

Our response to the Office for Students' call for evidence on its approach to public grant funding

Universities UK (UUK) is the collective voice of 142 universities in England, Scotland, Wales, and Northern Ireland. Its mission is to create the conditions for UK universities to be the best in the world, maximising their positive impact locally, nationally, and globally. Universities UK acts on behalf of universities represented by their heads of institution.

This document outlines UUK's response to the [Office for Students call for evidence](#) on its approach to public grant funding in English higher education.

Background

The Office for Students (OfS) has invited responses to a call for evidence on its approach to public grant funding. The call for evidence broadly covers the activities it funds, how it determines funding allocations and the factors it prioritises in its decision-making.

We welcome the opportunity to provide feedback on OfS' approach at this early stage of their policy development.

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 funding distribution 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

OfS should retain the existing funding distribution and continue to prioritise high-cost subject allocations. This funding is extremely important in allowing universities to continue providing the most expensive subjects, especially in a constrained higher education funding environment, in which universities are having to make difficult choices about course provision.

The purpose of the OfS' high-cost subject funding is to prioritise funding for certain subjects where costs are higher than can be met through course fees alone. As analysis by the Office for Students shows, there are now deficits between fee income and costs of provision across all subjects. This is due to a real-term decline in the value of tuition fees for domestic undergraduate students - capped at £9250 since 2017, and now only worth around £6,000 in 2012-13 prices - coupled with increased costs.

The decline has widened the deficit for those subjects which are relatively more expensive to teach. The cost of maintaining certain high-cost subjects such as medicine and laboratory-based subjects is significantly higher than classroom-based ones. Calculations show (based on initial analysis from KPMG) that delivering a degree in Medicine is estimated to cost £23,500 per year, whilst STEM subjects cost £14,000 to deliver for each student per year. The cost of STEM postgraduate provision has also increased.

Therefore, although universities have an average shortfall of £2500 per home undergraduate student each year, this shortfall is significantly higher for medicine and STEM subjects, which the high-cost subject allocations are predominately used to mitigate. Reallocating funds from high-cost provision would likely result in these subjects and courses being cut.

Funding shortfalls have resulted in high-cost subject funding being used to address the gap, rather than develop new activities. High-cost subject funding allocated by the OfS, by itself, is very limited in its ability to incentivise growth in provision.

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?

OfS should continue to prioritise the student-based funding allocation as a key pillar of its grant funding. These funds are crucial to support positive student outcomes in a constrained funding environment.

The main purpose of student-based funding should be to assist institutions with the additional costs associated with supporting students from disadvantaged backgrounds and with other additional needs to succeed in their studies.

Student premiums are used by universities to fund a wide range of student support measures including financial, disability and mental health support, as well as direct hardship funding. Expectations on universities to provide a wide range of support services are also continuing to grow with an increasing number of students having additional learning and pastoral support needs.

There is a rising demand for universities to provide a range of mental health and counselling services as the prevalence of declared conditions and student demand for support grows. At the same time, the NHS is dealing with significant challenges meeting the needs of these students, putting more pressure on universities to fill gaps in support.

Many other services, including direct hardship support, are also facing increased demand, especially in the context of the real-terms cut in student maintenance loans and the cost-of living crisis. Universities have increasingly used the premiums to fund direct hardship support, at the expense of other services, due the real-terms cuts to the maintenance loan.

If OfS were to deprioritise this funding stream, there would be serious consequences for university support services and the outcomes of the students who rely on them, as well for other objectives such as widening participation for under-represented groups.

OfS should ensure that funding primarily continues to reflect the characteristics of student populations at individual providers. Whilst we understand why OfS may want to explore other metrics, it is vital that funding is prioritised towards the greatest student need.

Universities are best placed to make decisions based on their specific context and student body about how to use student-based funding to support positive student outcomes within their institutional context. Putting terms and conditions on funding allocations would create additional reporting requirements for universities and reduce their ability to allocate funding efficiently based on the needs of their student population.

Many university support initiatives are funded through combining OfS student-based funding and institutional budgets. As a result, institutions will already be accountable through their own governance structures to evaluate the impact of funds and demonstrate value for money.

When considering specific components of student-based funding, the part-time premium is incredibly important for supporting part-time students. Many part-time students are not eligible for maintenance support or funding towards their living costs because they are distance learners. It is important that OfS does not constrain universities from using these funds to meet the needs of specific learning groups.

The introduction of the Lifelong Learning Entitlement will also likely result in a greater number of students studying flexibly, and the OfS will need to consider the implications of this in allocating student-based funding.

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?

OfS should consider whether a greater proportion of its capital funding should be allocated through a formulaic approach, given the relative costs and burdens of a bidding approach compared with the benefits generated by the funding. Whilst there are some merits to competitive bidding, the current bidding process requires significant modification given the associated burden on providers, especially at a time when institutions are facing large increases in capital costs.

Universities have expressed concerns about the rising costs of capital projects, building materials and ongoing maintenance. As OfS has itself noted, “there are high levels of inflationary pressure across all costs” including for staff, maintenance, utilities and services. To put the scale of the capital funding allocation into context, there was a decrease in capital expenditure across the entire Higher Education estate from £3.5 billion before the pandemic down to £2.5 billion in 2021/2022. There are also significant costs attached to the sector's transition to net zero. It is estimated that it would cost the sector £6.6 billion to decarbonise Higher Education estates in the UK.

OfS should review the competitive bidding process with the aim of reducing bureaucracy, widening the criteria for eligible bids and enabling long-term planning cycles.

The current bidding process is very resource-intensive, with short application windows which prevent universities from developing bids for funds that support strategic priorities and long-term planning. Universities that are successful in obtaining bids often already have a specific project in mind before the opening of the application process. The bidding process also has a disproportionate burden on smaller providers, who often have fewer staff and resources available to dedicate to bid writing.

Institutions already face significant data requests from multiple stakeholders in relation to capital funding, through the Estates Management Record (EMR) and submissions to UKRI on research and capital funding. To reduce duplication and ensure a more consistent evidence base among sector agencies, OfS should consider how data requested in bids for capital funding could better align with that submitted via the EMR.

OfS should provide longer application periods for making bids, whilst broadening the eligibility criteria to enable universities to use funds to meet their needs. This is particularly important in the current financial climate. It would also enable providers to use funding more strategically to achieve longer-term strategic objectives.

The overall amount of capital funding available through bids is not large enough on its own to fund significant long-term projects. The amount of funding has further declined in real terms in recent years. Longer application periods would enable universities to secure additional funding from other sources in order to go ahead with longer-term projects.

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

It is important that OfS protects the world-leading specialist provider funding.

The world-leading specialist provider funding represents excellent value for money to the sector. In 2024/25, this allocation represents approximately just 4% of the overall grant funding available through OfS. This funding supports specialist providers to continue delivering world-leading provision and in turn, increase the diversity of courses available to prospective students. Specialist providers offer valuable benefits to the sector and students including excellent links with industry, subject-specific expertise and access to specialist facilities.

Because of the constraints of the current funding environment, specialist providers are primarily using these funds to make up for income shortfalls related to a declining unit of resource and rising costs of teaching, equipment, and facilities. If OfS decided to deprioritise this funding stream, specialist institutions would have to consider cuts to their existing course provision. This would have a significant impact on course quality and the diversity of provision across the sector. It would also undermine the attractiveness of the sector to prospective international students.

We also have concerns about the existing bidding process, as the existing methodology creates significant uncertainty for specialist institutions when they are deciding on whether to apply for funding. Specialist providers are required to submit evidence that they are world-leading. However, some specialist providers report that this definition lacks consistency which creates uncertainty over whether bids are likely to be successful. This is an issue of real concern given the resource implications of making a bid.

For many specialist institutions, particularly smaller providers, the bidding process is a very resource-intensive process. Specialist providers often have fewer staff available to submit bids. The bidding process has a significant impact on staff workloads and specialist providers often have to recruit additional employees, despite having limited budgets.

Finally, we support the retention of the performing arts specialist initiative funds. OfS should continue to protect this funding allocation. This is particularly important because the budget within the course-based funding for performing and creative arts subjects has been cut in real terms in the funding allocations for 2024-25. However, this initiative, whilst useful, cannot offset the wider issues with the overall financial settlement.

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

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

OfS should continue to provide funding for national facilities and regulatory initiatives. We broadly support the outputs that OfS funds in this area and welcome the benefits that these initiatives bring to the sector.

OfS funding enables higher education providers of a range of sizes and profiles to access sector guidance and infrastructure that would otherwise be the preserve of certain institutions. Therefore, these initiatives fulfil a crucial function in supporting a diverse higher education sector.

Many of the national facilities and regulatory initiatives undergo external evaluation and have been shown to demonstrate significant value to the sector. However, OfS should look at the timescales for its challenge competitions. Whilst the competitions enable innovative ideas to be funded, the short-term nature of this funding often prevents universities from being able to use these funds for strategically important work.

We also recommend that OfS investigates how the national facilities and regulatory initiatives could be more closely integrated with emerging regulatory priorities. For example, OfS is due to publish its consultation response on proposals for tackling sexual misconduct and harassment. This is an area where best practice is still emerging. OfS should consider whether it could align the use of these funds to support universities to meet sector leading standards.

We are also concerned about increased government involvement in how this funding stream is allocated. We would prefer OfS to have more flexibility to consult with the sector when deciding how to allocate these funds. The recent annual Strategic Priorities Grant funding letter put ministerial terms and conditions on OfS' ability to run future challenge competitions. We strongly disagree with terms and conditions being placed on these funds.

OfS should not consider introducing a subscription model for services currently funded by this element of OfS funding. Universities are already making difficult decisions to reduce costs and introducing a subscription model will lead to many providers losing the benefits of these services, as well as potentially risking the quality of the services themselves.

At a time when universities are already under significant financial pressure, it is probable that a subscription model will lead to a two-tier system where financially better off higher education providers disproportionately continue to have access to these services at the expense of other institutions.

Finally, OfS should provide clarity over how it intends to link this policy initiative to funding settlements across the devolved nations. Some of the initiatives such as the National Student Survey have a wider applicability than England and therefore OfS

would need to consult its counterparts in the devolved nations when considering changes.

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

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?

OfS should retain non-hypothecation for the majority of its public grant funding. The purpose of OfS' non-hypothecated funding is to support providers in meeting the additional costs they incur from providing a particular subject mix or due to the characteristics of their student population, which they are unable to meet from fee income alone.

Therefore, providers must have flexibility in directing funds to meet essential costs that are in support of the UK's economic and societal goals, which they would otherwise be unable to afford. This could range from maintaining core activities, to supporting priority projects and services, to responding to shifting demands.

Specifying narrow criteria for the use of OfS' non-hypothecated public grant funding would defeat the very purpose of providing it, limit its impact in being targeted to areas that are underfunded, and not achieve value for money for taxpayers.

The OfS should continue to maintain oversight of how costs are changing within providers (through the use of TRAC data and other sources) and how gaps between

income and costs are being met to ensure non-hypothecated funding is being targeted to where it is needed the most.

OfS provides oversight over the financial health of the sector through its conditions of registration and its annual financial sustainability reports. This is a proportionate way of monitoring how universities use funds, particularly in the current financial climate.

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?

As discussed in our answers to question 3 and 4, we have significant concerns about the current competitive bidding processes. We would like OfS to consider introducing longer term, less bureaucratic planning cycles to create a more level playing field for applicants.

Views on abolishing HESES and using two-year old data to determine recurrent funding allocations.

OfS should retain the December allocation and continue to use HESES for data collection until Data Futures is firmly established and embedded. We have concerns about using older data given the significant fluctuations in student numbers from year to year.

Abandoning HESES could lead to funding decisions being taken that are not based on accurate, up-to-date student data until a suitable and robust alternative is in place. In a challenging financial environment, a failure to accurately allocate funding could have serious consequences for university finances.

Universities also already collect data for internal reporting purposes, therefore, it is not clear that removing the December data collection would reduce the regulatory burden for universities. There have been significant changes to the systems for calculating funding allocations in recent years and further experimentation will make it harder for universities to get used to a single approach.

We want more clarity on how this proposal relates to JISC's Data Futures programme. There is an agreed timeframe for the rollout of Data Futures and we would want assurances that any future proposals do not impact the delivery of this programme. OfS should consider the findings of the independent review of Data Futures before making a commitment to changing data collection methods.

Linking the funding methodology more explicitly to OfS' policy approach for quality and equality of opportunity.

OfS should avoid explicitly linking its funding methodology to its policy approach for quality given there are different levers for each. Universities are consistently meeting and exceeding the OfS' expectations here, as seen in their compliance with the B conditions of registration. To introduce an additional layer of de facto regulation in relation to quality would create a confusing and inconsistent framework for regulation, one which is not required.

There are already rigorous requirements for quality and standards that must be met for any university that wants to charge the maximum tuition fee for domestic undergraduate students. Universities have demonstrated an exceptional standard of teaching and research during the recent TEF exercises. Providers that wish to charge the maximum tuition fee for domestic undergraduate students must achieve a TEF award in addition to meeting OfS' B conditions. There is, therefore, already a connection within the current regulation to a university's financial forecasts that acts to incentivise improvements in quality. In addition, where a university is found to be in breach of another B condition, a direct monetary penalty can be applied.

Whilst we understand the argument for restricting funding to universities that are failing to meet regulatory requirements, there is a circular logic to reducing funding and the impact this will have on quality outcomes. We are concerned that creating an additional link between quality and funding (beyond those already operating, set out above) could lead to a dangerous cycle of divestment and declining quality across certain subjects. This would, coupled with the existing financial challenges higher education providers are facing, reduce the diversity of course provision and hamper student choice. One of the most effective enablers for universities to improve course quality is through providing positive incentives and adequate funding for these courses.

There are also significant unanswered questions around how OfS defines quality and which measures and/or conditions of registration take precedence. For example, linking the funding methodology solely to student outcomes can be problematic if graduate employment is viewed as the key indicator of course quality, without consideration of wider context. These outcomes are not always within the control of an institution, irrespective of the quality of teaching and course materials. [UUK has set out our views on this previously.](#)

Our 2019 [parliamentary briefing on using LEO data](#) also highlights the limitations of focusing on graduate earnings. For instance, institutions that specialise in providing arts-based education or nursing will produce graduates who provide cultural, societal and economic benefits, even if they have below average graduate earnings.

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.

OfS needs to carefully consider the correct balance of its responsibilities to follow ministerial guidelines with its duties within the Higher Education Research Act 2017 (HERA) and the Regulators' Code.

Whilst we recognise the importance of having government scrutiny over how funding is administered, this must not undermine OfS' ability to take a strategic approach to public grant funding or its independence as a regulator. As the House of Lords Industry and Regulators Committee reported, the boundaries of the relationship between OfS and ministers is often unclear.

Whilst ministers should be involved in establishing top level priorities for funding, this should not include the prescriptive management of funding allocations. The most recent grant funding letter put significant terms and conditions on how OfS can allocate funding. There are significant issues with the current approach.

Firstly, this potentially undermines OfS' independence as an arms-length body, a principle which is enshrined in HERA. There is a danger that precedents, such as linking terms and conditions to funds, undermine OfS' ability to exercise its other duties as an independent regulator and funder of high education.

Secondly, OfS will be prevented from developing a truly strategic approach if it relies on prescriptive guidance related to the policy preferences of particular ministers. Given the possibility of periods where there is high ministerial turnover, this could undermine the development of a coherent and consistent long-term funding strategy.