Research England

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Higher Education Innovation Funding (HEIF) Review

Consultation document: Proposed changes to the funding formula

November 2026

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Introduction

Purpose of this consultation

Research England is undertaking a comprehensive review of Higher Education Innovation Funding (HEIF) to ensure it most effectively supports knowledge exchange between higher education providers and external partners, while reflecting the evolving needs of the higher education sector and government priorities.

The review has been conducted in two phases. The first phase considered the strategic role, purpose and priorities of HEIF expenditure, and informed the publication of the HEIF 2025–31 Policies and Priorities. The second phase focuses on the HEIF allocation method, examining whether the current funding formula remains the most effective mechanism for distributing funding and incentivising the outcomes and policy priorities that HEIF is intended to support.

This consultation relates to the second phase of the review. It sets out Research England's proposals for the future design of the HEIF formula and seeks views from the sector and other relevant external stakeholders before final decisions are made. Proposed implementation is for 2027-28 allocations.

The proposals presented in this document represent Research England's preferred approach based on the evidence and analysis undertaken to date. Consultation responses will play an important role in informing final decisions and may result in changes to aspects of the proposed design. In making final decisions, Research England will consider consultation responses alongside further analytical work, policy objectives, practical considerations and the overall operation of the HEIF funding

system. Responsibility for final decisions on the design of the HEIF formula rests with Research England.

The review has been informed by technical and policy analysis of the current funding model, engagement with higher education providers, advice from a Knowledge Exchange Funding Technical Expert Group, and consideration of wider government priorities relating to economic growth.

While the review considers how funding is allocated, it does not change the fundamental purpose of HEIF as a strategic, underpinning investment in quality knowledge exchange capability in England.

Aims of the formula review

The HEIF allocation method plays an important role in shaping the distribution of investment across the sector and is a lever for incentivising quality knowledge exchange activity. As the knowledge exchange landscape continues to evolve, Research England is reviewing the formula to ensure it remains effective, transparent and aligned with policy priorities. The HEIF policies and priorities published in October 2025 set out a shift in the focus of HEIF as a key mechanism for delivering the government's economic growth priority. Therefore, the formula review looks to respond to implementing this directly through the methodology for funding allocation. The review has two primary aims, as outlined below.

Improving the architecture of the formula

We want to ensure that the overall design of the formula provides a clear and effective framework for recognising and incentivising knowledge exchange performance delivering the intended outcomes. This includes improving the ability of the formula to respond to future policy priorities and emerging areas of knowledge exchange activity.

Strengthening the operation of the formula

We are also considering practical improvements to the operation of the formula, including the income metrics, thresholds and allocation parameters that underpin funding decisions. These changes are intended to improve transparency, robustness and confidence in the allocation process.

Together, these changes are intended to create a formula that continues to support HEIF's objectives while providing greater agility to respond to future developments in the higher education, innovation and economic growth landscape.

What is not changing

While this consultation proposes changes to the design and operation of the HEIF formula, it does not propose changes to its underpinning purpose or principles.

HEIF will continue to support higher education providers' knowledge exchange activities and remain focused on helping institutions translate their research and teaching strengths into economic and societal benefit through engagement with businesses, public services, communities and other partners.

HEIF will also continue to operate as a **flexible block grant**. Institutions will retain discretion over how they use their funding to deliver their own knowledge exchange objectives, informed by local opportunities, partner needs and organisational strategy. Research England is not proposing to ringfence funding for specific activities or dimensions of knowledge exchange. The policies and priorities as set out after phase 1 of the review remain unchanged.

The allocation of HEIF will continue to be determined through a **performance-based, data-driven formula**, taking significant care in assessing the quality and robustness of the performance metrics used to allocate a significant amount of public money. Research England remains committed to formula funding as an efficient and proportionate mechanism for allocating recurrent knowledge exchange funding.

The review has also reaffirmed the core principles that underpin HEIF and Research England's approach to formula funding. These include flexibility, stability, dynamism, performance-based funding, an appropriate concentration of investment, use of robust data, and simplification in our approaches where possible. The purpose of this review is not to change these principles, but to consider whether the current attributes of the formula remain the most effective way of implementing them in practice. This includes how the formula balances the application of principles that may act in tension to each other, such as stability and dynamism, to implement current policy priorities.

As a result, the review and this consultation focuses on how HEIF is allocated to most effectively deliver policies and principles, rather than reviewing the overall objectives of the programme or the principles on which it is based.

Background and principles

How the current HEIF formula works

Higher Education Innovation Funding (HEIF) is allocated through a formula that uses metrics of higher education providers' performance in knowledge exchange activities as the basis for distributing funding. The current formula contains a number of

components that have been introduced over time to achieve different policy aims and enhance delivery of Research England's funding principles. The current HEIF architecture consists of a 'main' pot, with a supplement for high performers, and a supplement focused on business and commercialisation activity. The components of the current HEIF funding model include (see Annex A for further details):

- Qualifying income used for performance data
- Three years of weighted performance data
- Minimum threshold
- Maximum allocation cap
- Annual modifiers
- Top-up allocation
- Business and commercialisation supplement

Principles underpinning the HEIF formula review

To support both the HEIF review and Research England's review of Strategic Institutional Research Funding (SIRF), Research England has reaffirmed the aims and principles that underpin its approach to formula funding. These principles provide the framework against which the proposals in this consultation have been developed.

The following aims describe the high-level outcomes that Research England's formula funding is intended to contribute to, alongside other mechanisms:

- drive demonstrably high-quality research and knowledge exchange activity.
- support a healthy and sustainable research and knowledge exchange system
- enable institutions to take long-term strategic approaches to developing their capabilities and delivering impact

For Research England, a healthy knowledge exchange system is one that:

- supports a range of missions, research types, and research disciplines, to ensure benefit to a diversity of partners and places, working collaboratively where appropriate
- has resilience and ability to adapt to an evolving landscape and ensure system sustainability
- enables institutions to respond to current and emerging local, national and global challenges

The design of formula funding is guided by a number of core principles (see Annex A for further details):

- Flexibility of expenditure

- Accountability for public funds
- Stability
- Dynamism
- Performance based and quality-driven
- Extent of concentration
- Robust data for measurement
- Simplification

The validity of the principles themselves is not something to be considered as part of this consultation. Rather, we are inviting feedback on the mechanistic implementation of these principles within the HEIF allocation approach, and suitability/robustness of the rationale for the proposed implementation approaches (e.g. through formula design, metrics used, parameters applied).

Engagement and evidence informing the review

This review incorporates evidence following a multi-year period of evaluation and policy review of Research England's wider approach to knowledge exchange funding and performance measurement. This includes learnings from the 2022-23 Knowledge exchange landscape review, the development of the Knowledge Exchange Framework, and impact and process evaluations of HEIF.

The proposals presented in this consultation have been informed by a combination of analytical review, sector engagement, expert advice, and Research England's judgement regarding how best to achieve the objectives of HEIF.

Throughout the review, Research England sought evidence and perspectives from the higher education and knowledge exchange communities to understand the strengths and limitations of the current formula, identify opportunities for improvement and explore the practical implications of potential changes.

Sector engagement

During June and July 2026, Research England undertook a programme of sector engagement consisting of an update webinar and three online workshops involving representatives from higher education providers.

The webinar provided an overview of the objectives, scope and progress of the review. The workshops explored key aspects of the HEIF formula and proposals for change.

These discussions provided insight into sector perspectives, practical implementation issues and potential unintended consequences associated with different approaches. Responses have informed the development and refinement of the proposals presented in this consultation.

Knowledge Exchange Funding Technical Expert Group

Research England established a Knowledge Exchange Funding Technical Expert Group to provide independent advice on the review.

The Technical Expert Group met regularly between May and July 2026 to consider the development of a future HEIF allocation approach. Discussions covered the strengths and limitations of the existing formula, possible future funding architectures, thresholds and formula parameters, approaches to stability and transition arrangements, and options for recognising local growth and place-based activity within formula funding.

The group's advice has provided an important source of technical challenge and expert insight throughout the review process.

Part A: Formula architecture

Introducing four dimensions for measuring performance

What is the current position?

As outlined earlier in this document, the current HEIF formula allocates funding using knowledge exchange performance data and a set of formula parameters. While the detailed mechanics of the formula have evolved over time (such as the introduction of supplements, or new parameters), its overall structure has remained largely unchanged since its introduction in 2008.

Over time, the addition of new mechanisms to the existing formula as 'bolt-ons', such as the two supplements, has enabled Research England to respond to emerging priorities without fundamentally redesigning the underlying formula. However, this has increased complexity and introduced multiple, unclear performance incentives.

Alongside these permanent components, Research England has occasionally used other approaches to respond to specific priorities, including additional spending expectations associated with funding uplifts and separate funding mechanisms such as the pilot Regional Innovation Fund (RIF).

As a result, the current architecture reflects a series of incremental developments made over time, rather than a single integrated design focused on different knowledge exchange outcomes.

Limitations of the current approach

The current architecture has enabled Research England to respond to new policy priorities over time without fundamentally redesigning the HEIF formula. However, it does so through a combination of separate funding mechanisms that operate in different ways. As new objectives have emerged, the primary tool available has often been the addition of new supplements, pots or spending requirements rather than adaptation of the core formula itself.

As a result, the current architecture has become increasingly difficult to adapt, target and explain. Most importantly, it limits Research England's ability to direct funding towards specific economic growth outcomes without creating unintended consequences elsewhere in the funding model.

The current architecture incentivises quality activity in more than one way simultaneously. The main HEIF allocation and the business and commercialisation supplement incentivise particular types of knowledge exchange activity, while the top-up allocation directs funding towards a particular group of institutions based on their overall scale of performance. This creates what can be described as a "mixed-mode"

approach, where funding is distributed according to both the type of activity being undertaken and the type of institution undertaking it.

This limits our ability to use the formula as an effective policy lever, respond to changing RE, UKRI, or government priorities and direct a greater proportion of funding towards specific growth outcomes, such as place-based growth, without creating additional funding streams or bespoke allocation approaches. For example, increasing investment in a particular area of knowledge exchange cannot be done without additional funding or the creation of a new supplement, rather than this being accommodated within the existing formula architecture.

In practice, this means that the current formula architecture can lack agility. The addition of successive supplements and adjustments has enabled HEIF to remain effective, but has also increased complexity and reduced transparency. Furthermore, distinctive ring-fenced funding elements might require additional and separate reporting requirements that increase the burden of receipt of funding. Research England therefore considers that a more integrated architecture would provide a clearer and more flexible framework for directing investment towards the knowledge exchange outcomes that contribute to economic growth.

Proposed approach

Research England proposes moving to a new HEIF architecture with increased agility to direct investment against policy priorities, by moving to a 'single mode' approach. The proposed architecture is structured around the different ways in which providers contribute to economic growth outcomes through knowledge exchange activities.

The proposal integrates the current HEIF funding components into a single, coherent funding model, replacing separate supplements and allocations with a unified framework. This would include removing the current top-up allocation and business and commercialisation supplement and incorporating their policy objectives within the core formula architecture.

Under the proposed approach, proportions of the HEIF budget would be allocated against four broad dimensions that represent different routes by which universities contribute to economic growth through their knowledge exchange activities.

Under the proposed architecture, all HEIF funding would be distributed through a single integrated formula. Each dimension would distribute a defined proportion of the overall HEIF budget and an institution's performance within that dimension would determine its share of that funding. The four dimensions operate together within a single allocation framework, replacing the current combination of the main HEIF allocation, Business and Commercialisation supplement and top-up allocation.

The four dimensions are:

- Partnerships – Creating economic value through collaboration and knowledge exchange with external partners.
- Commercialisation – Generating growth through the development and adoption of innovative products, services and technologies
- Skills and entrepreneurship – Building the skills, talent and entrepreneurial capability needed for innovation and a productive workforce.
- Local growth – Supporting economic growth through strengthening local innovation ecosystems, partnerships and place-based capability.

The contribution that each dimension makes to an institution's HEIF allocation would be determined by its performance in the metrics associated with that dimension. Existing HEIF performance (Qualifying Income, QI) metrics would be grouped into the dimension they most closely represent, shown in full at Table 1. For example, intellectual property income would contribute to the Commercialisation dimension, while consultancy would contribute to the Partnerships dimension. As new robust metrics become available in future, they would be incorporated into the relevant dimension without requiring significant redesign of the overall architecture. As a result, the proposed architecture enables Research England to vary the proportion of funding associated with different growth outcomes without creating new supplements, funding streams or ring-fenced programmes.

The proposed architecture is based on learnings from previous policy development in knowledge exchange performance measurement, and external expert advice. The principle to recognise and measure performance in different modalities of knowledge exchange separately, due to the diversity of these modalities and limitations of attempting to compare 'like with like', builds of success of different 'perspectives' of knowledge exchange activities used in the Knowledge Exchange Framework. The specific growth-based dimensions are informed by the novel framework developed by the Policy Evidence Unit for University Commercialisation and Innovation (UCI), which identifies four broad ways in which universities contribute to economic growth through knowledge exchange.

The dimensions are intended to represent different types of economic growth outcome rather than specific knowledge exchange activities. Each of the growth dimensions can be delivered through a range of knowledge exchange activities and institutional approaches. Given the unhypothecated nature of formula funding that is necessary for its success, Research England's role is to set the desired outcomes from our investment, while institutions retain flexibility to determine the most appropriate activities, partnerships and delivery models to achieve those outcomes. Avoiding high levels of granularity in setting the number of dimensions also future proofs the approach and reduces the need for the redefining of these four dimensions in the future. The dimensions therefore reflect the outcomes that Research England wishes

to incentivise through HEIF, while institutions retain flexibility to determine how those outcomes are achieved.

Importantly, dimension budgets influence how allocations are distributed across the sector, not how funding must be spent. Regardless of the dimensions from which an institution's allocation is derived, institutions would continue to receive a single HEIF allocation and retain full flexibility to invest in the activities they consider most effective for delivering their knowledge exchange objectives.

An alternative approach would be to separate HEIF into four funding streams, one for each dimension. However, Research England's current view is that the flexibility to utilise HEIF across growth outcomes is an important factor for providers' ability to deliver high return on HEIF investment, and that increasing the granularity of funding would disproportionately increase the burden for management and assurance of funding. We wish to validate this link between the formula's design and effectiveness of HEIF use by institutions through consultation.

Allocating funding across the four dimensions

A key feature of this approach is that it provides a clearer link between HEIF funding and the different growth outcomes that Research England seeks to support. Rather than introducing separate supplements or funding streams when new priorities emerge, Research England would be able to adjust the proportion of funding associated with each dimension, increasing incentives for particular growth outcomes and investment in institutions that are most effective in delivering them, while retaining a stable and coherent overall funding framework.

The proposed architecture creates a more transparent and direct mechanism through which Research England can determine the proportion of HEIF funding associated with each outcome area. This is an important change from the current approach. Under the existing architecture, the relative influence of different forms of knowledge exchange activity is also determined by the availability of metrics included in the formula (for examples one sufficiently robust metric to capture skills contributions vs four for partnership working).

For implementation in 2027-28, Research England proposes that the proportion of funding associated with each dimension should broadly reflect the current distribution of knowledge exchange activity (as measured through qualifying income) across the sector. This is shown at Table 1. This balance seeks to consolidate the current distribution of activity that has delivered high economic value through current HEIF investment, driven by local institutional decision making. This is also likely to reduce disruption to funding allocations during the transition to the new architecture.

Table 1: Potential distribution of HEIF across the four dimensions for indicative purposes.

Dimension	Indicative share of qualifying income	Indicative budget (£m)*	Underpinning performance metrics
Partnerships	68%	193	Consultancy Contract research Facilities & equipment KTPs
Commercialisation	9%	26	IP
Skills and entrepreneurship	18%	51	CPD & continuing education
Local growth	5%	14	Regeneration

*Approximations, based on the current 2026-27 HEIF budget of £284 million. Final values will depend on the confirmed HEIF budget and Research England's final implementation decisions.

Research England's intention is that dimension budgets would remain relatively stable over time. In general, changes would be considered in line with the setting of new HEIF priorities and accountability periods, providing a balance between investment stability and dynamism to respond to changing policy priorities. However, Research England would reserve the right to amend dimension budgets more frequently where there is a clear evidence-based rationale to do so, for example in response to changes in government priorities, emerging policy challenges, or improvements in the metrics available to support particular dimensions.

Benefits

Stronger and clearer incentives for desired outcomes

The proposed architecture creates a more explicit relationship between HEIF funding and the economic growth outcomes that knowledge exchange activity is intended to deliver. Rather than relying on separate supplements, bespoke funding pots or additional spending requirements to encourage particular behaviours, the formula would directly recognise performance across distinct types of growth outcome.

This creates clearer incentives for institutions by making the relationship between performance, policy objectives and funding more transparent. It also enables Research England to target incentives towards the outcomes it wishes to encourage, while continuing to allow institutions flexibility in how those outcomes are delivered.

Greater ability to invest in priority growth outcomes

A key advantage of the proposed architecture is that it enables Research England to direct different proportions of HEIF funding towards different growth outcomes. Under the current architecture, the relative influence of different types of knowledge exchange activity is largely determined by the available metrics and the historic structure of the formula. Under the proposed approach, funding can instead be distributed more intentionally between outcomes.

This creates a clearer policy lever within the HEIF formula, allowing Research England to align incentives more closely with government, UKRI and Research England priorities as they evolve over time. For example, if local economic growth became a higher priority in future or additional funding became available for this policy area, a greater proportion of HEIF funding could be allocated through the Local Growth dimension without requiring the creation of additional funding streams, supplements or separate programmes.

A simpler and more coherent funding model

The proposed architecture brings together the current main allocation, Business and Commercialisation supplement and top-up allocation within a single framework. This removes the need for multiple overlapping funding mechanisms that operate according to different policy rationales and simplifies the overall structure of the formula.

A more coherent architecture should make it easier for institutions to understand the factors influencing their allocations and how different forms of knowledge exchange performance contribute to HEIF funding.

Future-proofing the HEIF formula

The proposed dimensions are deliberately broad and outcomes-focused. This means that new metrics can be incorporated into existing dimensions as better measures become available, without requiring fundamental redesign of the overall architecture. Research England expects this to provide a more durable framework that can evolve alongside the knowledge exchange landscape and future developments in knowledge exchange metrics.

Retaining institutional flexibility

Although the architecture introduces separate growth dimensions within the allocation methodology, institutions would continue to receive a single HEIF allocation and retain

discretion over how that funding is used. This preserves one of the core strengths of HEIF: enabling institutions to determine the most effective use of funding based on their own strengths, partners, places and strategic objectives.

The proposal therefore seeks to combine greater strategic direction at the funding-allocation stage with continued flexibility at the funding-expenditure stage. Research England would specify the outcomes it wishes to incentivise, while institutions would retain autonomy in determining how best to deliver those outcomes.

Trade-offs

While Research England considers the proposed architecture to provide a stronger and more adaptable framework for allocating HEIF funding, it also involves a number of trade-offs.

Knowledge exchange activities do not fit neatly into a single dimension

The proposed architecture groups knowledge exchange activity into four broad growth outcome dimensions. In practice, however, many knowledge exchange activities contribute to multiple outcomes simultaneously.

For example, a partnership with a local business may support commercialisation, workforce skills development and local economic growth at the same time. Similarly, many institutions take integrated approaches to knowledge exchange that do not align neatly with a single outcome category.

The proposed dimensions should therefore be viewed as a practical framework for funding allocation rather than a definitive categorisation of all knowledge exchange activity. They are intended to provide a clearer basis for incentivisation while recognising that the reality of knowledge exchange is often more interconnected.

The dimensions necessarily simplify a complex landscape

Universities contribute to economic growth in many different ways, and there is no single framework that can fully capture the diversity of institutional missions, strengths, partnerships and impacts.

The proposed architecture introduces four relatively broad dimensions in order to provide a stable and future-proof framework. While this improves transparency and usability, it also represents a simplification of a more complex reality. A more granular architecture might capture additional nuances but would likely introduce greater complexity, require more frequent redesign, and reduce the transparency of the formula.

Research England considers that the proposed balance between simplicity and nuance is appropriate, but recognises that alternative approaches are possible.

The effectiveness of the architecture depends on the metrics available

The proposed architecture creates a framework for allocating funding by growth outcomes. However, the effectiveness of the approach is influenced by the quality and completeness of the metrics available to represent each dimension.

At present, some dimensions are supported by a broader range of robust metrics than others. For example, Research England considers the available metrics for local growth to be less comprehensive than those available for partnerships. This means that some dimensions may currently provide a more complete representation of activity than others.

For this reason, the proposed architecture has been designed so that improved metrics can be incorporated over time as they become available. Research England's wider knowledge exchange metrics programme will continue to explore opportunities to strengthen the evidence base supporting future iterations of the formula.

Local growth as a new funding dimension

What is the current position?

HEIF has historically been designed to incentivise and support high-quality knowledge exchange activity across the higher education sector as a whole, rather than targeting specific geographical outcomes or places. The primary objective of the formula has been to maximise the economic and societal benefits generated through knowledge exchange, with institutions determining where and with whom they undertake those activities.

As a result, the current HEIF formula does not contain a dedicated mechanism for recognising or incentivising local economic growth as a distinct outcome. Instead, these activities are recognised indirectly through the broader range of knowledge exchange activities captured within the formula. These include activities such as business partnerships, skills development, commercialisation, consultancy and regeneration projects, all of which can contribute to local and regional economic growth.

This approach reflects the diversity of higher education providers and their knowledge exchange activities. Universities contribute to growth in different ways and often operate across multiple geographic scales. While some institutions have a strong local focus, others work extensively at national or international levels. The current formula therefore does not distinguish between economic benefits generated in different

places and instead rewards knowledge exchange performance irrespective of where either the activities or benefits occur.

Notwithstanding this, investment and incentivisation for local and regional growth activities has increasingly become an important policy consideration. Universities play a significant role in strengthening local economies through activities such as supporting local businesses, convening partners across sectors, addressing skills needs and contributing to the design and delivery of local growth strategies with other local actors. These are not currently recognised through a dedicated place-based funding incentive within the HEIF formula.

Limitations of the current approach

The current approach recognises and rewards knowledge exchange activity that can contribute to local and regional economic growth, but it does so indirectly. These activities are currently incentivised because they are forms of knowledge exchange, rather than because they contribute to local growth as a distinct policy outcome.

As a result, the current HEIF formula does not provide Research England with a dedicated mechanism to increase investment for local growth activities specifically, including in response to emerging policy priorities. While institutions remain free to use HEIF to support local and regional growth objectives, there is currently no straightforward way to direct a greater proportion of formula funding towards providers that are particularly effective at delivering these outcomes. This limitation has become more apparent as place-based growth has increased in prominence within national research, innovation and economic policy.

A further challenge is that contributions to local growth outcomes are inherently difficult to define and measure. Universities contribute to local growth through a wide range of activities, often operating across different geographies and administrative boundaries. There is therefore a measurement challenge in defining appropriate geographies and the characteristics of those geographies, and also capturing universities contributions to local growth outcomes. The current formula therefore lacks both a dedicated policy lever and a sufficiently mature set of metrics that could be used to comprehensively recognise place-based contributions within recurrent formula funding.

Compared to other knowledge exchange outcomes, metrics and methodologies to capture local growth drivers are far less mature. Therefore, the national metrics challenge in this domain is far greater. Research England has made significant progress in the first phase of its national knowledge exchange metrics programme, through novel frameworks of how universities contribute to regional economic growth, and where and how better metrics are needed. This is an important conceptually basis for the next phase to identifying metrics of success that meet Research England's needs.

Taken together, these issues mean that while HEIF already supports many activities that contribute to local growth, it is currently difficult for Research England to specifically incentivise, recognise or increase investment in local growth outcomes as a distinct objective within the formula.

Proposed approach

Research England proposes introducing a dedicated **Local Growth** dimension within the HEIF formula, as one of the four dimensions. This would create, for the first time, a specific permanent mechanism within the formula for recognising and incentivising universities' contributions to local and regional economic growth.

The introduction of a Local Growth dimension reflects the growing importance of place-based growth within the wider research, innovation and economic policy landscape. Research England's long-term ambition is to develop increasingly sophisticated approaches for recognising local growth activity within HEIF. However, we recognise that the evidence base and metrics currently available are less mature than those available for other forms of knowledge exchange activity. Significant challenges remain in both measuring local growth activity and defining the appropriate geographies through which place-based contributions should be assessed. These challenges are being explored through Research England's wider knowledge exchange metrics programme.

For the implementation of the revised formula in 2027-28, Research England therefore proposes an **interim approach** based on the use of regeneration income as the sole metric underpinning the Local Growth dimension. Regeneration income is already collected through existing HE-BCI data returns, remains a sufficiently robust measure for use within a funding formula, and has historically reflected activities aligned to local priorities and delivered in partnership with local stakeholders.

Research England recognises that regeneration income captures only part of the ways in which universities contribute to local growth. Universities support local economic development through many other activities, including business support, local skills development, partnership working across actors including local government, innovation infrastructure and leadership within regional growth ecosystems. The end of UK access to European Regional Development Funding (ERDF), which previously constituted a significant proportion of regeneration income, has further narrowed the activity captured by this metric. However, the activity that it does capture remains high quality, relevant knowledge exchange activity that should contribute to our performance measurement for formula funding. We therefore consider regeneration income to be the strongest available metric that should continue to be used within a national funding formula at the present time.

Research England recognises that the development of more sophisticated approaches to measuring and incentivising local growth is a priority area for future work. Local

growth and place-based knowledge exchange form a significant strand of Research England's national knowledge exchange metrics programme, which is exploring both improved metrics and novel methodological approaches for recognising universities' contributions to local and regional growth.

The introduction of a Local Growth dimension within the HEIF architecture therefore establishes the capability to recognise and incentivise these outcomes now. At the same time, it creates a framework that can be enhanced as improved evidence, metrics and methodologies become available, to provide a more comprehensive recognition of universities' contributions to local and regional growth. In the interim, regeneration income provides an acceptable mechanism for implementation.

Benefits

Creates a dedicated mechanism for recognising local growth

The introduction of a Local Growth dimension creates, for the first time, a specific mechanism within the HEIF formula for recognising universities' contributions to local and regional economic growth. While local growth has always been supported indirectly through HEIF-funded knowledge exchange activity, the proposed approach makes it an explicit outcome within the funding architecture.

This strengthens the connection between HEIF and the important role that universities play in supporting local economies through innovation, skills development, business engagement and regional partnerships.

Improves Research England's ability to respond to place-based priorities

The new dimension creates a dedicated policy lever that can be used to increase or decrease the emphasis placed on local growth within the overall HEIF formula. This gives Research England greater flexibility to respond to future government, UKRI and Research England priorities relating to place-based growth without requiring additional funding streams or bespoke programmes.

Provides a pragmatic and deliverable interim solution

The proposed use of regeneration income provides a practical means of implementing the Local Growth dimension using an existing metric that is already established, collected consistently and sufficiently robust for use in formula funding.

This allows Research England to introduce a dedicated Local Growth dimension now, rather than delaying implementation until a more comprehensive suite of place-based metrics becomes available.

Creates a framework that can evolve over time

A significant benefit of the proposed approach is that an architectural capability can be established immediately, while enabling the metrics underpinning it to iteratively improve over time.

Research England has identified local growth as a priority area within its national knowledge exchange metrics programme and is actively exploring improved metrics and methodologies for recognising universities' contributions to local and regional growth. The proposed architecture provides a clear place within the formula where future innovations in measurement can be incorporated.

Maintains flexibility for institutions

Although the proposed approach introduces a dedicated Local Growth dimension within the allocation methodology, institutions would continue to receive a single HEIF allocation and retain full discretion over how funding is spent.

This means the ultimate architecture strengthens incentives for local growth outcomes without introducing ringfenced funding requirements or reducing institutional flexibility. Institutions would remain free to determine the most effective ways of delivering growth and impact within their own places, partnerships and strategic contexts.

Trade-offs

Local growth is broader than the metric currently available

A key challenge in recognising local growth through formula funding is that universities contribute to local and regional economic development in many different ways. These include supporting local businesses, developing workforce skills, convening partners, delivering innovation programmes, helping attract investment and driving local growth strategies.

The proposed use of regeneration income captures only a small part of this wider contribution. As a result, the current Local Growth dimension design should not be interpreted as a comprehensive measure of universities' impact on local growth, but rather as an interim proxy based on the most robust data currently available.

Measuring place-based activity remains challenging

The link to geography is far stronger when attempting to measure local economic growth, compared to some other knowledge exchange outcomes. Defining what constitutes a university's 'place' that they could reasonably operate in and influence is

not straightforward, particularly where institutions operate across multiple local authority areas, regions or economic geographies.

There are also challenges in determining how activities and outcomes should be measured consistently across a diverse higher education sector, where both contributions and challenges they are seeking to address are very different. While the proposed approach establishes a dedicated mechanism for recognising local growth, further work is required to identify metrics and methodologies that more fully capture universities' place-based contributions.

Some contributions to local growth will continue to be recognised elsewhere in the formula

Many activities that contribute to local growth are already recognised within other dimensions of the proposed architecture. For example, local business partnerships may contribute to the Partnerships dimension, workforce development activity may contribute to the Skills and Entrepreneurship dimension, and the licensing of IP to local innovation-led businesses may contribute to the Commercialisation dimension.

As a result, the Local Growth dimension does not seek to capture every aspect of place-based activity. Instead, it provides an additional mechanism through which local growth can be recognised and incentivised as a distinct outcome. Some respondents may prefer a more comprehensive place-based approach, but Research England considers that the current evidence base and metrics do not yet support this within a recurrent funding formula.

Balancing immediate action against completeness

A central consideration in this proposal is whether it is preferable to establish a dedicated Local Growth dimension now using the strongest metric currently available, or to delay implementation until a more comprehensive approach to measuring place-based activity has been developed.

Research England recognises that regeneration income does not fully capture the breadth of ways in which universities contribute to local and regional growth. A more sophisticated approach may become possible in future through the development of new metrics and methodologies. However, delaying implementation would mean continuing with a HEIF formula that contains no dedicated mechanism for recognising or incentivising local growth as a distinct outcome, against the backdrop of considerable policy interest in this area.

The proposed approach therefore prioritises establishing the policy capability to recognise local growth now, while accepting that the metrics underpinning this dimension will continue to evolve.

Part B: Metrics

Assessment of the metrics used in HEIF

The HEIF formula relies on a range of metrics to measure knowledge exchange activity and performance across the higher education sector. These metrics play an important role in determining how public funding is distributed and therefore need to be robust, transparent, consistently reported and capable of being applied across a highly diverse higher education landscape.

As part of the HEIF review, Research England undertook a comprehensive assessment of the metrics currently used within the formula. This review considered the continued suitability of existing metrics, whether alternative metrics should be introduced, and whether there were opportunities to improve how different forms of knowledge exchange activity are represented within the funding model. The review drew upon sector engagement, advice from the Knowledge Exchange Funding Technical Expert Group, and Research England's own analysis of data quality, robustness and policy relevance.

A recurring theme throughout the review has been the challenge of measuring the full breadth of knowledge exchange activity undertaken by higher education providers. Universities create economic and societal benefit through a wide range of activities, many of which are not easily captured through nationally consistent and auditable datasets. While qualitative approaches, case studies, self-assessment and peer review can provide valuable insights into institutional performance, they do not currently provide a sufficiently robust, transparent and proportionate basis for allocating recurrent formula funding at a national scale.

As a result, the review has focused primarily on improving the use of existing data sources while maintaining the core principles of robust measurement and transparent formula funding. In most areas, the review concluded that the existing metrics remain appropriate for the purposes of allocating HEIF. However, changes are proposed where there is evidence that an alternative metric would provide a better representation of the knowledge exchange outcomes that HEIF seeks to incentivise.

Research England also recognises that the currently available metrics do not capture every aspect of knowledge exchange equally well. This is particularly true for emerging areas of policy interest, such as place-based growth, and for forms of knowledge exchange that deliver value through social, cultural or community impact rather than direct income generation. For this reason, Research England continues to invest in its national knowledge exchange metrics programme, which aims to develop more robust and comprehensive approaches to measuring universities' contributions to growth and innovation.

The proposed four-dimension architecture has been designed to accommodate improved metrics as they become available. This means that future developments in the evidence base can be incorporated within the HEIF formula without requiring fundamental redesign of the overall funding architecture.

The following sections explains:

- the metric changes that Research England is proposing
- the rationale for those changes
- the trade-offs and practical considerations that informed these decisions

The metrics that have been reviewed but are not proposed for change are set out in Part F.

Metric proposed for change – skills and entrepreneurship dimension

What is the current position?

The current HEIF formula uses income from non-credit bearing provision as the primary metric of the external skills development provision that providers offer. Non-credit bearing income is drawn from data collected through the Office for Students and has been used within HEIF since the formula's introduction in 2008.

Historically, this reflected the availability of data at the time of HEIF's inception and the role of non-credit bearing provision in supporting skills development and knowledge exchange activities.

Limitations of the current approach

The review identified a number of limitations with the continued use of non-credit bearing income as a HEIF metric.

Most significantly, non-credit bearing income does not specifically measure knowledge exchange activity. While some non-credit bearing provision clearly contributes to workforce development and engagement with employers, the metric can also include forms of activity that are not strongly aligned with HEIF's objectives for knowledge exchange. Examples may include forms of educational provision that are primarily student-facing or otherwise not directly linked to external partner engagement.

The review also found that non-credit bearing income does not provide a particularly targeted measure of workforce development, skills transfer or employer-focused activity. As a result, there is a risk that funding incentives are being influenced by activity that is only indirectly related to the types of skills and entrepreneurship outcomes that the dimension is intended to support.

Proposed approach

Research England proposes replacing non-credit bearing income with Continuing Professional Development and Continuing Education (CPD/CE) income from the Higher Education Business and Community Interaction Survey (HE-BCI), as the metric underpinning the skills and entrepreneurship dimension.

The review concluded that CPD/CE income provides a stronger representation of the knowledge exchange activities that underpin the Skills and Entrepreneurship dimension. In particular, the HE-BCI survey only allows knowledge exchange activity to be returned, and therefore ensures that the CPD/CE metric is a measure of knowledge exchange activity. In addition, in practice CPD/CE activity is more directly associated with workforce development, employer engagement, professional upskilling and the transfer of knowledge and expertise beyond the higher education sector.

Feedback gathered through sector workshops and discussions with the Knowledge Exchange Funding Technical Expert Group indicated broad support for moving towards a metric that has a clearer connection to knowledge exchange activity. Stakeholders recognised some challenges around the consistent reporting of CPD/CE activity, but generally considered these manageable. Overall, they viewed CPD/CE as a more conceptually appropriate and robust metric than non-credit bearing income.

The review also considered a wider range of skills-related measures, including apprenticeship activity and other workforce development indicators. However, these measures are currently captured inconsistently across available datasets and were not considered sufficiently robust for use in a national funding formula. Research England therefore considers CPD/CE income to be the most appropriate metric currently available.

Research England also intends to review the associated reporting guidance in collaboration with HESA, to advise and where necessary request changes so that the definition and coverage of CPD/CE income remains as clear and consistent as possible when used within a funding formula.

How do the income levels compare between the two metrics?

Our analysis shows that the majority of providers report either similar levels of income under CPD/CE and NCB, or higher levels of income under CPD/CE. For 22% of providers, a higher level of NCB income is currently reported and therefore has potential to negatively influence their HEIF allocation. These providers are found across a range of knowledge exchange clusters.

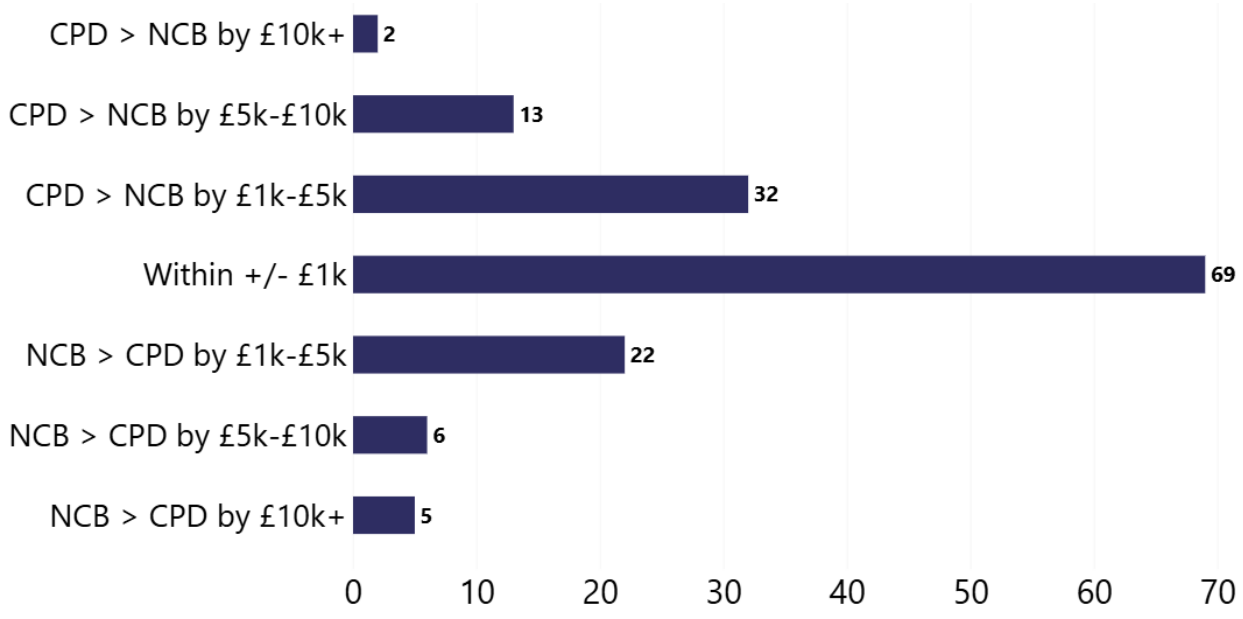
For the relatively low number of providers with a high reliance on this metric, the proposed change is expected to be a significant factor in determining a change in HEIF allocations. Research England's analysis suggests that arts specialist providers are

likely to be more affected than other clusters because this metric can represent a larger proportion of their qualifying income. This analysis is feeding into Research England considerations around transitional arrangements for when any changes are implemented.

For the reasons set out in this document, we consider that CPD/CE income provides a more appropriate measure for the Skills and Enterprise dimension. However, through this consultation we are also keen to understand whether replacing NCB income with CPD/CE income could result in particular types of valuable knowledge exchange activity being under-represented or no longer captured within the formula. This information will be valuable in feeding into longer term plans to improve the HE-BCI guidance for the collection of CPD/CE income.

Figure 1 compares three-year average CPD/CE income with three-year average NCB income for HEIF-eligible providers. 69 providers have a difference of less than £1,000 between the two measures. 32 providers report CPD/CE income that is between £1,000 and £5,000 higher than NCB income, 13 report CPD/CE income that is between £5,000 and £10,000 higher, and 2 report CPD/CE income that is more than £10,000 higher. Conversely, 22 providers report NCB income that is between £1,000 and £5,000 higher than CPD/CE income, 6 report NCB income that is between £5,000 and £10,000 higher, and 5 report NCB income that is more than £10,000 higher.

Figure 1: Comparison of CPD/CE income against NCB income



Data sources – how to compare income levels for specific providers

The NCB and CPD/CE data is published by HESA as open datasets. Use the links below to compare income levels between the two datasets for any English higher education provider.

Non-credit bearing (NCB) income

- NCB income is collected by the Office for Students through the Annual Finance Record and published by HESA as an open dataset in What is the income of HE providers The relevant data is reported in Table 6 (Tuition fees), under the column heading 'Non-credit bearing course fees'.

Continuing Professional Development / Continuing Education (CPD/CE) income

- CPD/CE income is collected by HESA through the Higher Education Business and Community Interaction (HE-BCI) survey and published as an open dataset in Business and community services. The relevant data is reported in Table 2 (Continuing Professional Development (CPD) and Continuing Education (CE) courses for business and the community by HE provider), under the column heading 'Total revenue'.

Benefits

Stronger alignment with knowledge exchange objectives

CPD/CE income is more closely aligned with the types of activity that HEIF is intended to support. This is through a direct link to knowledge exchange activities, through workforce development, professional learning and engagement with employers and external organisations.

Better representation of skills and workforce development

The proposed metric more clearly reflects universities' contributions to skills development and economic growth through professional training, lifelong learning and the enhancement of workforce capability.

Improved consistency between policy objectives and funding incentives

The Skills and Entrepreneurship dimension is intended to incentivise activities that support skills development and the application of knowledge within the workforce. CPD/CE income provides a closer fit to these objectives than the current non-credit bearing measure, improving the alignment between what HEIF seeks to achieve and what the formula rewards.

Trade-offs

CPD/CE income is not a perfect measure of skills-related activity

Universities contribute to workforce development and skills enhancement through a wide range of activities, many of which are not fully captured through CPD/CE income. As with all HEIF metrics, the proposed measure represents only one aspect of a broader and more complex area of activity.

Continued reliance on reporting guidance

The effectiveness of the proposed metric depends on consistent interpretation and application of HE-BCI reporting guidance across institutions. Some stakeholders highlighted the potential for variation in how CPD/CE activity is classified and reported. Research England considers these concerns manageable but recognises the importance of maintaining clear guidance and supporting consistent reporting practices.

Other potentially relevant measures are not yet sufficiently robust

The review identified a number of other indicators that may, in future, provide useful measures of skills-related knowledge exchange activity. However, these measures currently lack the consistency, completeness or robustness required for recurrent formula funding. The proposal therefore reflects a judgement that CPD/CE income is the best available metric at present, rather than a conclusion that it fully captures all aspects of universities' contributions to skills development, but also entrepreneurship.

Uneven impact across the sector

The difference in activity measured by CPD/CE income in comparison to that captured by NCB income might be particularly acute for institutions who have a high reliance on this income as a proportion of their overall qualifying income, and therefore have a destabilising effect on the HEIF allocations of some institutions.

Part C: Stability and predictability

Embedding stability within the formula

What is the current position?

The current HEIF formula seeks to balance two important principles:

- stability, which enables institutions to make long-term investments in knowledge exchange capability and activity, including staff posts
- dynamism, which ensures that funding responds to changes in institutional performance over time

At present, the formula delivers this balance through three key mechanisms:

- knowledge exchange performance is measured using the most recent three years of data
- those years are weighted 2:3:5, giving greater emphasis to more recent performance
- annual modifiers limit the extent to which allocations can increase or decrease from one year to the next, typically to around 10 per cent

Together, these mechanisms are intended to ensure that HEIF allocations remain responsive to changes in performance while avoiding excessive year-on-year volatility.

Limitations of the current approach

Engagement throughout the review evidenced the importance of stability as a core feature of HEIF to ensure effective use of public money. Institutions consistently described stable funding as important for supporting staff, developing long-term partnerships, building institutional capability and making strategic investments in knowledge exchange activity.

However, the current approach has a number of limitations.

The annual modifier provides stability by limiting changes in allocations from year to year, but over time repeated application of modifiers can cause allocations to materially differ from the amount that would otherwise be generated by institutional performance. Research England's modelling shows that a substantial proportion of providers' allocations are now constrained by either the upward or downward modifier, due to repeated application of the modifiers.

The current approach also adds complexity to the operation of the formula. Modifiers introduce additional redistribution processes and can create challenges in

transparently explaining how final allocations relate to underlying knowledge exchange performance. This increased complexity can also reduce the resilience of the formula. There is an increased risk of the formula not being able to resolve an allocation distribution with the available funding, whilst satisfying the of constraints in the formula's design.

Finally, while modifiers provide stability, engagement suggested they may provide less predictability in practice than is sometimes assumed. During engagement workshops, some institutions questioned how much practical predictability modifiers provide when overall HEIF budgets and annual allocations continue to be confirmed on a year-by-year basis. Additionally, stakeholder feedback suggested that the benefit they value is stability itself, rather than the continued use of specifically the modifiers to achieve it.

Research England therefore concluded that there may be a more effective way of embedding stability directly into the design of the formula, rather than relying on an additional modifying mechanism operating after allocations have been calculated.

Proposed approach

Research England proposes three linked changes that are intended to operate together:

Increase the number of data years from three to four

We propose increasing the number of years of performance data used within the formula from three years to four years. This would provide a longer-term measurement of institutional performance and reduce the influence of short-term fluctuations in knowledge exchange income.

Remove differential weighting between years

We propose removing the current 2:3:5 weighting structure of the years of data that performance is measured across, and moving to an equal weighting across all four years of data.

The review found limited evidence that differential weighting materially influences institutional behaviour or successfully incentivises recent growth. By contrast, differential weighting introduces additional volatility into allocations and increases the complexity of the formula.

Remove the annual modifier

We propose removing the annual modifier from the annual operation of the formula.

This proposal is linked directly to the proposals to increase the data years and remove the differential weighting of these. Taken together, these changes embed stability

within the calculation of qualifying income itself, reducing the need for a separate mechanism that artificially constrains annual changes in allocations.

Research England's modelling indicates that using four years of equally weighted data can deliver a broadly similar level of stability to the current approach, without requiring the ongoing use of annual modifiers. This increases alignment with approaches taken in other Research England formula funding to achieve relative stability in allocation.

The intention is not to reduce stability within HEIF, but to achieve it through a simpler approach that is more closely aligned to underlying institutional performance. An intentional consequence of removing annual modifiers is that in that year of implementation, allocations would realign with the 'true' funding generated by institutions' performance data. Under the current approach, repeated application of modifiers can cause allocations to diverge from the amounts that would otherwise be produced by the formula. Removing the modifier would reduce this effect, ensuring that allocations more closely reflect institutional performance while maintaining stability through the design of the formula itself.

Research England recognises that this realignment may result in some institutions experiencing larger changes in allocation than would be possible under the current system. This may be more acute for some institutions during the implementation of these changes when the cumulative effects of historic modifiers are removed, and wider changes to the formula are made. However, Research England has conducted retrospective modelling to understand how previous years of allocation would have varied without the use of modifiers. This modelling suggests that the proposed approach would continue to deliver a high level of stability for most providers on a year-to-year basis while ensuring that allocations respond more directly to performance. It would also allow a limited number of institutions to experience larger increases or decreases in line with changes to their reported knowledge exchange activity.

Benefits

Embedding stability within the formula itself

Research England's view is that stability is most effective when it is embedded within the underlying formula rather than applied through a separate modifying mechanism after allocations have been calculated. The proposed changes therefore seek to replace externally applied stability with stability that arises naturally from the design of the formula itself. This creates a more transparent relationship between institutional performance and funding allocations.

Better reflects the long-term nature of knowledge exchange

Many forms of knowledge exchange activity develop over extended periods and may take several years to generate measurable outcomes. A four-year period of performance measurement more closely reflects the timescales over which many strategic knowledge exchange investments are expected to generate outcomes. This includes activities such as partnership development, commercialisation capability, entrepreneurship support and broader institutional culture change, where benefits often emerge over a number of years rather than within a single reporting period.

Reduces the impact of short-term fluctuations

Knowledge exchange income can be inherently volatile, particularly in areas such as commercialisation activity. Using a longer period of performance data, and removing weightings for recent data, reduces the effect of unusually high or low outcomes in individual years and provides a more representative view of sustained performance.

Simplifies the operation of the formula

The proposed approach removes a layer of complexity from the HEIF allocation process and reduces the need for ongoing redistribution mechanisms associated with annual modifiers. This creates a simpler and more transparent funding model and may facilitate improved predictability for providers by making allocations by making allocations more directly linked to underlying performance and long-term sector trends.

Improves alignment between allocations and performance

Removing the modifier reduces the extent to which allocations become detached from underlying performance over time. This means that providers' HEIF allocations will be realigned with their underlying performance data, rather than influenced by constraining factors i.e. cumulative impact of the annual modifiers. This creates a clearer link between the activity being incentivised and the funding received by institutions, while reducing reliance on redistribution mechanism and periodic formula resets. The result is a more transparent, durable and operationally robust approach to allocating funding.

Improves the long-term robustness of the formula

Removing the annual modifier simplifies the operation of the formula and reduces reliance on redistribution processes that can become increasingly complex over time. It also reduces the risk of allocations progressively diverging from underlying performance and avoids the need for periodic formula resets to address the cumulative effects of repeated modifier application. The proposed approach therefore creates a more durable and operationally resilient basis for future HEIF allocations.

Trade-offs

Reduced responsiveness to recent changes in performance

Using four years of equally weighted data means that changes in institutional performance are reflected more gradually in allocations. While this increases stability, it also reduces the influence of particularly strong or weak performance in the most recent year.

Removal of a familiar mechanism

The annual modifier has been part of the HEIF formula for many years and is widely understood across the sector. Some stakeholders may therefore view its removal as increasing uncertainty, even where alternative mechanisms provide similar levels of stability.

Feedback gathered during the review demonstrated that many institutions value both the stability, and an extent of predictability to model future allocations, as provided by modifiers. While stakeholders generally supported exploring alternative approaches to delivering stability, there was less consensus regarding whether the existing modifier should be removed entirely. Research England recognises that some institutions may prefer the continued use of a visible modifying mechanism, even where modelling suggests similar levels of stability can be achieved through formula design. We are therefore interested in understanding how their removal may affect budget planning and effective use of HEIF in practice, including to support and retain staff posts.

Balancing stability and dynamism

This proposal represents a different balance between the principles of stability and dynamism within the HEIF formula. Research England's judgement is that the combination of four years of equally weighted data provides a more appropriate balance between reflecting long-term performance and maintaining incentives for improvement. However, alternative balances are possible, and this consultation seeks views on whether the proposed approach strikes the right balance between these competing objectives.

Part D: Minimum performance requirements for HEIF allocation

Threshold review

What is the current position?

Research England has a long-standing policy objective that HEIF should be invested in institutions that have demonstrated high performance in knowledge exchange, through established and effective capability. This principle is reflected in both HEIF policy and wider government expectations that formula funding should be directed towards higher-performing providers, to maximise the value for money return from investment in quality activity.

Currently, institutions must first satisfy Research England's knowledge exchange funding eligibility criteria. These eligibility criteria are intended to demonstrate a minimum level of knowledge exchange activity and determine whether a provider is eligible to be considered for knowledge exchange funding. They are deliberately set at a relatively low level and are intended to establish that a provider undertakes any knowledge exchange activity, rather than assess whether it should receive recurrent formula funding.

To receive a HEIF allocation specifically, a minimum performance threshold is applied through the formula itself. The current HEIF threshold is implemented as a minimum allocation threshold of £250,000. Eligible providers that do not achieve a calculated allocation of at least £250,000 receive no HEIF allocation.

In advance of the current review, Research England also introduced temporary arrangements to manage the risks associated with new entrants to the formula, including a £500,000 cap on allocations and additional accountability reporting. These measures were designed as interim controls pending consideration of a longer-term approach through the HEIF review.

Limitations of the current approach

The review identified a number of limitations in the current threshold approach.

The current £250,000 threshold is applied at the allocation stage rather than directly to measures of knowledge exchange performance. As a result, the amount of qualifying income required to achieve an allocation varies from year to year depending on factors such as the overall HEIF budget and the performance of other providers. This can make it difficult for institutions to understand precisely what level of knowledge exchange activity is required to enter the formula, and warrants public investment.

This approach can also be difficult to explain from a policy perspective. The current threshold effectively defines a minimum funding amount, rather than a minimum level of performance that optimises value for money from our investment. Consequently, the relationship between institutional activity and access to funding is not always transparent.

The review additionally identified technical risks associated with the current design. Under certain combinations of budget levels, provider performance and threshold settings, the allocation algorithm can become increasingly difficult to operate and may struggle to identify a stable solution that distributes the available funding effectively. This technical risk is driven predominantly by an allocation-based minimum threshold.

Finally, the review concluded that the current arrangements provide limited assurance that providers enter the formula based on demonstrable strategic and intentional knowledge exchange capability. A provider may meet the current threshold because of success in a relatively narrow area of activity, driven by solely commercial incentives or ad hoc projects with partners in isolation across an institution. This risks recognising 'unintentional' activity that happens to meet knowledge exchange definitions, rather than a coherent and intentional knowledge exchange strategy that attempts to maximise impact from their knowledge base. Measurement of knowledge exchange capability across multiple areas (even if at a very low level) would mitigate against this.

Proposed approach

Research England proposes retaining a minimum performance threshold within HEIF, but changing how it is implemented.

The proposed approach introduces two complementary requirements.

A new breadth test

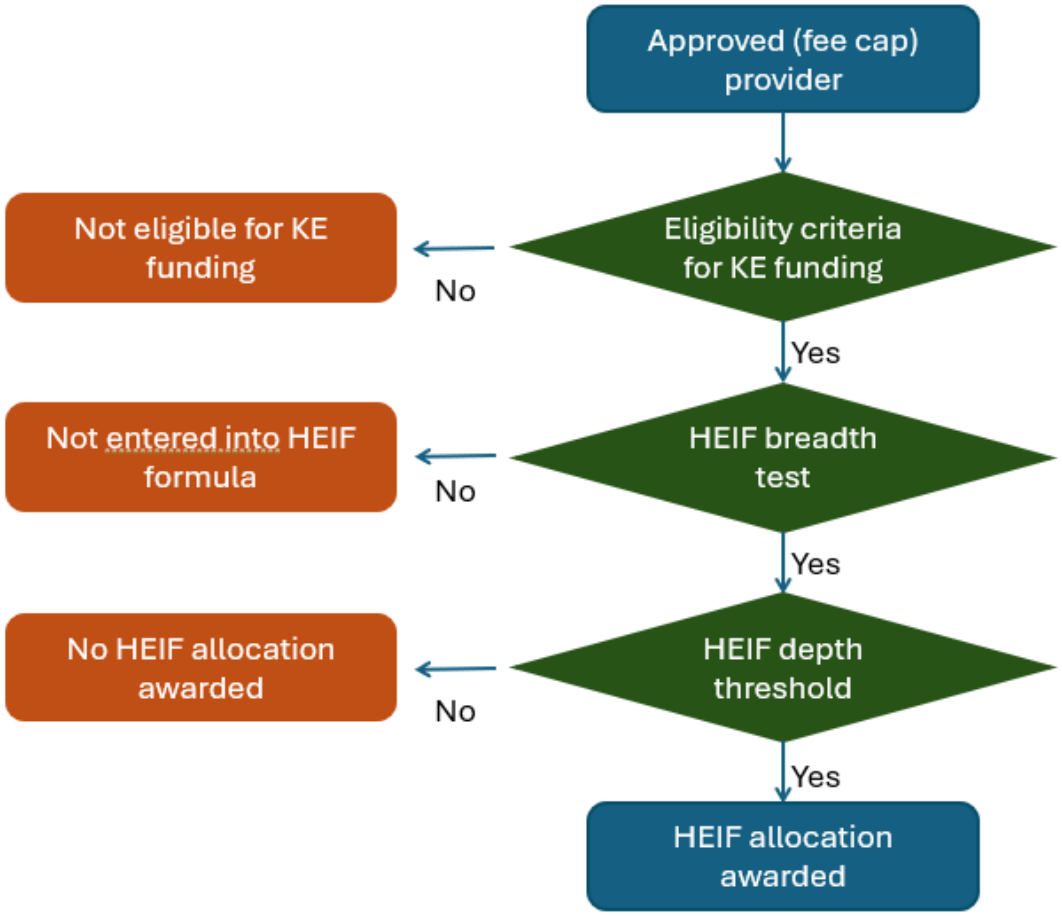
A breadth test that provides assurance of established and strategically intentional knowledge exchange activity across multiple areas; and

An evolved depth threshold

A depth threshold that provides assurance that activity is being delivered at sufficient scale and quality to justify recurrent HEIF investment. This element is similar to the existing HEIF threshold; however, we are proposing that we **move to a calculation based on qualifying income performance**, relative to sector performance, instead of the current requirement to achieve a minimum allocation level.

Together, these requirements would create a clearer and more transparent route into the HEIF formula, that more closely ensures the Research England and government policy to only invest in the most effective performers.

Figure 2: Proposed process to achieving a HEIF allocation.



Step 1: Knowledge exchange funding eligibility

Research England is not proposing to change the operation of the existing knowledge exchange funding eligibility criteria. A provider must have a base level of knowledge exchange activity, demonstrated by exceeding the minimum activity level (1% of the sector mean income) in any one HEIF qualifying income stream in any two of the most recent three years of available data.

These criteria are intended to demonstrate a minimum level of knowledge exchange activity and remain separate from the HEIF formula itself. However, if Research England proceeds with the proposed replacement of non-credit bearing income with CPD/CE income, the corresponding eligibility criteria would be adjusted to maintain consistency with the revised HEIF metric set.

Step 2: Formula entry through a breadth test

Research England proposes introducing a new breadth test for entry into the HEIF formula.

The purpose of the breadth test is to provide assurance that a provider demonstrates established and intentional knowledge exchange activity, through (relatively low levels of) activity across multiple forms of knowledge exchange activity, rather than relying on performance in a single area.

Under the proposed approach, providers would be required to meet or exceed, for example, **2% of the sector mean qualifying income value (or £2,000 where higher)** across at least **three qualifying income elements**, in at least **two of the most recent three years** (see Annex B for illustrative calculations using historical income values). This framework mirrors that utilised in the knowledge exchange funding eligibility mechanism.

The breadth test is intentionally designed as a lower hurdle than the depth threshold because it focuses on breadth rather than scale. Research England consider that some breadth of activity is required to demonstrate a strategic portfolio of knowledge exchange to meet the needs of partners and places, whilst still enabling institutions to focus on their most effective modalities to maximise their strengths. Additionally, the need to only exceed the breadth requirement in two out of three years is to mitigate the risk of providers being adversely impacted by a single weaker year that is not reflective of their performance trajectory.

Step 3: HEIF allocation through a depth threshold

Research England also proposes replacing the current allocation-based threshold with a threshold based directly on qualifying income performance.

Rather than requiring institutions to achieve a minimum allocation value, providers would need to **exceed a minimum qualifying income level relative to sector performance**. Research England's preferred approach is to set this threshold as a percentage of the sector mean qualifying income.

The threshold would apply to total qualifying income across all dimensions rather than being applied separately within individual dimensions. This reflects the principle of institutional flexibility and avoids creating minimum performance requirements for specific forms of knowledge exchange.

Although the precise threshold value is outside the scope of this consultation and will be determined through further analysis and policy decisions, we would for example calculate the depth threshold as 8% of the sector mean qualifying income across the years of data utilised in the given HEIF allocation round.

Removal of temporary new entrant arrangements

Research England's view is that the combination of:

- existing eligibility criteria;
- the proposed breadth test;
- the revised depth threshold; and
- the move from non-credit bearing income to CPD/CE income,

provides a stronger and more proportionate framework for ensuring value for money from investment in quality strategic knowledge exchange capability, than the temporary controls introduced prior to the review. Research England therefore proposes that the temporary new entrant cap should no longer be required.

Benefits

Clearer and more transparent requirements

Applying the formula entry and allocation requirements directly to qualifying income creates a clearer relationship between institutional performance and access to funding. Institutions can more easily understand the level of activity required to enter the formula and how their performance relates to the depth threshold.

Stronger alignment with performance-based funding

The proposed approach measures performance directly rather than using a funding outcome as a proxy for performance. This creates a more conceptually coherent threshold and strengthens alignment with Research England's performance-based funding principles.

Stronger assurance of intentional knowledge exchange performance

The introduction of a breadth test provides greater assurance that providers entering the formula have strategic and intentional knowledge exchange activity, as indicated by activity across multiple areas rather than success arising from a single activity or income stream.

A more future-proof approach

Using thresholds that are defined relative to sector performance allows them to adapt naturally as the sector evolves. This reduces reliance on fixed values that may become less appropriate over time and improves the long-term robustness of the formula.

Removal of temporary controls

The proposed approach enables temporary risk mitigation measures for new entrants to be replaced with a more transparent and permanent framework that applies consistently across all providers.

Trade-offs

Potential cliff-edge effects

As with any threshold-based funding model, there remains a risk that relatively small differences in performance could determine whether a provider receives a HEIF allocation. Stakeholders raised concerns that this could have significant consequences for institutions operating close to the threshold.

Instability from funding entry and exit

More explicitly performance-based requirements may result in some institutions entering or leaving the funded cohort over time. Whilst this is consistent with HEIF's performance-driven principles, some stakeholders highlighted concerns about the potential destabilising impact on institutional capability and local knowledge exchange ecosystems.

Increased complexity compared with a single threshold

The introduction of separate breadth and depth requirements adds an additional step to the operation of the formula. While Research England considers this provides important additional assurance regarding institutional capability, it is more complex than relying on a single threshold alone.

Balancing performance and breadth

The proposed approach seeks to balance Research England's funding principles of investing in highly effective knowledge exchange performers whilst securing a diversity of impacts across places and partners, through a diverse cohort of funded institutions. Different threshold levels would result in different balances between these objectives, and consultation responses will help inform Research England's assessment of whether the proposed approach strikes the right balance.

Part E: Concentration of funding

Maximum allocation cap and removal of the top-up pot

What is the current position?

HEIF is a performance-based funding programme. In principle, stronger knowledge exchange performance results in a larger allocation, and therefore increases value for money of the programme through evidenced higher returns on investment. However, Research England also seeks to ensure that HEIF funding is distributed across a diverse range of institutions that collectively contribute to economic growth through different missions, disciplines, places, communities, partners, markets, supply chains, and forms of knowledge exchange activity. This is particularly imperative to drive growth in every postcode of the nation.

To balance these objectives, the current formula uses two related mechanisms:

- a maximum allocation cap, which limits the amount of HEIF funding that any one institution can receive
- a top-up allocation, through which additional funding is distributed amongst high performing institutions whose allocations are constrained by the cap

The cap helps prevent an excessive concentration of funding amongst a low number of providers, while the top-up allocation provides additional investment and increased incentivisation through competition between the highest-performing institutions, whose allocations would otherwise be limited by the cap. Together, these mechanisms are intended to balance the principles of performance-based funding and breadth of investment across the sector.

Limitations of the current approach

The review concluded that the policy rationale for limiting the concentration of HEIF funding remains strong. However, the current combination of a cap and a separate top-up allocation introduces additional complexity into the formula and are contradictory mechanisms.

In particular, the top-up allocation creates a second mechanism for distributing funding amongst a relatively small group of institutions after the main formula has already been calculated. This means that HEIF currently operates in multiple modes simultaneously: some funding is distributed according to knowledge exchange outcomes and performance, while some funding is distributed through a separate mechanism that applies only to capped institutions.

As the review of the overall HEIF architecture has highlighted, maintaining multiple supplementary funding mechanisms severely hinders the responsiveness of HEIF to

policy change, reduces transparency, and can make the relationship between institutional performance and funding allocations more difficult to understand.

Proposed approach

Research England proposes to retain a maximum allocation cap within the revised HEIF formula but remove the separate top-up allocation.

Under the proposed architecture, all HEIF funding would be distributed through a single integrated formula. Removal of the top-up pot is required in order for the four dimensions to function effectively. The role currently performed by the top-up allocation would instead be reflected through the overall design of the formula, including the level at which the cap is set.

Research England proposes that the cap should continue to operate at the level of a provider's total HEIF allocation, rather than separately within individual dimensions. This reflects the view that the purpose of the cap is to manage the overall concentration of funding across the programme, rather than to constrain performance within particular knowledge exchange outcome areas. It enables institutions to be rewarded for strong performance and specialisation in particular knowledge exchange outcomes, while ensuring that no single institution receives a disproportionate share of a finite funding budget.

Similar to the threshold, the maximum cap can either be applied through having a maximum qualifying income level that is inputted to the formula, or a maximum allocation as an output of the formula. The review has concluded that a maximum allocation cap better reflects the intended policy judgement about the maximum share of the available HEIF budget that should be allocated to any one institution. This contrasts with a maximum income level that warrants investment which is not the policy intent.

The proposed approach therefore has four decision points:

- retain a maximum allocation cap
- remove the separate top-up allocation
- readjust the cap value relative to the current system
- operate the cap through a single integrated funding formula (rather than within dimension budgets).

The focus of this consultation is the principle of retaining a cap while removing the separate top-up allocation.

The precise level of the cap, and the detailed modelling used to determine that level, are not being consulted upon. These parameters are ultimately policy decisions for

Research England and will be set in light of overall funding objectives, the desired distribution of funding across the sector, and the available HEIF budget. However, this document explains the rationale informing those decisions so that respondents can understand how the proposed architecture is intended to operate.

Benefits

A simpler and more transparent funding model

Removing the top-up allocation means that a greater proportion of HEIF funding is distributed through a single, integrated formula rather than through multiple supplementary mechanisms. This creates a clearer relationship between institutional performance and funding allocations.

Ensures effective delivery of the new outcomes-based architecture

The proposed four-dimension architecture is designed to direct investment through knowledge exchange outcomes. Removing the top-up allocation allows this new architecture to function effectively, and increase agility to direct funding solely based on performance in different knowledge exchange dimensions.

More transparent measurement of underlying performance

The removal of the top-up allocation reduces the extent to which performance is recognised through multiple overlapping mechanisms. Instead, institutional performance is reflected more directly through participation in the integrated formula and the four outcome dimensions.

Maintains breadth of investment across places, partners, and communities

Retaining a cap ensures that HEIF continues to balance investment in the highest-performing institutions with maintaining a diverse and healthy knowledge exchange ecosystem. This supports investment across a range of different institutional missions, specialisms, places and partners, towards growth in every postcode.

Trade-offs

Different patterns of funding distribution

Removing the top-up allocation will change how funding is distributed amongst institutions that currently receive top-up funding. From Research England's modelling, it is anticipated that of those currently in receipt of a top-up allocation, some will see a net increase in their allocation and others a decrease, in a more direct reflection of their qualifying income and knowledge exchange performance. While the objective is to

create a simpler and more coherent formula, the distribution of funding will not be identical to the current approach.

Balancing performance and breadth remains a policy judgement

The level at which the cap is set has a significant influence on the concentration of funding across the sector. A lower cap distributes funding more broadly but places greater constraints on high-performing institutions. A higher cap enables greater reward for performance but increases concentration amongst a smaller number of providers.

Concerns regarding concentration of funding

During sector engagement, some stakeholders cautioned that significant changes to cap arrangements could increase the concentration of funding amongst larger, multi-faculty institutions and reduce investment in specialist providers. Research England considers that retaining a cap remains important in mitigating this risk, while recognising that different cap levels represent different balances between breadth and concentration.

Balancing specialisation and diversity

The proposed architecture is designed to reward performance within particular knowledge exchange outcomes and does not assume that every institution should perform strongly across all dimensions. However, decisions about the cap inevitably influence how funding is distributed between specialist institutions and those with broader portfolios of activity. The proposed approach seeks to support institutional specialisation while maintaining diversity across the overall knowledge exchange system.

Part F: Elements not being consulted on

As part of the HEIF review, Research England considered a wider range of potential changes than those presented in the consultation questions. In some areas, the review concluded that the current approach remains appropriate and no substantive change is proposed. In others, decisions relate to implementation arrangements or parameter-setting that are ultimately matters for Research England rather than consultation.

This section summarises the principal areas that have been reviewed but are not being consulted on. It is included to provide transparency regarding the broader scope of the review and the considerations that have informed Research England's proposed approach.

Performance metrics reviewed and retained

As part of the review, Research England considered a wider range of changes to the metrics used within the HEIF formula. This included reviewing existing metrics, considering alternative measures, and examining suggestions raised through sector engagement and discussions with the Knowledge Exchange Funding Technical Expert Group.

In most cases, the review concluded that the current approach remains the most appropriate option. While no metric perfectly captures the full breadth of knowledge exchange activity, the existing measures were generally considered to provide the best balance of robustness, transparency, comparability and practical delivery for use within a national funding formula. The sections below summarise the key areas reviewed and the reasons why Research England is not proposing further changes at this time.

Why income-based metrics remain central to the formula

Throughout the review, Research England considered whether a broader range of activity-based indicators could be incorporated into the HEIF formula. This included measures from the HE-BCI survey relating to participation, engagement, commercialisation activity and other forms of knowledge exchange activity.

Many of these measures provide valuable insight into institutional activity and performance, and may play an important role in future metrics development. However, the review concluded that, at present, income-based measures continue to provide the strongest basis for recurrent formula funding.

Compared with many alternative indicators, income-based metrics are generally more consistent, auditable and comparable across institutions. They also provide a broadly applicable proxy for the value that partners place on knowledge exchange activities and services. While income is not a perfect measure of knowledge exchange quality or

impact, no alternative set of metrics was identified that would provide a more robust, transparent and proportionate basis for allocating funding at a national scale.

Research England recognises that income-based measures can under-represent some forms of knowledge exchange activity, particularly where value is delivered through social, cultural, civic or community outcomes rather than direct income generation. Addressing these limitations remains an important priority within Research England's national knowledge exchange metrics programme. However, the review concluded that there is not yet sufficient evidence to justify moving away from income as the primary basis for formula allocation.

For this reason, while a wide range of potential metric changes were considered during the review, Research England is proposing only limited changes to the current metric set. The sections below set out some of the principal areas reviewed during the process and explain why Research England has concluded that the current approach should be retained.

Partnerships dimension

Retaining the existing income-based metrics

Research England proposes to continue using consultancy income, contract research income, facilities and equipment income, and Knowledge Transfer Partnerships (KTP) income within the Partnerships dimension. These metrics remain the most robust and consistently reported indicators of partnership-based knowledge exchange activity currently available.

During sector engagement, stakeholders recognised the limitations inherent in using income as a proxy for knowledge exchange outcomes. However, there was broad agreement that income-based measures remain practical, auditable and comparatively robust measures for use within a national funding formula. Neither the review nor stakeholder engagement identified alternative measures that currently provide a sufficiently consistent and proportionate basis for recurrent funding allocation.

The review also considered whether activity-based measures, such as participation counts and other engagement indicators collected through HE-BCI, could supplement or replace existing income-based measures. However, the review concluded that these measures do not yet provide the consistency, comparability and auditability required for recurrent formula funding, and are weaker measures of quality and performance.

Retaining additional weighting for SME engagement

Research England proposes to continue applying additional weighting to income generated through engagement with small and medium-sized enterprises (SMEs).

Feedback from sector workshops highlighted that SME engagement often involves smaller-value projects, higher transaction costs and greater relationship-building effort than engagement with larger organisations. Despite some concerns regarding reporting complexity, there was little support for removing the weighting itself. Research England therefore considers that the rationale for providing additional recognition to SME engagement remains strong.

Retaining KTP income but not broader Innovate UK funding

Research England reviewed whether the Partnerships dimension should be expanded to include wider Innovate UK programme funding. We are not proposing this change.

Knowledge Transfer Partnerships represent a specific form of knowledge exchange through which universities, businesses and graduates collaborate to transfer knowledge and capability between organisations. KTP income therefore provides a direct measure of knowledge exchange activity and partnership formation.

Wider Innovate UK programmes make important contributions to innovation and growth but serve a broader range of policy objectives and do not always directly reflect institutional knowledge exchange performance. The review therefore concluded that there is insufficient justification to extend the metric set beyond KTP activity.

Continuing to exclude collaborative research income

Research England also reviewed whether collaborative research income should be incorporated into the HEIF formula. We are not proposing this change.

Collaborative research can generate substantial economic and societal benefits and often involves valuable interaction between universities and external partners. However, it is already supported through other public funding mechanisms and can be difficult to distinguish consistently from research activity more broadly. Therefore, using collaborative research income to allocate HEIF would result in the 'double counting' of such activity through the award of public funding. The review concluded that including collaborative research income would increase complexity without a sufficiently strong policy or technical rationale.

Commercialisation dimension

The review considered whether changes were required to the metrics used to represent commercialisation activity, including both the treatment of intellectual property income and the potential introduction of activity-based indicators.

Continuing to exclude share-sale income from IP returns

Research England proposes to continue excluding income generated through the sale of shares in spin-out companies from the commercialisation dimension.

The review found that share-sale income is often highly variable and can be heavily influenced by external factors such as market conditions, investor behaviour and the timing of exit events. In many cases, a significant period may elapse between a university's support for a spin-out and the eventual sale of shares, making attribution to current institutional performance challenging.

Stakeholder discussions suggested stronger support for incentivising commercialisation capability, entrepreneurial culture, pipeline development and innovation support activities than for rewarding occasional financial exit events. Research England therefore considers that share-sale income is not an appropriate measure for determining recurrent formula funding allocations.

Not introducing activity-based commercialisation measures

The review also considered a range of non-income measures, including spin-out numbers, patent applications, licences and other indicators of commercialisation activity.

While these measures provide valuable insight into institutional commercialisation capability, there remain challenges around comparability, consistency and interpretation across the sector. These also are predominantly measures of quantity rather than quality, and therefore their use as metrics risks incentivising low-value activities and perverse behaviours. At present, Research England does not consider these indicators sufficiently robust for use within a national funding formula. However, they may continue to inform future policy development and work through the national knowledge exchange metrics programme.

Consideration of performance measurement approaches in the Knowledge Exchange Framework

Normalisation

Research England considered whether additional normalisation approaches should be introduced into the HEIF formula. Normalisation approaches are commonly used in

benchmarking exercises to facilitate comparison between institutions of different types or scales. Such approaches can provide valuable contextualised analytical insights and are used in other tools, such as the Knowledge Exchange Framework.

Research England is **not proposing to introduce additional normalisation approaches** into the HEIF formula.

The review concluded that, while normalisation can support comparative analysis, there is currently insufficient evidence that the additional complexity would provide sufficient benefit within a national formula funding model. The review did not identify a clear policy rationale that would justify moving away from a transparent formula based on absolute knowledge exchange performance.

Introducing normalisation would increase complexity and reduce transparency, while potentially making the relationship between institutional performance and funding allocations more difficult to understand. Scale of activity is already considered through the measurement of scale of quality activity (i.e. scale of qualifying income). Research England therefore considers that the current approach remains the most appropriate for HEIF.

Clustering

Research England considered whether institutional clusters, similar to those used within the Knowledge Exchange Framework, should be incorporated into the HEIF funding formula.

Institutional clustering is designed to support fair comparison between institutions with different missions, disciplinary profiles and scales of activity. It recognises that institutions operate in different contexts and can therefore be assessed relative to broadly similar peers.

Research England is **not proposing to introduce clustering into the HEIF formula**. The primary purpose of clustering within Knowledge Exchange Framework is to account for contextual factors in an institutional performance and as a benchmarking tool. By contrast, the purpose of HEIF is to allocate funding on the basis of knowledge exchange performance and therefore effectiveness in the delivery of desired outcomes.

The review concluded that HEIF should continue to reward absolute knowledge exchange performance rather than relative performance against a peer group, and maintain its emphasis on outcome delivery. In addition, the introduction of clustering in any capacity would add considerable complexity, and therefore knock-on effects on transparency and predictability of allocations for institutional planning.

Transitional funding arrangements

Research England recognises that implementation of the proposed formula changes may result in changes to institutional allocations.

The review has therefore included consideration of whether temporary transitional arrangements may be appropriate in 2027-28 only to support implementation and manage significant changes in allocations during this initial period. Any transitional arrangements would not be permanent features of the funding model. For this reason, they are not considered part of the core formula design being consulted on.

Research England will further consider potential transitional arrangements following consultation, alongside further modelling of the financial implications of the proposed changes as decisions are finalised. Although shifts in allocations as a result of formula changes can be expected to some degree and are an intentional outcome of this review of the HEIF formula, we are mindful to reduce significant disruption and destabilisation to the sector. We are therefore considering mitigating measures to safeguard from sudden substantial change or total loss of HEIF funding for the relatively small number providers affected, within the implementation year.

One option being considered is limiting the change in institutional allocations to 50% more or less than the previous year's allocation. This would be applied to all providers, including those who may not continue to achieve an allocation under the new formula. Such an arrangement would only apply for a single year.

Such use of a transitionary arrangement would not form part of the permanent HEIF formula. The long-term intention remains that stability should be embedded within the formula itself through the simplified use of additional data years and a flatter weighting structure, rather than an additional artificial limitation on performance measurement through the modifiers.

Responding to this consultation

We are specifically seeking formal responses from higher education providers that are eligible for HEIF funding. You will be able to indicate on the survey (see link below) whether you are submitting a formal response on behalf of your institution.

We also welcome responses from individuals and other stakeholders with an interest or expertise in knowledge exchange funding, for example (but not limited to) individuals affiliated with higher education providers, representative bodies, businesses and public sector organisations.

Responses will inform final decisions on the future HEIF formula and will be considered alongside further analysis and evidence gathering.

To respond to the consultation, please complete the online survey using the following link:

https://cloud.govforms.uk/services/researchengland/heif-consultation-2026

A copy of the consultation questions can be found in Annex C. Please contact the knowledge exchange team at kepolicy@re.ukri.org if you require a copy of the consultation questions in Microsoft Word format for internal collaboration.

Please note that consultation responses will normally be accepted only through the online survey. If you need to submit your response in an alternative format due to accessibility requirements, please contact the knowledge exchange team at the above email address to discuss appropriate arrangements.

The deadline for responses is 4pm on Friday 15 January 2027.

Next steps

Following the consultation, Research England will:

- review consultation responses
- undertake any additional analysis required
- refine proposals where appropriate
- publish final decisions and implementation arrangements in Spring 2027, including confirmation of the implementation year.

A summary of consultation responses and Research England's response will be published following the final decisions.

Annex A

Components of the current HEIF funding model

Qualifying income

HEIF allocations are distributed based on a provider's qualifying knowledge exchange income as a proxy measurement of performance. Qualifying income is derived from a range of knowledge exchange activities reported through national datasets, including consultancy, contract research, facilities and equipment services, Knowledge Transfer Partnerships (KTPs), intellectual property income, regeneration activity, and non-credit bearing education. Research England uses this income as a well-evidenced proxy measure of the value of a provider's knowledge exchange activity, and an easily measurable, auditable, and comparable metric across a diverse sector and diverse set of activities.

Three-year weighted performance data

To calculate qualifying income, the formula currently uses performance data from the most recent three years. The data are weighted so that more recent performance has greater influence on the funding calculation, using a weighting of 2:3:5 across the three years. This approach is intended to ensure that the formula remains responsive to changes in institutional performance while recognising activity delivered over a longer period.

Minimum threshold

HEIF includes a minimum allocation threshold. Currently, providers must achieve a HEIF allocation of at least £250,000 through the funding formula in order to receive funding. The threshold is intended to ensure that HEIF is directed towards providers with established knowledge exchange capability and sufficient performance to justify recurrent investment.

Maximum allocation cap

HEIF also applies a maximum allocation cap. This limits the amount of funding that any single provider can receive through the main formula. The cap helps balance the principle of rewarding strong performance with the aim of maintaining investment across a broad range of institutions and knowledge exchange activities, that ensures impact to range of places, partners, and communities.

Annual modifiers

After allocations have been calculated, annual modifiers are applied to limit the extent to which an institution's allocation can increase or decrease from one year to the next. In most years these modifiers have limited changes to around 10 per cent relative to

the previous year's allocation. The intention is to provide greater stability and enable institutions to plan and invest in longer-term knowledge exchange capacity and activity.

Top-up allocation

Alongside the main formula, HEIF currently includes a separate top-up allocation. This funding is distributed amongst providers whose allocations are constrained by the maximum cap. The top-up allocation was introduced to provide additional investment and introduce competition and incentivisation to the highest-performing institutions, while retaining a cap that distributes funding more broadly across the sector.

Business and Commercialisation supplement

HEIF also includes a separate Business and Commercialisation supplement. This additional funding stream was introduced in 2022-23 to increase investment for activities that contribute to university-business collaboration and commercialisation, in line with government priorities. These allocations are calculated using a subset of knowledge exchange income indicators that relate specifically to business and commercialisation activity, and expenditure is ringfenced to business and commercialisation activity.

Principles underpinning the HEIF formula review

The design of Research England formula funding is guided by a number of core principles:

Flexibility of expenditure

Aligned to principles of dual support system, institutions are best placed to make local decisions on how block grant UKRI investment is spent to achieve specified desired outcomes, maximising their strengths and based on their locally-informed understanding of the needs of their partners. This includes the preservation of local institutional decision-making within any ring-fencing of funding for specific purposes.

Accountability for public funds

Within the hypothecated framework we expect a proportionate level of reporting, assurance and transparency on use of funds through SIRF Transparency and HEIF accountability approaches.

Stability

An extent of predictability of formula funding enables institutions to make strategic and long-term plans for their Research and knowledge exchange activities and

capabilities, which ensures most effective (and value for money) investment and delivery of formula funding.

Dynamism

Variation in allocations rewards and incentivises improvement in institutional Research and knowledge exchange performance, through competition within a fixed pot, and therefore drives improvement in quality delivered across the sector.

Performance based and quality-driven

Drives value for money and rewards and incentivises performance improvement, and therefore high quality and effective activity, and overall drives value for money of our investment.

Extent of concentration

Investment in an appropriate diversity of institutions to deliver the range of missions, research types and research disciplines, and benefit across partners and places (preserving sector health) as specified in the aims.

Robust data for measurement

Using transparent methodology and robust data to measure activity and performance, to drive the allocation of formula funding.

Simplification

Where possible the direction of travel in our programme designs should be simplification - moving away from a complex multiplicity of funding streams, towards common datasets, approaches and more streamlined funding frameworks used in combination with other policy levers.

Annex B

Understanding the proposed breadth test for formula entry

The consultation proposes the introduction of a breadth test for entry into the HEIF formula (see Part D: Minimum performance requirements for HEIF allocation). The purpose of this requirement is to provide assurance that a provider demonstrates established and intentional knowledge exchange activity across multiple forms of engagement, rather than relying on performance in a single area.

Under the proposed approach, a provider would be required to exceed 2% of the sector mean qualifying income value (or £2,000 where higher) in at least three qualifying income elements, in at least two of the most recent three years.

Illustrative threshold values

Table 2 provides the historical income values corresponding to the proposed 2% sector mean requirement for each qualifying income element over the most recent three-year period. These figures are provided to help providers understand the scale of activity required under the proposed breadth test and to compare the thresholds against their own HE-BCI returns.

Research England calculations will be based on the data used in the allocation process and will reflect latest performance data and any sector changes, such as mergers and new entrants. Consequently, the values used in the breadth test for corresponding academic years may differ to a small degree from the illustrative historical values shown below.

Table 2: Illustrative 2% sector mean income values for previous academic years

HEIF qualifying income element	2022-23	2023-24	2024-25
Total contract research income	£146,000	£164,000	£164,000
Total consultancy income	£46,000	£48,000	£46,000
Total facilities and equipment related services income	£26,000	£28,000	£24,000
Total regeneration and development income	£24,000	£16,000	£14,000

Total IP income (excluding sales of shares in spin-offs)	£24,000	£24,000	£26,000
Non-credit bearing (NCB) course fees	The consultation proposes replacing non-credit bearing income with HE-BCI CPD/CE income for the HEIF formula. If implemented, CPD/CE income would also be used for this formula entry step.		
Knowledge transfer partnerships income (£2,000 minimum value)	£2,000	£2,000	£2,000

How providers can assess their own position

Providers wishing to understand how the proposed breadth test might apply to them can compare the illustrative minimum values in Table 3 with their own HE-BCI returns for the relevant years as published:

- Table 3 identifies where each qualifying income element can be found within the HE-BCI return as published by HESA.
- Alternatively, the Research England formula based funding 2026 to 2027: supporting information provides these data points for all HEIF eligible providers within the downloadable ODS named 'Income Data HEIF Allocations 2026 to 2027'.

Table 3: Location of qualifying income elements within the HE-BCI return

HEIF qualifying income element	HE-BCI return location	HE-BCI data heading
Total contract research income	Contract research by HE provider	Table 2c Total Value (£000s)
Total consultancy income	Business and community services by HE provider	Table 2a Service: Consultancy Total Value (£000s)
Total facilities and equipment related services income	Business and community services by HE provider	Table 2a Service: Facilities and equipment related Total Value (£000s)

Total regeneration and development income	Income from regeneration and development programmes by HE provider	Table 3 Total programmes (£000s)

Annex C

Consultation survey questions

The following pages provide a copy of the questions included in the online consultation survey for reference only.

For instructions and other important information on responding to the consultation, please see the section Responding to this consultation.

If you require a copy of the consultation questions in Microsoft Word format for internal collaboration, please contact the knowledge exchange team at kepolicy@re.ukri.org.

Please note that consultation responses will normally be accepted only through the online survey. If you need to submit your response in an alternative format due to accessibility requirements, please contact the knowledge exchange team to discuss appropriate arrangements.

The deadline for responses is 4pm on Friday 15 January 2027.

Respondent details

You will be asked a number of short questions about your details, including whether you are responding on behalf of an organisation, and if so what type of organisation.

Part A: Formula architecture

Question A1

Proposal: Introduce four dimensions for measuring performance

As set out in the consultation document (see Part A: Formula architecture/Introducing four dimensions for measuring performance), we propose to group the formula's metrics into four dimensions representing core outcomes of knowledge exchange in achieving economic growth.

Under the proposed approach, proportions of the HEIF budget would be allocated against four broad dimensions that represent routes by which universities contribute to economic growth through knowledge exchange: partnerships; commercialisation; skills and entrepreneurship; and local growth. The contribution that each dimension makes to an institution's HEIF allocation would be determined by its performance in the metrics associated with that dimension.

A1. To what extent do you agree or disagree with the proposal to introduce four dimensions?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question A2

Proposal: Full flexibility for providers to utilise their allocated funding across the four knowledge exchange dimensions, rather than introducing separate allocations ringfenced to each of the dimensions

As set out in the consultation document (see Part A: Formula architecture/Introducing four dimensions for measuring performance), we are retaining the core principle of flexible funding, which means that providers can use HEIF at their discretion to support any aspects of their knowledge exchange activities, in line with their own strategic objectives and the government priorities for HEIF. The proposed implementation of this principle in the revised formula architecture is to maintain the ability of providers to utilise funding across the four knowledge exchange dimensions, rather than introducing separate, ringfenced allocations for each dimension. The proposed approach consolidates HEIF funding into one allocation and removes the need for separate supplements to be added for emerging priorities.

A2. To what extent do you agree or disagree with the proposal to have one allocation that can be flexibly spent across the four dimensions?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question A3

Proposal: Use Regeneration income as the interim metric for the Local Growth dimension

As set out in the consultation document (see Part A: Formula architecture/Local growth as a new funding dimension), we propose to introduce a dedicated Local Growth dimension to reflect the growing importance of place-based growth. Research England's long-term aim is to develop more sophisticated ways of recognising local growth activity within HEIF, and a specific dimension focused on this outcome will enable this in the future. However, robust methodologies and metrics are not yet as developed as those used for other knowledge exchange activities. Therefore, as an interim measure, we propose continuing to use HE-BCI regeneration income.

A3. To what extent do you agree or disagree with the proposal to use Regeneration income as the interim metric for the Local Growth dimension?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Part A – free comment

If you would like to comment on your responses to any of the questions in Part A, please use this space.

Where possible, please make it clear which question(s) you are commenting on.

(Max 400 words)

Part B: Metrics

Question B1

Proposal: Use Continuing Professional Development/Continuing Education (CPD/CE) income, instead of non-credit Bearing (NCB) income, as the metric for the Skills and Entrepreneurship dimension

As set out in the consultation document (see Part B: Metrics/Metric being changed), we propose replacing non-credit bearing (NCB) income collected through the OfS Annual Financial Return with Continuing Professional Development and Continuing Education (CPD/CE) income from the Higher Education Business and Community Interaction Survey (HE-BCI), as the metric underpinning the Skills and Entrepreneurship dimension.

B1. To what extent do you agree or disagree with the proposal to replace NCB income with CPD/CE income?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question B2

Follow-up question: Coverage of knowledge exchange activity between NCB and CPD/CE datasets

We have concluded that, overall, the HE-BCI CPD/CE data provide a more comprehensive and knowledge exchange-focused dataset, compared with NCB. However, we recognise that some providers report materially different values between the two measures.

Through this consultation, we are seeking views and evidence on whether there are forms of knowledge exchange activity that are currently reflected in NCB income which would not be captured under the HE-BCI CPD/CE returns. Understanding this will help us assess whether any relevant activity would be omitted under the proposed approach and whether refinements to the HE-BCI definitions should be considered.

B2. Do you consider that there are areas of knowledge exchange activity captured within NCB income which would not be eligible for return within the HE-BCI CPD/CE dataset?

- Yes – moving to the HE-BCI CPD/CE dataset would exclude knowledge exchange activity that is currently reflected in NCB income
- No – activity that would be excluded is not knowledge exchange activity, or is already captured elsewhere within the HE-BCI dataset
- Don't know / no comment

(If 'Yes' selected) Please provide details, including the types of activity affected and, where possible, the scale of activity involved.

(Max 400 words)

Part B – free comment

If you would like to comment on your responses to any of the questions in Part B, please use this space.

Where possible, please make it clear which question(s) you are commenting on.

(Max 200 words)

Part C: Stability and predictability

Question C1

Proposal: Increase the number of data years from three to four

As set out in the consultation document (see Part C: Stability and predictability), we propose increasing the number of years of performance data used within the formula from three years to four years. This would provide a longer-term view of institutional performance and reduce the influence of short-term fluctuations in knowledge exchange income.

C1. To what extent do you agree or disagree with the proposal to increase the number of data years from three to four?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question C2

Proposal: Remove differential weighting between data years

We propose removing the current 2:3:5 weighting structure and moving to an equal weighting across all four years of data.

C2. To what extent do you agree or disagree with the proposal to remove differential weighting between data years?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question C3

Proposal: Remove the annual modifier

We propose removing the annual modifier from the long-term operation of the formula. This proposal is linked directly to the increase in data years and removal of differential weighting. Taken together, these changes embed stability within the calculation of allocations itself, reducing the need for a separate mechanism that artificially constrains annual changes in allocations.

Research England's modelling indicates that using four years of equally weighted data can deliver a broadly similar level of stability to the current approach, without requiring the ongoing use of annual modifiers. The intention is therefore not to reduce stability within HEIF, but to achieve it through a different mechanism that is more closely aligned to underlying institutional performance.

C3. To what extent do you agree or disagree with the proposal to remove the annual modifier?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question C4 – only formal institutional responses will be asked the following question

Clarification question: Institutional budget planning

We are proposing to remove the annual modifier on the basis that the enhanced stability of the revised HEIF formula would reduce the need for this mechanism.

We recognise, however, that the annual modifier may provide institutions with additional confidence when planning future HEIF-funded activity, notwithstanding that HEIF allocations remain subject to annual funding decisions, as does confirmation of the overall Research England HEIF budget available for allocation.

C4. Do you consider that removal of the annual modifier would affect your institution's ability to plan for and manage the effective use of HEIF funding?

- Yes – removal of the annual modifier would have a significant negative impact on my institution's ability to plan and manage HEIF funding effectively
- No – the embedded stability and reduced complexity of the proposed formula would maintain or improve my institution's ability to plan and manage HEIF funding effectively, without the need for an annual modifier
- Don't know
- Not applicable – my institution does not receive HEIF

(If 'Yes' selected) Please provide further information on how removal of the annual modifier would affect your institution's planning and management of HEIF funding.

(Max 400 words)

Part C – free comment

If you would like to comment on your responses to any of the questions in Part C, please use this space.

Where possible, please make it clear which question(s) you are commenting on.

(Max 400 words)

Part D: Minimum performance requirements for HEIF allocation

Research England proposes retaining a minimum performance threshold within HEIF, but changing how it is implemented.

The proposed approach introduces two complementary requirements, which will both be assessed through qualifying income levels as a percentage of the sector mean:

- a low breadth test that provides assurance of established and intentional knowledge exchange activity across multiple modalities; and
- a higher depth threshold that provides assurance that activity is being delivered at sufficient scale and quality to justify recurrent HEIF investment.

Full information about the reasons for the proposed approach, and the benefits and trade-offs considered is set out in the consultation document (see Part D: Minimum performance requirements for HEIF allocation).

Question D1

Proposal: Introduce a breadth test

We propose to introduce a new breadth test. The purpose of the breadth test is to provide assurance that a provider demonstrates established and intentional knowledge exchange activity across multiple forms of engagement, rather than relying on performance in a single area.

D1. To what extent do you agree or disagree with the proposal to introduce a breadth test?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question D2

Proposal: A depth threshold based directly on qualifying income

We propose to replace the current allocation-based threshold with a depth threshold based directly on measures of knowledge exchange performance – namely, qualifying income.

Rather than requiring institutions to achieve a minimum allocation value, providers would need to exceed a minimum qualifying income level relative to sector performance. The threshold would apply to total qualifying income across all dimensions rather than being applied separately within individual dimensions. This reflects the principle of institutional flexibility and avoids creating minimum performance requirements for specific forms of knowledge exchange.

D2. To what extent do you agree or disagree with the proposal to base the depth threshold on qualifying income?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Question D3

Proposal: Minimum breadth and depth requirements based on sector mean

We propose that the value of the minimum breadth and depth requirements will be equivalent to a percentage of the sector's mean qualifying income, which will retain alignment with sector level performance over time.

D3. To what extent do you agree or disagree with the proposal to base minimum breadth and depth requirements on sector mean?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Part D - free comment

If you would like to comment on your responses to any of the questions in Part D, please use this space.

Where possible, please make it clear which question(s) you are commenting on.

(Max 400 words)

Part E: Concentration of funding

Question E1

Proposal: Retain the maximum allocation cap and remove the separate top-up allocation

As set out in the consultation document (see Part E: Concentration of funding), we propose to retain a maximum allocation cap and remove the separate top-up allocation.

Under the proposed architecture, all HEIF funding would be distributed through a single integrated formula. The role currently performed by the top-up allocation would instead be reflected through the overall design of the formula, including the level at which the cap is set.

E1. To what extent do you agree or disagree with the proposal to retain the maximum allocation cap and remove the top-up allocation?

Response options: Strongly agree / Moderately agree / Slightly agree / Neither agree nor disagree / Slightly disagree / Moderately disagree / Strongly disagree

Part E – free comment

If you would like to comment on your response to the question in Part E, please use this space.

(Max 200 words)

End of survey – final comments

Do you have further comments that you have not had an opportunity to share yet? Please add them here.

(Max 300 words)