

Approach to OfS public grant funding

The call for evidence closes at **1700 on Thursday 23 May 2024**.

Please submit your response by completing the online form at

<https://survey.officeforstudents.org.uk/s/CallforEvidence-Approachtofunding/>.

If you require this document in an alternative format, or need assistance with the online form, please contact **teachingfundingpolicy@officeforstudents.org.uk**.

Please note: this email address should **not** be used for submitting your consultation response.

The Office for Students (OfS) distributes approximately £1.5 billion of taxpayers' money to higher education providers and other bodies each year. The approach we take to distributing this funding – the activities we choose to fund and how we calculate allocations for individual providers – is largely unchanged since 2012-13.

However, over the past decade the context for the higher education sector has changed significantly. There have been government policy interventions in the funding system for higher education in England resulting in changes to the nature and scale of taxpayers' investment in the system.¹ The creation of the OfS has seen the number of higher education providers eligible for OfS grant funding increase² which means our limited funding is spread more thinly. The diversity of those providers has also increased, with a larger number of smaller providers and those delivering specialist courses. There have been changes in the practical arrangements for collecting the data we use to calculate and assure our funding, notably the introduction of Jisc's Data Futures programme.³

¹ These include, but are not limited to:

- the Post-18 review of education and funding, see <https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report>
- the introduction of the lifelong learning entitlement, see www.officeforstudents.org.uk/advice-and-guidance/skills-and-employment/lifelong-learning-entitlement/
- the NHS Long Term Workforce Plan, see www.england.nhs.uk/publication/nhs-long-term-workforce-plan/.

² In 2018-19, 315 providers were eligible for OfS public grant funding; in the current year there are 342 eligible providers.

³ See <https://www.hesa.ac.uk/innovation/data-futures>.

We also know that the operating environment for higher education providers has become more challenging over recent years.⁴ The real-terms value of the fixed fee for UK undergraduate students has decreased, providers are facing increased costs as a result of higher inflation, and a significant number of providers are increasingly reliant on income from international student fees.⁵

In this changed context for the sector, the OfS is considering how we should use funding made available to us by government to benefit students, taxpayers and the higher education sector. We are undertaking early policy thinking about this issue as we develop our new organisational strategy for 2025-26. We are also mindful that the period covered by the 2021 comprehensive spending review ends in 2025, and that a further review is therefore scheduled in the next 12 months.⁶ We would want to be in the best position to provide evidence and policy advice to ministers as part of that process.

This document is therefore a call for evidence at an early stage of policy development. It seeks views about how the OfS could develop its funding approach in three broad areas: the activities we fund; how we determine funding allocations; and the factors we prioritise in our decision-making.

This final point is important because the funding we distribute is allocated to us by government on behalf of taxpayers. Ministers therefore have a legitimate interest in guiding the prioritisation of our funding and we would expect this to continue to be an important feature of any future approach.

What is not covered by this call for evidence

The OfS does not set the funding system for higher education, such as regulations relating to course fee limits, student finance from the Student Loans Company, or funding from other public sources; nor do we determine the overall amount of funding we distribute each year. These are decisions for government and are therefore outside the scope of this call for evidence.

Who should respond to this call for evidence?

We welcome responses from anyone with an interest in the funding of higher education. We are interested in hearing from students (past, present and future), parents and carers, professional and academic staff and leaders of higher education providers.

⁴ As acknowledged by our Director of Regulation in her speech to GuildHE, 15 November 2023. See www.officeforstudents.org.uk/news-blog-and-events/press-and-media/transcript-of-philippa-pickford-s-speech-at-guildhe-s-annual-conference/.

⁵ See www.officeforstudents.org.uk/media/0b7d9daa-d6c7-477e-a0b2-b90985d0f935/financial-sustainability-report-2023-updated-june-2023.pdf.

⁶ See <https://obr.uk/box/the-implications-of-the-governments-departmental-spending-plans/>.

Current approach to funding

The Higher Education and Research Act 2017 (HERA) gives the OfS powers to fund eligible higher education providers for the provision of higher education and the provision of facilities and activities in connection with higher education.⁷ To be eligible for funding, a provider must be registered in the Approved (fee cap) category of the OfS's Register – this eligibility is determined by secondary legislation.

We are also able to fund other organisations and initiatives that provide services relating to the provision of education by eligible higher education providers, for example supporting Jisc's Joint Academic Network (JANET)⁸ or sustaining the 29 partnerships of the Uni Connect collaborative outreach programme.

The amount of OfS funding each year is determined by government, with the majority provided in the Strategic Priorities Grant (SPG).⁹ We impose terms and conditions on our funding to ensure that it is used for the purposes intended.

Although some of our funding allocations are based on the demographic characteristics and activity of a provider's students, we do not provide funding directly to individual students. Tuition fees and maintenance payments in respect of eligible students are funded in England through the student finance system operated by the Student Loans Company.¹⁰ The value of tuition fees for these students is determined by government.

Our current model of recurrent funding for higher education providers is based on assumptions that some activities cost more to deliver than others. This could relate to particular subjects; to supporting particular groups of students to achieve success; or to reflect the operating models of some types of providers.

The two primary types of funding the OfS distributes are:

- **Course-based:** This is a high-cost subject funding allocation – for example, for courses in medicine, or physics – and includes targeted allocations to address specific priority areas – for example degree apprenticeships, and skills at Levels 4 and 5. We do not provide funding for courses in subject areas, such as law and humanities, that are classroom-based and that do not need the same level of specialist facilities to teach.
- **Student-based:** This is a funding allocation to recognise additional support needs of students from disadvantaged groups or groups historically less likely to participate in higher education. Student-based funding also includes funding for Uni Connect.¹¹

⁷ See <https://www.legislation.gov.uk/ukpga/2017/29/part/1/crossheading/powers-to-give-financial-support>.

⁸ Jisc's Joint Academic Network (JANET) is an internal, high-speed computer network that links the UK education and research community.

⁹ The Strategic Priorities Grant is funding supplied by the government on an annual basis to support higher education providers' ongoing teaching and other related activities. See: <https://questions-statements.parliament.uk/written-questions/detail/2022-01-14/104389>.

¹⁰ See www.gov.uk/government/organisations/student-loans-company/about.

¹¹ See www.officeforstudents.org.uk/uniconnect/.

We allocate other types of funding to certain providers and other organisations, including:

- **Capital funding:** This funding is to support sustainable investment in higher education. It is currently distributed through two mechanisms: first, a small annual formula-based allocation to all eligible providers; second, the majority of capital funding is allocated in response to successful bids in competitive exercises. Eligible projects for the competitive element were required to address one or more of the following three priority categories – high-cost subjects of strategic importance; enhancement of graduate employability and skills; and part-time and other forms of flexible provision.¹²
- **Funding for specialist providers:** There are two funding streams that support certain specialist providers. These allocations provide additional funding to certain specialist higher education providers, recognising the distinctive nature of their provision and the particular value they bring to the sector.
- **Funding for national facilities and regulatory initiatives:** This funding supports facilities such as Jisc, and activity such as the delivery of the National Student Survey and OfS Challenge Competitions. Examples of areas addressed through previous Challenge Competitions include the mental health needs of students; industrial strategy and skills; and support for local students and graduates.

A more detailed account of our current approach to funding is published on our website.¹³ Our 'Guide to funding'¹⁴ sets out the allocations we are making in 2023-24 from our Strategic Priorities Grant. Annex A lists the elements of SPG for 2023-24 and is available to download alongside this call for evidence.¹⁵

The following sections set out the issues on which we are inviting views in this call for evidence.

A. Which activities should we fund in future?

We want to hear views on the effectiveness of the two primary types of funding the OfS distributes: course-based funding and student-based funding.

We are interested in views about which elements of our current approach work well and which could be improved. We are also interested in how we could achieve greater impact with our funding.

Course-based funding

Course-based funding is £1.04 billion in the 2023-24 academic year and makes up the majority of our recurrent funding. Our current funding methods target our support towards areas where teaching costs are expected to be higher, and provision that is of strategic importance.

¹² See www.officeforstudents.org.uk/publications/capital-funding-for-financial-years-2022-23-to-2024-25/.

¹³ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/recurrent-funding/funding-allocations/.

¹⁴ See www.officeforstudents.org.uk/publications/guide-to-funding-2023-24/.

¹⁵ Annex A is available at www.officeforstudents.org.uk/publications/approach-to-ofs-public-grant-funding-call-for-evidence/.

Our course-based funding is made up of 13 separate targeted allocations, described in our 'Guide to funding' (and shown in Annex A). We are interested in views on all these allocations, for example:

- Whether our funding is targeted on the right priorities
- Whether our funding could address issues of concern in the sector, for example the low uptake of targeted strategically important provision
- Whether existing targeted allocations could be merged
- Whether there are approaches that would reduce regulatory burden.

Of the 13 targeted allocations, the high-cost subject allocation accounts for more than 80 per cent of our course-based funding. This is targeted to subjects considered to be of strategic importance. We would be interested in views on other factors that we could consider in determining the strategic importance of a subject, for example:

- Should we seek to incentivise the provision of courses that would not otherwise be delivered, and so extend student choice?
- Should some courses be 'protected' as strategic priorities, even where they have lower costs?

Student-based funding

Student-based funding is approximately £306 million in the 2023-24 academic year, including £30 million to support Uni Connect, as described in our 'Guide to funding' (and shown in Annex A). This funding is allocated to providers to assist students who belong to groups that have been underrepresented in higher education or who may require additional support to achieve successful outcomes. The four student-based allocations are:

- The full-time student premium enables providers to support students who are likely to be most at risk of withdrawing from their studies, noting risk factors of age, qualification aim, and entry qualifications.¹⁶
- The part-time student premium supports the delivery of part-time study because of its importance as a flexible route for older learners, especially those from underrepresented groups and disadvantaged backgrounds.
- The disabled students' premium is given to providers to offer additional support to UK students who receive Disabled Students' Allowance or who self-declare a disability.
- The premium for student transitions and mental health is given to support the challenges associated with the move into higher education for some students, including mental health support and to develop joint services and broader assistance.

¹⁶ See www.officeforstudents.org.uk/data-and-analysis/young-participation-by-area/ and technical funding guidance published at www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/recurrent-funding/technical-guidance-and-funding-data/.

We are interested in views on the broad shape of our student-based funding, including:

- Which priorities should be addressed through student-based funding
- How developments such as funding for apprenticeships or the Lifelong Learning Entitlement (LLE) should affect the part-time premium, and how we should treat apprenticeships in all premiums
- Whether a proportion of student-based funding should be provided as hardship support for students with an expectation that this money is given fully to students, rather than as teaching and learning support.

Question 1: What are your views on OfS course-based funding?

We are interested in any views, and below are some prompts for respondents to consider:

- Should the distribution of funding continue to primarily reflect the courses and subjects students are studying? Should we also consider additional factors and/or approaches for course-based funding?
- What should we seek to achieve with course-based funding?
- What activity is currently supported in providers by this funding?
- Are there any areas of important provision that are currently not supported by our funding allocations?
- How should our approach adapt in the future?
- What assessment is currently made by providers of the impact of this funding?

Please explain your answer.

Question 2: What are your views on OfS student-based funding?

We are interested in any views, and below are some prompts for respondents to consider:

- Should the distribution of funding continue to reflect the characteristics of the student population at individual providers? Should we also consider alternative factors and/or characteristics and/or approaches for student-based funding?
- What should we seek to achieve with student-based funding?
- What activity is currently supported in providers by this funding?
- How best can the OfS use this funding to support access, success and progress for students?
- How should it be targeted?

- What assessment is currently made by providers of the impact of this funding?

Please explain your answer.

Capital funding

Following consultation in 2021,¹⁷ we adopted a new approach to distribute OfS capital funding through two mechanisms: a small annual formula-based allocation to all eligible providers, and the majority of capital funding allocated through a competitive bidding exercise.

For 2022-23 to 2024-25, a total of £450 million will be distributed, with £400 million allocated to providers through a bidding process and £33 million through a formula allocation. The remaining funding will meet existing commitments and support national facilities and regulatory initiatives.

Our most recent competitive bidding exercise was held during early summer 2022, with successful bids prioritising:

- facilities for high-cost science, technology, engineering and maths (STEM) subjects, healthcare disciplines and other technical courses
- facilities designed to meet the specialist skills needs of industry and employers, including at Levels 4 and 5, and through degree apprenticeships
- facilities supporting the development of flexible provision and modes of delivery, including for part-time study, e-learning and blended learning, and higher education short course study
- an ability to demonstrate value for money and supporting environmental sustainability through reduced energy usage.

We are interested in views on the value of our capital funding and the priorities that it should seek to address. Future decisions on OfS capital funding will depend on the extent of funding made available by government.

Question 3: What are your views on OfS capital funding?

We are interested in any views, and below are some prompts for respondents to consider:

- What assessment is currently made by providers of the impact of this funding?
- How should we strike an appropriate balance between formula funding and competitive bidding to allocate capital funding?

Please explain your answer.

¹⁷ See www.officeforstudents.org.uk/publications/distribution-of-capital-funding-for-financial-year-2021-22-outcomes-of-consultation/.

Other funding for specialist providers

We have two funding streams which support certain specialist higher education providers. These recognise the distinctive nature of their provision, and the public value that they bring to the sector.

For the 2023-24 academic year, these are:

- **The performing arts specialist initiative:** £9.6 million in the 2023-24 academic year. This provides funding to enhance the provision of, and access to, performing arts education and training at specialist providers not in receipt of recurrent specialist provider funding. It has a particular focus on contemporary music, drama and dance.¹⁸
- **Funding for specialist providers:** £58 million in the 2023-24 academic year, supporting those providers identified as world-leading for their teaching activities following a peer review process in 2022.¹⁹ These providers contribute significantly to the diversity of the higher education landscape, and the choice available to prospective students. We reviewed our approach to specialist funding in 2022 and indicated we would not expect to review the allocations or purpose of that funding stream until 2026-27.

As we set out in World-leading specialist provider funding: Outcome (OfS 2022.64) and Initiative funding for specialist performing arts providers: Funding allocations (OfS 2023.09), we do not expect to make changes to these allocations until 2027 at the earliest. However, we are interested in views about the extra value this funding delivers and any suggestions for our future approach to this funding.

Question 4: What are your views on our funding for specialist providers?

We are interested in any views, and below are some prompts for respondents to consider:

- What should our general policy aims for this funding be?
- What additional value to students, providers and the wider sector does this funding bring?

Please explain your answer.

Funding for national facilities and regulatory initiatives

Although the majority of our funding for learning and teaching is provided through recurrent grants to providers, we also allocate funding to support national facilities and regulatory initiatives.

This funding is provided for specific purposes and to promote change. The majority of it is used to support projects that benefit the sector as a whole, or that allow us to make targeted interventions.

For the 2023-24 academic year, the total funding distributed in this way amounted to £32 million and includes support for:

¹⁸ See www.officeforstudents.org.uk/publications/initiative-funding-for-specialist-performing-arts-providers-funding-allocations/.

¹⁹ See www.officeforstudents.org.uk/publications/world-leading-specialist-provider-funding-outcome/.

- **The OfS Challenge Competitions**, which fund short-term, targeted, project-based activity, for example improving mental health outcomes for students, and a higher education short course trial. This funding allows us to respond to new OfS policy priorities and issues affecting students, and to focus additional funding in a way that will make a significant difference.²⁰
- **The Centre for Transforming Access and Student Outcomes in Higher Education (TASO)**, an organisation that undertakes and uses research and evaluation to determine what works in eliminating equality gaps in higher education.²¹
- **The National Student Survey**, which gathers students' opinions on their courses and helps to inform prospective students' choices.²²
- **Preparation for the LLE**, with funding set aside to help providers tackle barriers to modularisation and prepare to deliver system-wide changes ahead of the launch of the LLE from 2025.²³
- **Jisc**, which provides UK universities and colleges with shared digital infrastructure and services including the JANET network, cybersecurity and learning analytics.²⁴

We are interested in the impact this funding has and how we could achieve greater impact in the future, including whether alternate approaches to funding may be appropriate. For example, the activity in some of these areas could be supported by a direct subscription model, instead of through an OfS grant, or through fees charged by the OfS in addition to its statutory registration fee.

Question 5: What are your views on OfS funding for national facilities and regulatory initiatives?

We are interested in any views, and below are some prompts for respondents to consider:

- What should our general policy aims for this funding be?
- What factors should we consider in determining which initiatives and activities are funded?
- How should we adapt our approach to funding in the future?

Please explain your answer.

²⁰ See www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/funding-competitions/.

²¹ See www.officeforstudents.org.uk/advice-and-guidance/promoting-equal-opportunities/centre-for-transforming-access-and-student-outcomes-in-higher-education/.

²² See www.officeforstudents.org.uk/advice-and-guidance/student-information-and-data/national-student-survey-nss/.

²³ See www.officeforstudents.org.uk/advice-and-guidance/skills-and-employment/lifelong-learning-entitlement/.

²⁴ Information about Jisc is available at www.jisc.ac.uk/.

B. How should we determine funding allocations?

As set out above, we currently use different allocation methods for different funding streams. We allocate the majority of our funding for providers through a formula driven by the student data we collect from each provider each year. These funding allocations are calculated on a formula basis because we have considered that to be the most efficient way to distribute large amounts of recurrent funding. We are interested in views about whether that continues to be an appropriate approach, or whether there are other models we could consider, for example, increasing the amount of funding we distribute through competitive processes.

Our formula allocations are currently based on student data we collect from eligible providers in December of the previous academic year in the Higher Education Students Early Statistics (HESES) survey – in other words, funding allocations for the 2023-24 academic year were calculated in spring 2023 on the basis of data for 2022-23 submitted in December 2022. To assure the appropriateness of our funding allocations, we check the December 2022 data against the final student data signed off by providers after the end of the 2022-23 academic year to identify any changes between the two sets of data. This allows us to adjust funding allocations where there are material changes to student numbers.

We would like to hear views about whether we should remove the December collection and instead use the data from the end of the previous year to calculate funding allocations for the upcoming year. As an example, this would mean that we would have used end of year data for 2021-22 to inform funding for 2023-24. We consider that this would be a more efficient way to calculate funding allocations for two reasons. It would remove the need for the December data collection, and it would no longer be necessary to undertake a reconciliation and adjustment process. This would reduce regulatory burden for providers.

The terms and conditions attached to our funding²⁵ are published each year. Most of our formula allocations are not hypothecated and are provided as a block grant that each provider can use for any relevant purpose. This means, for example, that a provider does not have to spend the element we have calculated in relation to its biology courses on those courses. This reduces regulatory burden and allows significant latitude for autonomous providers to decide how to use our funding.

Other funding streams, including our capital funding, are earmarked for specific purposes. Several of these earmarked funding streams are allocated on the basis of a competitive bidding process. With challenge competition funding, or capital allocations, we will set out criteria, seek bids from relevant providers, and assess bids against the published criteria. We then monitor the use of this funding closely, and may remove funding where a provider has not met the terms of the funding. Generally, we also publish evaluations of the impact of the funding provided through these methods.

We would like to hear views on whether non-hypothecation for the majority of our funding remains appropriate, and how the quality of evidence for the impact of funding distributed in this way might be improved.

²⁵ See www.officeforstudents.org.uk/publications/terms-and-conditions-of-funding-for-2023-24/.

We would also like to hear views on the efficiency and effectiveness of our competitive bidding processes, and the extent to which these processes could develop further evidence of the impact of our funding.

In particular, we would be interested in views on:

- The relative benefits of formula-based and competitive bidding approaches, and the appropriate balance between these approaches.
- Whether we could generate further efficiencies in our approach to formula funding, for example by using only data that has been signed-off by providers through the individualised student data collections submitted to the designated data body (Jisc) and the Education and Skills Funding Agency.²⁶
- How we should determine a robust measure of the volume of student activity we use for OfS funding purposes, and how we might do this so as to ensure we create consistent incentives across our work, for example, linking to our policy approach to quality and financial sustainability.

We are not seeking views in this call for evidence about the technical detail of the data we collect to support funding, or the formulae we use to make allocations. Rather, we are interested in views on our general approach.

We are also interested in views about different policy approaches more broadly, for example:

- **Quality:** should measurements of the quality of a provider's higher education courses affect the eligibility of those courses to be counted towards the provider's OfS funding allocation? Would it be possible and desirable to incentivise quality improvements through different funding methods?
- **Equality of opportunity:** how could our funding mechanisms better incentivise providers to ensure students access, progress and succeed at an appropriate provider and on an appropriate course, recognising that students arrive in higher education with considerable variation in their previous experience of education and life?
- **Incentivise innovation:** how could our funding encourage and support higher education providers to develop innovation in teaching and learning?

²⁶ Respondents may want to consider this in the context of the Data Futures Programme, see www.hesa.ac.uk/innovation/data-futures.

Question 6: What are your views about how we determine funding allocations?

We are interested in any views, and below are some prompts for respondents to consider:

- Does non-hypothecation for the majority of funding remain appropriate, and how could the quality of evidence about the impact of this funding be achieved?
- How efficient and effective are our competitive bidding processes, and to what extent could these processes develop better evidence of the impact of this funding?
- Should our funding methodology more explicitly relate to our policy approach for quality and equality of opportunity?
- How can we best demonstrate the impact of OfS funding and the value of this public money?

Please explain your answer.

C. Which factors should we prioritise in our decision-making about funding?

The OfS is required to make decisions about funding independently from government. Like all arms-length bodies, we have a sponsoring government department (the Department for Education), but in performing our funding functions, unlike some bodies the OfS is not an agency of that department.

However, HERA requires that, in making any decisions about our policy approach to funding and making allocation decisions for individual providers, we are required to have regard to various matters that include:

- The OfS's general duties as set out in section 2 of HERA
- The Public Sector Equality Duty (PSED)
- The Regulator's Code, in relation to policy development
- Statutory guidance issued by the Secretary of State under section 2(3) of HERA.

We are interested in views about how we should balance these factors.

For example, in considering our general duties, we could seek to prioritise the diversity of courses, providers and modes of study available to students in all areas of the country, acknowledging that this may increase the chances of some courses being under-subscribed and therefore affect value for money. On the other hand, we could prioritise quality and value for money and design mechanisms to reduce the likelihood of funding being allocated to courses which may not meet our requirements for quality, potentially reducing provision in some areas.

In making decisions about our approach to funding, we have taken the view that we should place particularly significant weight on ministers' statutory guidance. This is because the funding we receive through the Strategic Priorities Grant represents part of the government's contribution to higher education, reflecting its legitimate interest in delivering significant strategic impact economically, socially, culturally and educationally, for the nation. We recognise that the democratically elected government is a particularly important source of insight into what these priorities should be. We would therefore expect that placing particularly significant weight on ministers' statutory guidance on funding will remain an important part of our approach.

It is also important to note that, in addition to issuing guidance, ministers have the power to attach terms and conditions to the OfS's public grant funding.²⁷ Ministers have used that power: for example in July 2021 the Secretary of State set conditions on the OfS's use of the SPG,²⁸ preventing us from varying our rates of grant on the basis of UK region. As a result, we removed the elements of our funding method that provided a supplementary weighting for provision delivered in London. In these circumstances, the OfS is required to comply with the terms and conditions set by ministers and does not have discretion about those matters.

Question 7: What are your views on how the OfS should prioritise various factors in making decisions about funding matters?

We are interested in any views, and below are some prompts for respondents to consider:

- Which of the OfS's general duties are particularly relevant in determining our approach to funding?
- Which general duties should we prioritise in relation to our various funding streams?
- How should we prioritise the other matters to which we are required to have regard?

Please explain your answer.

²⁷ See <https://www.legislation.gov.uk/ukpga/2017/29/section/74>.

²⁸ See www.officeforstudents.org.uk/media/5981/ts-and-cs-on-recurrent-funding-19-july.pdf.