us to see how the collaborating partners or the institution have integrated the use of this funding with other sources of funding, both those of HEFCE and other agencies. The mix of investment should be appropriate given the balance of priorities/benefits of the various parties involved and the level of risk.
2. All proposals should be costed on an fEC basis. The affordability and sustainability of proposals are important to us. Guidance on fEC can be found in the main text of this report.
3. We would expect the business plan to follow the principles set out in ‘Investment decision making’ (HEFCE 2003/17) and, where appropriate, ‘Mergers in the higher education sector: A guide to good practice’ (HEFCE 2004/09). (Early involvement of the HEI’s finance department in preparing business plans is, we believe, very valuable.) It should also include:
  - a. Project objectives (including academic objectives).
  - b. Description of how it links to the SDF criteria and our strategic priorities, and hence the rationale for our investment. SDF criteria are listed in paragraph 14 of the main text, and our strategic priorities are provided in our strategic plan, ‘HEFCE strategic plan 2006-11: updated April 2007’ (HEFCE 2007/09).
  - c. Options appraisal, including assessment of financial and non-financial costs and benefits.
  - d. Total project costs and funding sources, including:
    - any other HEFCE funding contributing to the project
    - the amount of SDF funding needed to secure the necessary level of funding from other partners.
  - e. Proposed profiles for payment and, where applicable, repayment of the SDF grant.
  - f. Assessment of the affordability of both the capital costs and ongoing running costs, including whether the project is affordable with and without Council support.
  - g. Project management and monitoring arrangements, including the identification of a specific project manager.
  - h. Risk assessment and management of key risks.
  - i. Expected project outputs and outcomes, specifically mentioning any benefits to the HE sector, including comment on when outcomes may come to fruition and may be apparent and measurable. (We note that we may ask HEIs to discuss outcomes at their time of achievement with regional teams and/or the SDF Panel.)
  - j. Commentary on information provided in the key milestones plan.
  - k. For larger scale projects, confirmation that approval by the governing body/bodies has been obtained.
  - l. Summary of the monitoring process to be used by the institution, where applicable.
  - m. As an annex, the rationale for the fEC cost rate used in calculation.
4. If the SDF proposal includes a request for ASNs, the business plan should also answer the following questions:
  - a. How will the ASNs support the SDF project?
  - b. What evidence is there of demand for the ASNs?
  - c. What is the cost per full-time equivalent student of the proposal (total SDF plus other investment)?
  - d. What ASNs are required, by level, mode and price group over future years?
  - e. What would be the impact on the SDF project if the institution was awarded fewer ASNs than requested?

- f. What would be the impact on the SDF project if the institution fails to recruit these ASNs?
  - g. What impact could there be on other HE providers from the SDF project or ASNs being awarded (such as the impact on their recruitment or progression)?
5. The completed proposal – to include the business plan, summary and key milestones plan – should be submitted as Word attachments by e-mail to the relevant HEFCE regional team, or to the relevant policy officer if the proposal is for a specific priority programme as advised on the web-site. Contact details are available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Staff and structure/searchable staff list.

# Annex B

## Summary document

This annex has been amended to give a recommended word length and to include a section on accountability, governance and management.

SDF proposals should include a summary using the template below. We recommend that the summary should be no more than 1,500 words (about four sides of A4) for low and medium risk projects and up to 2,000 words (about five sides of A4) for higher risk ones (though the latter will depend on the nature of the risks involved, which could affect the amount of exposition needed).

<p><b>Institution leading the proposal:</b></p>
<p><b>Contact person for the proposal</b></p> <p>Title and full name:</p> <p>Post:</p> <p>Address for correspondence:</p> <p>Telephone:</p> <p>e-mail:</p>
<p><b>Other institutions involved:</b></p>
<p><b>Project title:</b></p>
<p><b>Project description, including overall aim:</b>  <i>Suggested length: Maximum of one side of A4</i></p>
<p><b>How does the project proposal fit with the SDF criteria and HEFCE strategic priorities?</b>  <i>Suggested length: Maximum of half a side of A4</i></p>
<p><b>Describe how this project fits with the institution's strategy or the collaborating partners' priorities, including contribution to strategic development of the sector as a whole:</b> (Proposal should make clear links between the balance of strategic priorities of HEI(s), other funders, HEFCE and the investment mix, that is the SDF, leverage and so on.)  <i>Suggested length: Maximum of half a side of A4</i></p>
<p><b>Additional student numbers required (where applicable):</b></p> <p>Level    Mode    Price group    Numbers required per year (xxxxx-xx, )</p>

<b>Total project costs and funding per year (on an fEC basis) – this should not include any funding for ASNs</b>				
<b>Table 1: Recurrent funding</b>	AY 200X-0X	AY 200X-0X	[add other years for full length of project]	Total £
HEI's own funds				
HEFCE SDF grant (show repayments of repayable grant as negative figures)				
HEFCE other grant				
Other 1 (name source)				
Other 2 (name source) [add additional lines as necessary]				
Total				
<b>Table 2: Capital funding</b>	AY 200X-0X	AY 200X-0X	[add other years for full length of project]	Total £
HEI's own funds				
HEFCE SDF grant (show repayments of repayable grant as negative figures)				
HEFCE other grant				
Other 1 (name source)				
Other 2 (name source) [add additional lines as necessary]				
Total				
<b>Table 3: Total (Table 1 plus 2)</b>	AY 200X-0X	AY 200X-0X	[add other years for full length of project]	Total £
All sources				

<p><b>Leverage:</b> (The amount of SDF funding needed to secure the necessary level of funding from other partners.)</p>
<p><b>Project risks:</b> (Describe the significant risks to the project and how they will be managed.)</p>
<p><b>Value for money (for example, describe the approach to procurement):</b> (The lead institution should describe the action taken or planned to secure value for money.)</p>
<p><b>Accountability:</b> (Describe the governance and management of the project, including individual named person(s) accountable for delivery and outcomes achievement.)</p>
<p><b>Confirmation of approval by the head of the lead institution:</b> (Enclose evidence from other partners or indicate when you expect this to become available.)</p>

# Annex C

## Key milestones plan

This annex is unchanged.

A key milestones plan based on the template below should be completed and submitted by e-mail with the business plan and summary. It requires a summary of the activities involved in the project, the associated key risks and how these will be managed, as detailed in the business plan.

<b>Target</b>	<b>Key milestone</b>	<b>Key risks</b>	<b>Actions to mitigate the key risks</b>	<b>Anticipated completion date</b>	<b>Anticipated outcomes</b>
<b>Target 1</b>					
<b>Target 2</b>					
<b>Target 3 and so on</b>					

# Annex D

## SDF assessment template

This template has been changed to move the question on risk so that it follows, and hence summarises, comment on all other aspects of the project, and flows into the section that addresses specific conditions (so that conditions are specifically informed by risk).

This is the template that the HEFCE regional team will complete as part of its overall assessment of proposals. It is presented here for information only.

Memo for the assessment of SDF proposals

**To** Chief Executive's Group (CEG) /SDF panel

**From** **Regional consultant/regional team**

**Date**

**Copy**

*The purpose of this template is to provide an overall assessment of a project proposal. It is recommended that teams consult their assurance consultant, and policy team where appropriate, when completing this form. The template should not exceed 1,500 words (about four sides of A4) in length for low and medium risk projects and up to 2,000 words (about five sides of A4) for high risk projects.*

*This memo should only be attached to proposals ready for approval. It should be submitted in conjunction with the summary.*

**Strategic Development Fund project code:**

**Strategic Development Fund project title:**

**Lead HEI:**

**Overall funding:**

<b>Amount of SDF sought</b>	<b>Co-funders and amounts</b>	<b>Any other HEFCE funds eg, SRIF</b>	<b>ASNs requested</b>	<b>Total cost of project (and cost per FTE)</b>

## Background

**1. Provide a brief description of the project and what the funding will be used for.** (This should be no longer than two paragraphs and include a balanced critique of the proposal.)

## Strategy

**2. What is your assessment, with reasons, of the strategic importance of this project?** (Should refer to fit with the SDF criteria and our strategic priorities.)

## Impact

**3. What is your assessment, with reasons, of the impact funding this project will make?** (May include number of students affected, enhanced research capacity, increase in links with business, outputs/outcomes.)

## Financial viability, governance and management

**4. Are you satisfied that this project is financially sound and sustainable (giving reasons)? Are you satisfied that governance and management arrangements are effective (giving reasons) including that a named individual(s) is clearly accountable for delivery and achievement of the project?** (Consider whether the appropriate financial issues have been considered, such as fEC, affordability, and net present value (NPV) analysis.)

## Track record

**5. Have we funded similar projects in the region, or elsewhere of relevance? If so, what is your assessment of the impact of the project?**

## Risk

**6. What is your assessment, with reasons, of the level of risk associated with this project (to HEFCE and to the institution(s))?** Please ensure that a single risk score for gross (and a single score for net) risk is clearly highlighted (that is, the risk rating that determines approvals and monitoring processes etc).

## Additional information

**7. Are there any specific conditions that you believe should be attached to the SDF funding (which should be reflected in the award letter)?** (eg WP targets, sustainability and dissemination)

**8. In addition to the questions above is there any other significant information or issues that you think should be brought to the attention of CEG, the SDF panel or the Board?**



# Annex E

## SDF panel membership

All are members of the HEFCE Board.

This annex has been amended to reflect change of membership of the panel and of responsibilities flowing from the revised processes set out in this guidance.

### SDF Panel

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Professor David Eastwood (Chair)	Chief Executive, HEFCE
Alastair Balls CB	Chief Executive, Centre for Life
Peter Saraga	Former Managing Director, Philips Research Laboratories UK
Professor Nigel Savage	Chief Executive, The College of Law
Ed Smith	Global Assurance Chief Operating Officer and Strategy Leader for Assurance, PricewaterhouseCoopers

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### Terms of reference

1. The SDF panel will keep under review the overall development and effectiveness of the SDF. In particular it will:
  - a. Consider the priorities to be supported via the SDF each year.
  - b. Make decisions concerning the funding of: high risk SDF proposals under £3 million in grant value; and low- and medium-risk SDF proposals valued between £3 million and £8 million.
  - c. Make decisions on ASNs to be allocated in conjunction with SDF projects from time to time in accordance with delegations from the HEFCE Board.
  - d. Make decisions concerning the approval of repayable grants and their repayment period.
  - e. Oversee that the policies and procedures of the fund are being applied in a consistent manner across regions, risk levels and types of proposal.
  - f. Consider the outcomes being achieved by SDF projects and evaluations of the fund.
  - g. Make an annual report on the state of the fund to the HEFCE Board.

# Annex F

## Terms and conditions of grant

This section has been changed to clarify standard terms and conditions that apply to all SDF projects, and terms and conditions that may vary according to options for different risk categories, as well as to requirements for specific priority programmes or specific projects.

1. When the lead institution is notified that a project has been approved, it will receive a grant letter with this document (Annex F) attached to it. The grant letter will:
    - a. Set out the amounts of grant and repayable grant and any ASNs awarded to the project.
    - b. Note that the standard terms and conditions, set out in paragraph 2 of this annex, apply to all projects.
    - c. Set out any specific terms and conditions that apply to the particular project. Specific terms and conditions will include comment on the options from paragraphs 3-8 of this annex that apply to the particular project, as well as other terms flowing from the risk category and specific programme and project characteristics.
  2. The following standard terms and conditions apply to all SDF project grants:
    - a. As the lead HEI, you are receiving funding from us on behalf of your project partnership and you are responsible for distributing the funding among your partners, supplying monitoring information on the progress of the project and securing exchequer interest in capital projects. You are also responsible for overall accountability for the funding. All funding is allocated by the Council in accordance with our statutory powers set out in Section 65 of the Further and Higher Education Act 1992.
    - b. You must promptly inform us of any matter which makes a significant alteration to the project or a matter which is likely to significantly affect the original intended outcome of the project. We reserve the right to suspend, terminate or reclaim funding if, in our judgement, these matters mean that the project is unlikely to achieve the intended outcomes. We may set a specific period for the offer of this grant (see specific conditions in your award letter).
    - c. You must inform us of any significant risks to the project and how they will be managed. Where the level of risk increases significantly during the project life, we should be advised at the earliest reasonable opportunity (that is, outside the agreed reporting system if appropriate).
    - d. You must inform us at the earliest opportunity of the actual spending profile for the project and of any significant changes to the profile over the course of the project. We will normally pay grant, once approved, in accordance with this profile.
    - e. You are required to fulfil our monitoring requirements for the projects. Monitoring requirements may vary for different projects and are discussed in the next section.
    - f. We reserve the right to suspend payments if monitoring requirements are not met.
    - g. Additionally, monitoring arrangements agreed at the outset of the project are subject to adjustment upon receipt of progress reports or for any other reasonable consideration.
    - h. Where our funds are not being substantially drawn down for any reason, you must advise us of the project status at least annually, from the date of this letter. If the project does not ultimately proceed, changes significantly or is excessively delayed, we reserve the right to review and, by exception, withdraw our offer of grant.
    - i. Final monitoring and audit arrangements for repayable grants are the same as for outright grants.
- ### Standard terms and conditions
- ### Evaluation and outcomes
3. We may require you to contribute to periodic evaluations of the fund and/or to discuss with regional teams or the SDF Panel the outcomes of projects, which may come to fruition some time after funding ends. We may also wish to develop

with you joint press announcements of projects. Regional teams will discuss these requirements with you as the project develops.

## Options for specific terms and conditions

4. All projects must meet our requirements for monitoring, assurance and final reporting. However, we will vary our requirements according to the risk level of projects (and other considerations such as specific policy programme priorities and characteristics of the particular project) so that burden is proportionate. We set out options below and the grant letter covering this document will highlight in more detail which of these apply to your project.

### Monitoring

5. We will assess monitoring requirements at the outset of the project, and agree the style of reporting and the points in the project at which we will expect to receive progress reports from you (the key milestones plan will aid this risk-based assessment) and reflect this in the grant letter. You will need to submit progress reports against the key milestones plan and provide information on:

- progress in achieving outcomes
- progress in achieving targets set
- any new risks, or changes to risks already included
- any programme slippage or underspending.

Note: Where there is slippage or underspending against your agreed proposal, you should include a revised programme timetable and agree with us a revised expenditure profile.

### Assurance (required at end of funding)

6. For all SDF projects, you will be asked to provide an assurance that the relevant grant has been used in accordance with any specific terms and conditions, for the purposes intended, and in accordance with the normal requirements of our financial memorandum with HEIs. We will set out the specific form of assurance that will be required at the end of the project, dependent on our assessment of the risks associated with the proposal,

in the grant letter covering this document. (We may vary this requirement in light of progress reports and, if so, will discuss this with you during the course of the project.) Assurance will take the form of one of the following:

- a. As a minimum, we will ask for a letter from the designated officer confirming that the money was used for the purposes intended. But we may go further than this and ask for either:
- b. **A final audit report.** This audit should be sufficient to give us an assurance in accordance with our published independent assurance process and the normal requirements of our financial memorandum with institutions. We will need evidence that your (as the lead institution) internal or external auditors (or a separate firm of auditors if preferred) reviewed the grant for the individual project. Please follow the guidance in Assurance Practice Note 1/04 (on our web-site [www.hefce.ac.uk](http://www.hefce.ac.uk), under Finance & assurance/Assurance service/Internal & external audit/guidance). The cost of this audit is an allowable cost under the SDF programme.
- c. **Or a self-certification of a project.** The certificate must be signed by your designated officer in accordance with our financial memorandum with institutions. Please follow the guidance in Annex 3 of Assurance Practice Note 1/04, which is on our web-site (see reference in subparagraph 6b above).

### Final report

7. You are also likely to be asked in the award letter covering grants in this document to provide us with a final report on the project. The final report should:

- a. Set out how far the project has met its objectives, milestones, deadlines and spending, against the key milestones plan and original proposal summary. We reserve the right to make available to others the final report (and any other outputs from the project), as part of disseminating the project findings for the benefit of the sector (which we will also use for internal purposes, such as policy development). If you believe the report to be confidential and should not be published, you should state the reasons why in advance and we will consider them.


- b. Be received by HEFCE, together with the assurance statement (see paragraph 6), within six months of the end of the project delivery period. If you fail to provide us with any final report and/or assurance report requested, we reserve the right to conduct an audit of the project directly and recover the cost of the audit if necessary. If we do not receive adequate final statements (for example, if the auditors are not satisfied that the grant has been used in accordance with any specific terms and conditions, for the purposes intended, and in accordance with the normal requirements of our financial memorandum with HEIs) we may seek to recover a proportion of grant. We also reserve the right to reclaim any funding which we do not believe has been used for the purposes intended, via your (the lead institution's) recurrent grant.

### **Additional condition for repayable grants (only)**

- 8. If a repayable grant has been awarded, to ensure repayment is within the time allocated for repayment, you will also be subject to the following conditions:
  - a. You will need to propose a payment profile and repayment profile in your business plan. We will assess this for reasonableness and, if necessary, agree with you an alternative payment and/or repayment profile.
  - b. The agreed payment and repayment profile will be subject to a formal exchange of letters between you (the HEI) and HEFCE.
  - c. Repayable grants will be paid out over a maximum of three years. We expect repayable grants to be paid back within five years of the final payment. The repayment period for each project should be agreed with the regional team during formulation of the business plan. You also need to consider the impact of repayable grants on annualised servicing costs and whether you need to seek our consent on this (in line with our Financial Memorandum paragraph 63).

# List of abbreviations

<b>ASNs</b>	Additional student numbers
<b>AY</b>	Academic year
<b>CEG</b>	HEFCE's chief executive's group
<b>fEC</b>	Full economic costing
<b>HE</b>	Higher education
<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution
<b>SDF</b>	Strategic Development Fund
<b>SRIF</b>	Science Research Investment Fund



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