



Rt Hon Gavin Williamson CBE MP  
Secretary of State

Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT  
tel: 0370 000 2288 [www.education.gov.uk/help/contactus](http://www.education.gov.uk/help/contactus)

Sir Michael Barber  
Nicholson House  
Lime Kiln Close  
Stoke Gifford  
Bristol  
BS34 8SR

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**Guidance to the Office for Students – Allocation of the Higher Education Teaching Grant funding in the 2021-22 Financial Year**

I want to thank the Office for Students (OfS) for all its continued hard work in response to the COVID-19 pandemic. Your work has been crucial in supporting students during this unprecedented time. I particularly welcome the OfS's rapid work in allocating additional teaching and capital funding to HE providers who have accommodated additional students this year.

I would like to take this opportunity to set out the Higher Education Teaching Grant (T-Grant) budget for the 2021-22 financial year and my funding priorities. This letter provides guidance from me to the Office for Students under section 2(3) of the Higher Education and Research Act 2017 (HERA). The details of your financial allocation for the 2021-22 financial year are set out in the finance annex. The funding guidance set out below is only for the 2021-22 financial year; funding beyond 2021-22 will be determined at the next Spending Review.

Further guidance setting out the Government's broader priorities for the Office for Students will follow shortly.

**Strategic priorities for the T-Grant**

Thank you for your continuing engagement on the T-Grant priorities. My department has published an interim response to the Augar review which mentions our aspiration to reform the T-Grant. We want to deliver ambitious reforms which will allocate funding to ensure value for money and support strategic priorities across the sector, including subjects vital for the economy and labour markets, and continued support for disadvantaged and underrepresented students.

I have recently announced that students from the Crown Dependencies will be eligible for home fee status. The OfS should ensure that all students from the Crown Dependencies are counted within the 21/22 T-Grant allocations in the same way as

domestic students, in order to ensure equitable funding treatment.

### **Specific Changes for 21/22**

Reflecting our wider efforts to reform the HE sector, and respond to the Augar review on an interim basis, there are a number of specific changes that I want the OfS to make to the Teaching Grant allocations, for implementation in the 21/22 academic year. The detail of these proposed changes is set out below.

Changes to the allocations and the impact on the higher education sector that we anticipate will result from the proposed changes are set out in the annexes. It will be vital for the OfS to consult properly on all these changes with the sector and share their findings with DfE, before final allocations are confirmed. **Given the importance of these specific changes being delivered, my expectation is that DfE will give directions under section 77 of HERA to the OfS in the spring, confirming the changes to be made.**

#### **High-cost subject funding – supporting strategically important subjects**

High-cost subject funding is currently allocated simply based on higher costs of provision, with little strategic prioritisation. The OfS should reprioritise funding towards the provision of high-cost, high-value subjects that support the NHS and wider healthcare policy, high-cost STEM subjects and/or specific labour market needs.

**The table below lists the subjects that we expect to be eligible for high-cost subject funding under these proposals:**

<b>Subject(s)</b>
Clinical Medicine
Clinical Dentistry/Dental Hygiene and Therapy
Veterinary science
Nursing and allied health professions (pre-registration courses)
Anatomy and Physiology, Pharmacy and Pharmacology
Sciences (Agriculture, Forestry and Food Science; Earth, Marine and Environmental Sciences; Biosciences; Chemistry; Physics)
Engineering subjects
Information Technology

We recognise the importance of a phased transition; the OfS should therefore reduce funding by 50% for high-cost subjects that do not support these priorities. We would then potentially seek further reductions in future years.

#### **London Weightings**

While London providers face some higher costs, these reflect the overall weighting of the UK economy towards London and it is not clear they can be justified when excellent HE provision can be delivered across the country. The levelling-up agenda is key to this

government, and we think it is inconsistent with this to invest additional money in London providers, the only such regional weighting that exists in the grant. The OfS should remove weightings for London providers from across the T-Grant, including the students attending courses in London supplement, and weightings within the student premiums. The reduction of London weighting will enable the OfS to invest in other priorities such as high-cost subject funding, which is offered to providers in all regions of England, supporting the levelling-up agenda.

### **Hardship and Mental Health**

To provide greater support for students, the OfS should allocate £5m to providers in order to provide additional support for student hardship. This is to mitigate the rise in student hardship due to pandemic impacts on the labour market which particularly affect, for example, students relying on work to fund their studies, students whose parents have lost income and students who are parents and whose partner's income has been affected. The OfS should establish exactly how this is distributed but the funding should be clearly targeted towards disadvantaged students.

Student mental health continues to be a Government priority and the OfS should allocate £15m to help address the challenges to student mental health posed by the transition to university, given the increasing demand for mental health services. The OfS should establish how to target those students in greatest need of such services. We would expect a substantial proportion of this funding to be distributed via an OfS Challenge Competition, as previous Challenge Competitions have proved a successful method of supporting the sector to develop innovative practices.

### **Student Premiums**

Supporting disadvantaged and underrepresented students in higher education remains a key priority, which is why we provided an additional £20m for hardship in December 2020 for financial year 20-21, on an exceptional basis.

Alongside the additional funding to support mental health and student hardship in 2021-22, the OfS should protect the £256m allocation for the student premiums to support disadvantaged students and those that need additional help.

### **Uni Connect**

Since inception in 2017, the Uni Connect outreach programme has established 29 regional partnerships of universities, colleges, employers and other local partners to provide sustained outreach to young people in schools and colleges in areas of low or unexplained gaps in HE participation. The programme has been successful in addressing cold spots in outreach and enabling engagement from schools and colleges. Funding for Uni Connect was originally agreed until July 2021, and so this is an appropriate moment to consider the scope and objectives of the programme. We welcome the current consultation on the future of the Uni Connect programme.

The Uni Connect programme has been successful in embedding a collaborative approach to widening access, which complements providers' access and participation plans. Accordingly, we believe that future investment is best directed to support the core infrastructure of partnerships, and funding targeted activities to fulfil specific policy objectives. Therefore, the OfS should reduce the allocation for Uni Connect by

£20m to £40m. This money will be redirected towards mental health and student hardship, two areas of increasing importance for students as a result of the pandemic.

### **Small and Specialist Providers**

It is important that we should continue to support our world leading specialist providers who are vital to priority sectors, culture, society and the economy at large. The OfS should increase funding for specialist providers, particularly those who are world leading and specialise in the performing and creative arts, by approximately £10m to £53m. This will help to support and/or expand the provision at those providers best equipped to secure positive outcomes for graduates, boosting outcomes for the sector.

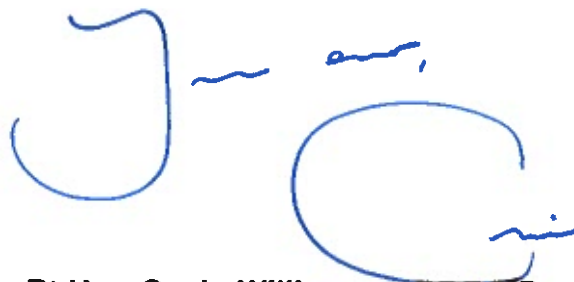
I welcome the OfS's plans to refresh the assessment of which providers are eligible to receive this funding in time to inform the 2021/22 funding allocation and offer our support in the development of this consultation.

### **Capital Funding**

Capital funding is currently allocated by the OfS through a formula, which sets an allocation for each provider. The funding is not attached to specific projects, and often serves as a small top-up to the provider's overall capital budget. The extent to which we can assure ourselves that funding is adding value and investment is focussed on key government priorities is, therefore, limited. We want to target the capital funding for providers towards high-quality provision that supports excellent student outcomes, and to support regional and local economies.

To achieve this, the OfS should deliver capital funding to providers through a strategically targeted bidding process. The OfS should target funds at specific projects and activities aligned with the high-quality, skills-based education agenda. Further details of the proposed bidding process can be found in Annex B including eligibility and assessment criteria. This should help deliver a more strategic and flexible allocation, targeting funding at high-impact projects which offer taxpayers, students and the nation the best value for money.

Capital funding can also be used to support Jisc and the Higher Education Statistics Agency (HESA)'s Data Futures Programme as it has in previous years.



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Secretary of State for Education**

## Annex A: Finance Annex

Figures are rounded

All figures in £m	Financial Year 2020-21 OfS Teaching Grants	Financial Year 2021-22 OfS Teaching Grants
Recurrent Teaching Grant	1329	1330
Capital Teaching Grant	150	150
<b>TOTAL TEACHING FUNDING</b>	<b>1479</b>	<b>1480</b>

### Notes:

- i. The amounts set out above are the OfS's resource and capital budgets. They represent the maximum amount of resource and capital that the OfS may consume in pursuance of the priorities agreed with the Department for the Spending Review period. Figures may not sum due to rounding. If the Department's level of overall funding is decreased due to wider events or in order to cover other unavoidable financial pressures, the department may, within the framework set out by Parliament and the courts, need to make in-year adjustments to allocations to our Partner Bodies in order to meet budget reductions. The funding that is set out in this letter is, as ever, subject to Parliamentary approval through the Estimates process twice a year.
- ii. OfS will receive a separate allocation letter detailing their finalised 2021-22 unrounded resource, capital and administrative allocations.
- iii. Although the teaching and student element of the Higher Education and Innovation Fund (HEIF) is distributed by Research England, the OfS will be responsible for the priorities and evaluation of the £47m Teaching Grant contribution to HEIF. This is included in the figures above.
- iv. Other research-related funding of £10m for the Institute of Zoology (IoZ) and School of Advanced Studies (SAS), included in 2020-21, is not included in the table for 2021-22. This will continue, but will be funded by BEIS, rather than the Department for Education as it is outside the core Teaching Grant.
- v. The recurrent funding figure for 2021-22 above includes £30m for the expansion of medical student places, an increase of £11m on the additional funding allocated in 2020-21. This is funded by DHSC.
- vi. Recurrent funding – excluding IoZ and SAS, HEIF, and the expansion of medical student places – remains at £1,253m.

## **Annex B: Capital Bidding Process – Eligibility and Assessment Criteria**

We are proposing the following criteria for assessing capital bids, for OfS to consider and implement following consultation:

- a. In order to be eligible to receive funding through the capital bidding process, providers will need to meet the following criteria:
  - i. The provider should be making a bid in respect of a defined capital project relating to teaching and learning facilities. Such projects might include:
    - Investment in equipment used in learning, teaching and e-learning.
    - Replacement of premises or infrastructure for learning and teaching.
    - Refurbishment of existing teaching spaces, including IT-related enhancements, such as improvements to internal IT networks or supporting infrastructure.
    - Expansion of premises or infrastructure for learning and teaching.
  - ii. The bid should demonstrate value for money.
  - iii. The provider should be eligible for recurrent T-Grant i.e. an approved (fee cap) provider.
  - iv. OfS capital grants may be used to contribute towards the costs of a capital project in combination with funding from other sources. However, there must be no double-counting in attributing the same amounts of capital expenditure to OfS grant and income provided by any other UK or EU public funds, including the FE Capital Transformational Fund (FECTF) and the T Level Capital Fund (TLCF).
- b. The OfS should then prioritise eligible bids based on a further set of criteria, as set below. Bids would have to meet at least one of the following criteria, with priority given to the first two criteria of high-cost strategically important subjects and quality:
  - i. The bid will support high-cost subjects of strategic importance e.g. medicine and STEM.
  - ii. The bid will support provision that is evidenced by existing information showing how the provider delivers good outcomes for students.
  - iii. The bid supports level 4/5 provision.
  - iv. The bid supports part-time, modular and other forms of flexible provision.
  - v. The bid supports the levelling up of regional economies in less prosperous regions of England.

## Annex C – Table of indicative allocations for Academic Year Recurrent Teaching Grant and National Facilities and Regulatory Initiatives

The table below shows how funding for the recurrent T-Grant and National Facilities and Regulatory Initiatives (NFRI) should be allocated, based on the policy position set out above. This is indicative and the final version OfS presents may differ to take account of its consultation, budget decisions, changes in student numbers and other factors such as further guidance or direction from DfE. Figures are indicative academic year allocations based on the OfS's July 2020 published allocations<sup>1</sup>. They illustrate the shift in spending across grant elements based on the proposed changes and do not reflect final allocations.

Allocations for recurrent and NFRI	AY 20/21 Funding (£m)*	Indicative <sup>2</sup> AY 21/22 Funding (£m)*	Changes to Allocation (£m)*
<b>Total allocation**</b>	<b>1,276</b>	<b>1,287<sup>3</sup></b>	<b>↑ Increase by 11m</b>
High-cost subject funding for strategically important subjects (including medicine, engineering and other STEM)	651	736	↑ Increase by 85m
High-cost subject funding for other subjects	40	20	↓ Decrease by 20m
Nursing, midwifery and allied health supplement	23	23	N/A
Very high-cost STEM	24	24	N/A
Postgraduate taught supplement	8	8	N/A
Intensive postgraduate provision	33	33	N/A
Accelerated full-time undergraduate provision	3	3	N/A
Clinical consultant's pay	16	16	N/A
Senior academic GP's pay	1	1	N/A
NHS pensions scheme compensation	5	5	N/A
Funding for specialist providers	43	53	↑ Increase by 10
Students attending courses in London	64	0	↓ Decrease by 64
Supporting outward mobility for Erasmus+/Turing scheme	28	28	N/A
Full time and Part time student premiums	216	216	N/A

<sup>1</sup> <https://www.officeforstudents.org.uk/media/ce85d651-96b6-4f87-931e-ba4ae0ba9c33/2020-21-july-sector-tableall.xlsx>

<sup>2</sup> Funding has only been confirmed up to the end of FY21/22 so the final allocation for AY21/22 will not be known until FY22/23 funding has been announced. As such, all AY21/22 allocations are indicative.

<sup>3</sup> The purpose of this table is to show the proposed shift in spending across t-grant elements - it is assumed that the total recurrent T-Grant in AY21/22 is the same as AY20/21, except for the additional £11m funding from DHSC.

Disabled students premium	40	40	N/A
Uni Connect	60	40	↓ Decrease by 20
Hardship Funding	N/A	5	↑ Increase by 5
Mental Health initiatives	N/A	15	↑ Increase by 15
National Facilities and Regulatory Initiatives	21	21	N/A
*Funding is rounded to the nearest £m. **Totals are rounded to the nearest £m. Figures may not sum to total due to rounding. Note also that HEIF funding is not included in this total.			

## Annex D – Analysis of impact of T-Grant reforms on the HE sector

### Model Description

The modelling recalculates the AY20/21 T-Grant allocations based on the reforms to the funding system being proposed for AY21/22<sup>4</sup>.

This annex models the following reforms:

- Student attending courses in London funding is removed, saving £64m.
- The London weighting is removed from student premium calculations and redistributed to all providers receiving student premium.
- Uni Connect funding reduced by £20m, from £60m to £40m.
- Funding for high-cost non-strategic courses is reduced by 50% (£20m).
- High-cost subject funding (HCSF) for strategic courses is increased by £85m (13%), this includes an £11m increase in DHSC funding to expand medical places.
- £10m additional specialist funding<sup>5</sup>.

The model gives an illustrative overview of tariff and regional impacts of the proposed changes on recurrent T-Grant income<sup>6</sup>.

These impacts may change in light of the final decision following the OfS consultation and key inputs into the model, not least estimates of student numbers. As such, the results in this annex do not represent final funding allocations for AY21/22.

<sup>4</sup> See the OfS publication “Recurrent funding for 2020-21” for more details of the T-Grant funding methodology [https://www.officeforstudents.org.uk/media/72077e29-d63e-44f1-ac78-c4f1a50253f1/ofs2020\\_24.pdf](https://www.officeforstudents.org.uk/media/72077e29-d63e-44f1-ac78-c4f1a50253f1/ofs2020_24.pdf).

<sup>5</sup> The model assumes that additional specialist funding is distributed proportionately across providers. That is, if a provider receives say 5% of specialist funding, they are assumed to receive 5% of the additional £10m.

<sup>6</sup> This is made up of funding for high-cost courses (HCSF, NMAH supplement, Very high-cost STEM, Postgraduate taught supplement, Intensive postgraduate provision, Accelerated full-time undergraduate provision, Clinical consultant’s pay, Senior academic GP’s pay, NHS pensions scheme compensation, Funding for specialist providers, Students attending courses in London, Erasmus) and Student Premium funding (Full-time student premium, Part-time student premium, Disabled student premium). This does not include distribution of mental health initiatives or hardship funds.



## Key Modelling Assumptions and Parameters

### Student number adjustments

The OfS collects student number data from providers which is used to calculate funding allocations<sup>7</sup>. This data gives an early indication of the number of fundable students by price group, which are multiplied by various funding parameters to calculate specific funding amounts, such as HCSF.

There are currently five price groups (A, B, C1, C2 and D) based on course characteristics and associated teaching costs. To reform HCSF, the model creates a sixth price group, called price group C3 in the table below, that contains high-cost non-strategic subjects previously in C1<sup>8</sup>.

The number of C3 students at each provider is estimated using data from HESA 2018/19 collection. Some providers, such as Further Education Colleges (FECs), do not submit data to HESA. As such, non-HESA providers are removed from the tariff and regional results of our modelling. Non-HESA providers only received around 3% of the total T-Grant funding in AY20/21.

Table 1 shows the average percentage of fundable student numbers by price group and UCAS tariff<sup>9</sup> given the introduction of the new price group C3. The student numbers underpinning these percentages are used in the model to calculate the reformed funding allocations. The table shows that specialist providers see, on average, 99% of their students in price group C1 move to C3. Higher, medium and lower tariff providers see reductions in the size of price group C1 of around two-thirds.

Price group	Higher	Medium	Lower	Specialist
Base: A and B	35%	20%	13%	28%
Reform: A and B (change)	35% (0%)	20% (0%)	13% (0%)	28% (0%)
Base: C1	11%	24%	23%	54%
Reform: C1 (change)	4% (-67%)	8% (-65%)	9% (-61%)	0% (-99%)
Base: C2	18%	21%	28%	4%
Reform: C2 (change)	18% (0%)	21% (0%)	28% (0%)	4% (0%)
Base: C3*	0%	0%	0%	0%
Reform: C3* (change)	7% (--)	16% (--)	14% (--)	53% (--)
Base: D	36%	35%	36%	15%

<sup>7</sup> See <https://www.officeforstudents.org.uk/data-and-analysis/data-collection/heses/>

<sup>8</sup> The subjects moving from C1 to C3 are Art and Design, Music, dance, drama and performing arts, Media studies and Archaeology.

<sup>9</sup> Tariff comprises of three broad peer groups by average undergraduate entry tariff points (high, medium, and low) and is calculated by the OfS. A fourth peer group, 'specialist providers' are those where at least 80 per cent of their provision is concentrated in one or two subjects. This measure is not intended to be used to rank providers based on their selectivity or to judge their quality. Further education colleges (FECs) are not included in tariff analysis.

<sup>10</sup> The data output counts the number of fundable FTE students by provider, price group and cost centre. The methodology is described here: <https://www.officeforstudents.org.uk/media/cd80090c-d1d5-49f0-bfa7-9d5764311529/2018-19-hesa-student-data-checking-tool-heses18a-comparison-technical-document.pdf>.

Reform: D (change)	36% (0%)	35% (0%)	36% (0%)	15% (0%)
*C3 is a new price group, containing a subset of non-strategic subjects previously in C1.				

### High-Cost Subject Funding

Table 2 shows the modelled impact of the reforms on the HCSF rates. As proposed by the reforms, subjects that move from C1 to C3 see a reduction of 50% in funding rates compared to AY20/21. Strategic subjects in price-groups A, B and C1 see a 13% increase in funding rates, which is due to an increased funding allocation for strategic subjects.

The model multiplies the reformed funding rates by the adjusted student numbers (see Table 1) to calculate the new HCSF allocations. As the model's calculations are based on student numbers supplied for AY20/21 funding, it is likely that the funding rates and totals allocations will not match the actual figures that will apply in AY21/22. For example, it may be that if student numbers within a strategic price group were to rise compared to AY20/21 then we would see funding rates fall, and conversely if they were to decline, then we would expect them to rise.

Table 2: HCSF funding rates*			
Price Group	AY20/21 HCSF rates	Reform HCSF reform rates	% change from AY20/21
A	£9,720	£10,990	13%
B	£1,458	£1,649	13%
C1	£243	£275	13%
C3*	£243	£122	-50%
C2	£0	£0	0%
D	£0	£0	0%
* The funding rates have been scaled according to OfS methodology <sup>11</sup>			
**C3 is a new price group, containing a subset of non-strategic subjects previously in C1.			

## Modelling Output

The modelled output recalculates the AY20/21 T-Grant allocations based on the suggested reforms to the funding system. The model gives an illustrative overview of tariff and regional impacts of the proposed changes on recurrent T-Grant income. The distributional impacts of these reforms are uncertain and may change as modelling assumptions are refined and new data becomes available.

### Provider Level impact

It is expected that higher and specialist tariff peer groups will see an increase in total funding, with the percentage change in total T-Grant of 3.8% and 2.8% respectively<sup>12</sup>.

There will be significant variation in impacts within these tariff groups. For example, some higher tariff providers could see increases of up to 11% of their funding<sup>13</sup>. We would also expect many

<sup>11</sup> For more detail on scaling see [https://www.officeforstudents.org.uk/media/72077e29-d63e-44f1-ac78-c4f1a50253f1/ofs2020\\_24.pdf](https://www.officeforstudents.org.uk/media/72077e29-d63e-44f1-ac78-c4f1a50253f1/ofs2020_24.pdf).

<sup>12</sup> Percentage change is calculated as the difference in average T-Grant income across the peer group before and after the reforms. For example, under the reforms, the average T-Grant for higher tariff providers increases from £18.2m to £18.8m, an increase of 3.8%. The same approach is used for regions below.

<sup>13</sup> Throughout this paper percentage change in funding refers to the change in total recurrent T-Grant allocation by provider compared to AY2021. The AY20/21 totals include all recurrent funding apart from Uni Connect.

lower tariff providers to see increases with some gaining due to their focus on strategically important high-cost subjects, such as nursing.

Overall funding for the specialist peer group increases due to the allocation of additional specialist grant funding and increases to medical funding. It should be noted, however, that the model allocates specialist funding proportionate to current specialist allocations. This may change following the OfS consultation on these T-grant proposals and its ongoing consultation on the definition for 'specialist' providers, with the latter potentially changing the population this funding goes to.

**Table 3: Provider impacts, grouped by UCAS Tariff**

UCAS Tariff	Number providers	Mean current T-Grant	Mean reformed T-Grant	Change in T-Grant mean	% change
Higher	27	£18.2m	£18.8m	£0.7m	3.8%
Specialist	48	£2.7m	£2.8m	£0.1m	2.8%
Medium	48	£7.7m	£7.7m	-£0.0m	-0.6%
Lower	37	£4.4m	£4.1m	-£0.3m	-6.0%

### *Regional impact*

Table 4 shows that for all regions except London providers on average see gains from these reforms with the percentage change in total T-Grant ranging from around 3% to 8%, in line with the Government's levelling up agenda. Since the policy proposal removes SACIL funding and London weighting, London providers experience the greatest decreases compared to other regions. OfS consultation on specialist provider definition, as well as student number shifts, may cause these figures to change.

**Table 4: Provider impacts (T-Grant change), grouped by Region**

Region	Number of providers	Mean current T-Grant	Mean reformed T-Grant	change in T-Grant mean	% change
North West	48	£3.1m	£3.3m	£0.2m	7.3%
East England	24	£3.1m	£3.4m	£0.2m	7.2%
West Midlands	33	£3.7m	£3.9m	£0.3m	6.7%
North East	13	£4.7m	£5.0m	£0.3m	6.6%
East Midlands	23	£4.4m	£4.6m	£0.3m	6.5%
South West	36	£2.9m	£3.0m	£0.2m	6.0%
Yorkshire and Humber	30	£3.8m	£4.0m	£0.2m	6.0%
South East	51	£3.2m	£3.3m	£0.1m	3.9%
Greater London	69	£4.5m	£3.9m	-£0.6m	-13.7%