

Maintaining a world class higher education system

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Higher education in the United Kingdom is world class. It is an indispensable part of the competitive knowledge-based economy and a major force for securing a democratic, civilised and inclusive society.

By any standards it is a high performing sector of which the nation can be proud. Its many achievements – in terms of research output, knowledge transfer, increasing and widening participation, and quality of learning and teaching – have been realised despite a real-terms reduction of one-third in the unit of funding since 1989-90. Higher education is also an international business: it is worth £45 billion to the UK economy, based on a public investment of £15 billion, and generates £3.6 billion in gross export earnings.

Within this broad context HEFCE has a pivotal position in ensuring that the country continues to have a higher education system to match the best in the world. We are and will continue to be the largest single funder. We are responsible for providing sound evidence-based advice to Government.

We are also an influential partner with Government and with universities and colleges in developing policies and spreading good practice to meet future challenges. As a regulator we are accountable for the proper use of public funding, ensuring that higher education institutions are financially healthy and well managed.

Our policies are focused on enhancing the quality of the student

experience, encouraging social inclusion, sustaining world-class research and supporting the wider roles of universities and colleges within the economy and society. Uppermost in our mind is the need to maintain institutions' autonomy, and to identify policies and funding methods which minimise burden, provide stability, and help to secure the long-term sustainability, vitality and excellence of higher education.

In 2006-07 HEFCE will allocate £6.7 billion in public funds to 275 universities and colleges in England to support high quality education, research and related activities. These include 132 higher education institutions (88 universities, 2 general colleges, and 42 specialist institutions) and 143 directly funded further education colleges providing higher education courses.

We are committed to funding further growth in student numbers. This is essential if we are to meet the challenges of widening access, increasing participation, and encouraging students to progress to higher education, which all remain crucial to meeting the needs of students and employers and achieving national prosperity.

A key feature of the next 10 years will be maintaining a dynamic, world-class research sector. We will work with the Government, the Research Councils and other funders to ensure that the UK's record in creating new knowledge and opening up new fields of research is matched by achievements in applying them.

The UK has been exceptionally good at generating new knowledge.



Although it has only 1 per cent of the world's population, the UK carries out 5 per cent of world research and produces over 12 per cent of all cited papers and almost 13 per cent of papers with the highest impact. On average, UK scientists receive about 10 per cent of internationally recognised science prizes.

This places the UK second in the world in terms of percentage share of citations and high impact research. While we recognise that the Government has made significant steps in increasing investment in research and development over the past 10 years, UK success has occurred in spite of historically lower public and private investment in research and development than our leading competitors.

In 2006-07 HEFCE will distribute £1,342 million in recurrent funding for research. This funding is allocated to institutions selectively to support and reward excellence in research of all kinds and in all subjects. We welcome the Government's continuing commitment, expressed in the pre-budget statement, to the dual support system of public funding for research. Our element of the dual support (the other being the Research Councils) is distributed as quality-related funding. It underpins the costs of the research

infrastructure and enables universities and colleges to support path-breaking blue skies research in accordance with their own priorities.

Since 1986 HEFCE, on behalf of the UK funding bodies, has periodically assessed research quality through the Research Assessment Exercise (RAE). This peer review system involves expert panels rating the quality of research conducted in departments across the UK. In addition to informing our grant allocations, the RAE has been influential in driving up the quality of research and of research management, and in benchmarking quality in an international context.

In the December 2006 pre-budget report the Government announced the development of a new framework for the assessment and funding of research, to follow the 2008 RAE. The new system will be designed to reduce significantly the operating cost and administrative burden associated with the RAE, while still producing robust indicators that can be used to benchmark quality and to drive HEFCE's funding for research. We will now undertake the detailed work necessary to develop and implement the new framework, including consultation with the sector. We will seek to ensure a smooth transition to the new arrangements, to be fully in place by 2014.

Publicly-funded research contributes significantly to industrial and economic growth, as the business sector seizes opportunities from the generation of knowledge. We recently announced that we will allocate a portion of quality-related research funds (£60 million in 2007-08) to support and encourage research that directly meets the needs of business and industry. This new element of HEFCE funding will provide the incentives that universities and colleges need to seek commissions from the users of research for activities which are both high quality and directly responsive to their needs.

Universities and colleges are

working much more closely with business. The surveys of interactions between higher education and business and the community over the past five years demonstrate the considerable progress made in building relationships with business, not only in R&D, but also through consultancy and training. For example, the surveys highlight that UK higher education institutions are more successful than US institutions in forming spin-out companies (even if at present UK institutions generate proportionally less licence income). We are supporting these activities in partnership with the Office of Science and Innovation, and will be distributing a total of £234 million over two years from the Higher Education Innovation Fund to all the institutions we fund. Research, increasing links with business and a skilled workforce go hand in hand in securing national prosperity. We welcome the report from the Leitch Review, which rightly sets targets which will challenge higher education in meeting the country's future needs for higher level skills. Some expansion in higher education should be delivered through a demand-led mechanism such as Train to Gain, a brokerage service designed to help businesses get the training and staff development that they need to succeed. We have already established Higher Level Train to Gain pathfinders in three regions, and we will roll these out nationally in the very near future. We will explore with partners how to extend our support for universities and colleges in taking a greater role in workforce development, and increase their capacity to deliver the tailored flexible courses that businesses and individuals need.

It is essential that disciplines and subjects that are of strategic importance to the nation are sustained and developed. Some strategic subjects may be vulnerable because of a mismatch between supply and demand: action to support them needs to be proportionate and tailor-made to

the problems.

We have a watching brief on the potential national consequences when institutions are considering the closure of courses or departments. Acting with regional partners, such as Regional Development Agencies, we are able to sustain disciplines of strategic importance in a region where an individual institution's decision may have led to some decline. We also keep abreast of the data so that we can understand trends over time in strategic subjects.

We are acting to raise the aspirations of young people to study certain subjects, in collaboration with the Institute of Physics, the Royal Society of Chemistry, The Royal Academy of Engineering and other professional bodies in science, technology, engineering and mathematics (STEM subjects). We are also working with the Research Councils and the UK's other higher education funding bodies to sustain research capacity and capability in areas that are of critical importance to the nation.

Such demand-raising activity will take some time to deliver increases in student numbers. Therefore we are helping universities and colleges to maintain provision in those subjects that are particularly expensive to teach: chemistry, physics, chemical engineering, and mineral, metallurgy and materials engineering. We announced in November 2006 that we would provide an additional £75 million to sustain capacity in these very high cost subjects over the next three years. Overall, we have committed nearly £250 million to supporting and developing strategically important and vulnerable subjects.

With ever-increasing competition, the challenge for the higher education system in England is to stay ahead. The introduction of variable fees is providing a much-needed stream of additional income. Our approach will be to rely on a combination of market forces and selective interventions to ensure the English higher education sector maintains its leading global position.