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SPICe Briefing

Draft Budget 2013/14: Higher Education

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This briefing presents the Scottish Government's Draft Budget 2013/14 for the higher education (HE) sector in both cash and real terms. It considers changes to student support funding, as well as Scottish Funding Council (SFC) allocations to Higher Education Institutions (HEIs) for academic year 2012/13. It also analyses the potential impact of the Draft Budget on a number of key policy areas, such as university places and 'closing the funding gap'.



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CONTENTS

EXECUTIVE SUMMARY	3
HIGHER EDUCATION FUNDING: BACKGROUND	4
SCOTTISH GOVERNMENT DRAFT BUDGET 2013/14	5
<i>Funding for Higher Education Student Support - SAAS Budget (Level 3)</i>	5
<i>Funding for Teaching, Research and Strategic Investment in HE – SFC Budget (Level 3)</i>	8
<i>SFC Allocations to individual Higher Education Institutions (HEIs) for Academic Year 2012/13</i>	9
POLICY ANALYSIS	9
MINISTERIAL GUIDANCE	9
<i>Ministerial Guidance to the SFC for the HE Sector in 2013/14</i>	9
MAINTAINING A COMPETITIVE HE FUNDING SITUATION WITH REST OF UK	10
<i>The introduction of rest of UK (RUK) fees in Scotland</i>	11
<i>Changes to SFC funding model resulting from the introduction of RUK Fees</i>	12
<i>EU service charge</i>	13
<i>Further sector efficiencies</i>	13
<i>Acceptances at Scottish universities in AY 2012/13 by country of domicile</i>	13
IMPACT OF SCOTTISH GOVERNMENT SPENDING REVIEW ON SECTOR COMPETITIVENESS	14
COMMERCIALISATION OF HE OUTPUTS AND THE RESEARCH EXCELLENCE GRANT	15
ANNEX 1: SUMMARY OF MINISTERIAL GUIDANCE AND SFC POLICY AY 2012/13	17
SOURCES	19
RELATED BRIEFINGS	24

EXECUTIVE SUMMARY

Public funding for Higher Education Institutions (HEIs) is provided by the Scottish Government through the Scottish Funding Council (SFC) and the Student Awards Agency Scotland (SAAS).

The SFC budget helps fund teaching and research in Scottish HEIs, and is granted on the condition that institutions provide an agreed number of funded places to Scottish and EU students. In the Scottish Government's Draft Budget 2013-14 document the headline figures are:

- Current funding for HEIs is set to increase from £1,002.2 million in FY 2012/13 to £1,041.6 million in 2013/14, an increase of £39.4 million or 3.9% in cash terms; or £14.0 million or 1.4% in real terms
- projected SFC capital expenditure for the HE sector is set to fall from £33 million in 2012/13 to £19 million in 2013/14, rising again to £29 million in 2014/15 in cash terms

The SAAS budget funds tuition fees for Scottish-domiciled students and EU students studying in Scotland. It also funds maintenance (living) support to students through a mixture of bursaries, grants and student loan provision. Analysis of the Draft Budget 2013-14 document shows:

- the SAAS budget will increase by £186.4 million from £558 million in financial year (FY) 2012/13 to £744.4 million in 2013/14, a 33.4% annual rise in cash terms (30.2% in real terms)
- The majority of this increase is in the 'Net Student Loans Advanced' budget line, which funds student loan payments to students. This is partly explained by the introduction of the Government's commitment to a 'minimum student income'.

The briefing includes a section looking at recent and future policy developments in the sector. This highlights the uncertainty surrounding the exact extent of the 'funding gap' between English and Scottish universities, as well as describing changes to SFC funding allocation methods resulting from the introduction of Rest of UK tuition fees.

HIGHER EDUCATION FUNDING: BACKGROUND

On average Scotland's nineteen Higher Education Institutions (HEIs) receive around 40% of their income from core public funding, although this varies greatly between institutions. In 2010/11 the income of Scottish HEIs amounted to £2.86 billion, with core public funding accounting for 37% of total income ([Universities Scotland, 2012a](#)). Other funding sources include research contracts, European funding and fees from students (the SAAS budget pays/administers fees/loans on behalf of Scottish domiciled and EU students).

The Scottish Government budget for higher education (HE) is allocated mainly through two bodies; the Scottish Further and Higher Education Funding Council (SFC) and the Student Awards Agency Scotland (SAAS).

The SFC is the non-departmental public body responsible for funding teaching and learning provision, research and other activities in Scotland's HEIs and colleges. Funding through the SFC is allocated on the basis that universities provide an agreed number of funded places to Scottish and EU students. For example, in his letter of guidance to the SFC for academic year 2012-13, the Cabinet Secretary for Education and Lifelong Learning requested 'that the total number of Scottish domiciled and European Union (EU) student places are maintained at academic year (AY) 2011-12 levels' (SFC [Conditions of Grant annex](#) 2012). SFC funding is supplemented by a student fee that is charged per place. For Scottish and EU students this is met through the SAAS 'tuition fee and student support' DEL budget line.

Over the past decade SFC revenue funding for HEIs has increased substantially, from £668.4 million in FY 2002-03 to £1,002.2 million (cash terms) in 2012/13, an increase of £333.8 million or 49.9% (Draft Budget figures). Table 1 (below) presents the Scottish Government SFC HE budget in cash and real terms for the period 2002-03 to 2014-15. The figures are those presented in the draft budgets for each year and represent *planned* spending, rather than actual spend, so they do not show the effect of any in-year budget revisions.

Table 1: SFC HE budget, (£m, cash and real)

	£m, cash			£m, 2012-13 prices		
	Resource	Capital*	Total	Resource	Capital*	Total
2002-03	668	27	695	851	34	886
2003-04	706	28	734	880	35	915
2004-05	773	10	783	936	12	948
2005-06	810	38	848	959	45	1,004
2006-07	898	55	953	1,036	63	1,099
2007-08	938	85	1,023	1,055	96	1,151
2008-09	953	87	1,040	1,044	95	1,139
2009-10	994	95	1,089	1,073	103	1,175
2010-11	992	83	1,075	1,041	87	1,128
2011-12	926	40	966	949	41	990
2012-13	1,002	33	1,035	1,002	33	1,035
2013-14	1,042	19	1,061	1,017	19	1,035
2014-15	1,062	29	1,091	1,011	28	1,038

*Capital figures for 2012-13 onwards are based on projected commitments and timings; final figures may vary

Source: [previous budget documents](#) (Scottish Government, 2012a) and personal correspondence with Scottish Government. Figures converted to real terms using [HM Treasury GDP deflator](#) (HMT, 2012) as at 13 Sep 2012

The SFC's total HE budget peaked in 2009/10 (in real terms) and fell by a total of 16% over the next two financial years. This was followed by a rise of 5% in 2012-13 and a stable budget in real terms for the remainder of the spending review period which runs to 2014-15. The capital budget has seen sharp cuts and is anticipated to fall by 73% in real terms between 2009/10 and 2014/15 (although the final split of capital spend between FE and HE may differ from these projections). Over the same period, the resource budget is set to fall by 6%.

SCOTTISH GOVERNMENT DRAFT BUDGET 2013/14

The Draft Budget for 2013/14 for HE is provided in four Scottish Government budget lines at 'Level 3' expenditure: the SAAS budget, the SFC Revenue, the SFC capital budget line, and to a far smaller extent, 'other skills and employability' funding (such as 'widening access' and funding for the 'Royal Society of Edinburgh').

Funding for Higher Education Student Support - SAAS Budget (Level 3)

SAAS is the Scottish Government agency responsible for providing financial support and advice to eligible Scottish-domiciled higher education students studying in the UK and to EU students studying in Scotland. It allocates all fee and maintenance (living) support to students through a mixture of bursaries, grants and student loan provision. It also administers the Individual Learning Accounts (ILA) scheme in

conjunction with Skills Development Scotland. SAAS is only responsible for administering higher education student support.

The SAAS budget includes funding for HE fees, grant and bursary support, all student loans and associated costs to the Scottish Government of student loan provision, as well as the running costs and capital charges of SAAS. The vast majority of the SAAS budget is demand-led, in that it is determined by the number of HE students requiring financial support in a given year. The Scottish Government controls this, to some extent, by setting the maximum number of funded student places available in Scottish institutions per year (through guidance to the SFC), in order to control the size of the overall student support budget.

Tables 2 and 3 below detail the proposed SAAS budget for 2013-14 at level 3 expenditure, in both cash and real terms. Also included are planned spending figures for 2014-15.

TABLE 2: SAAS BUDGET 2012-13 – 2013-14, LEVEL 3, CASH TERMS, £M

	2012-13 Budget	2013-14 Draft Budget	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
SAAS operating costs	8.4	8.7	8.7	+0.3	+3.6%
Student Support and Tuition fee payments	325.9	302.4	307.0	-23.5	-7.2%
Student loan administration	5.0	5.0	5.0	0.0	0.0%
Cost of student loans	88.4	134.0	181.6	+45.6	+51.6%
Net student loans advanced (AME)	241.3	408.3	468.3	+167.0	+69.2%
Student Loans sale subsidy impairment adjustments (AME)	0.5	0.5	0.5	0.0	0.0%
Student Loan Interest Subsidy to banks	4.5	4.5	4.5	0.0	0.0%
Student Loans Fair Value Adjustment (AME)	(-69)	(-69)	(-69)	N/A	N/A
Capitalised interest (AME)	(-47)	(-50)	(-52)	N/A	N/A
Total	558.0	744.4	854.6	+186.4	+33.4%

Source: Scottish Government (2012b)

TABLE 3: SAAS BUDGET 2012-13 – 2013-14, LEVEL 3, REAL TERMS £M (12-13 PRICES)

	2012-13 Draft Budget	2013-14 Plans	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
SAAS operating costs	8.4	8.5	8.3	+0.1	+1.2%
Student support and tuition fee payments	325.9	295.0	292.2	-30.9	-9.5%
Student loan administration	5.0	4.9	4.8	-0.1	-2.4%
Cost of student loans	88.4	130.7	172.8	+42.3	+47.9%
Net student loans advanced (AME)	241.3	398.3	445.7	+157.0	+65.1%
Student Loans sale subsidy impairment	0.5	0.5	0.5	0.0	0.0%
Student Loan interest subsidy to banks	4.5	4.4	4.3	-0.1	-2.4%
Student Loans Fair Value Adjustment	-69	-67.3	-65.7	N/A	N/A
Capitalised interest (AME)	-47	-48.8	-49.5	N/A	N/A
Total	558.0	726.2	813.4	+168.2	+30.2%

Source: Scottish Government (2012b); Using HMT deflators (HMT 2012)

It can be seen from Tables 2 and 3 that the SAAS budget has increased by £186.4 million from £558 million in financial year (FY) 2012/13 to £744.4 million in 2013/14, a 33.4% annual rise in cash terms (30.2% in real terms).

The majority of the increase over the period is in the 'Net Student Loans Advanced' budget line, which funds student loan payments to students. This budget line is due to increase by £167.0 million in cash terms between 2012-13 to 2013-14, an increase of 69.2%. This increase will be used to support the commitment to minimum levels of support available to Scottish Students (see [Scottish Government press release](#) from the 22nd August 2012 (Scottish Government, 2012c), and [details of proposed support reforms](#) (Scottish Government, 2012d)).

Changes to the UK government's policy on fees and loans led to a significant consequential uplift in the Scottish Government's 'Cost of providing student loans' DEL line. This enabled Scottish Ministers to introduce the minimum income commitment for Scottish students through increased access to student loans, focussing on improving access to maintenance loans rather than loans for fees. New student loan provision is Annually Managed Expenditure (AME), so the figures in Tables 2 and 3 are estimates for future years and are dependent on student response to increased loan availability. The forecasts 'will therefore be subject to revision during the Spending Review period' (Scottish Government, 2012a, P.63).

The budget line for HE ‘student support and tuition fee payments’ (which includes funding for HE bursary/grant support) will fall from £325.9 million in 2012-13 to £302.4 million in 2013-14, a reduction of 7.2% in cash terms and 9.5% in real terms. This is partly explained by a reduction in the amount payable in bursaries to some undergraduates, as well as a move away from postgraduate tuition grants towards [postgraduate tuition fee loans](#) (SAAS, 2012).

Funding for Teaching, Research and Strategic Investment in HE – SFC Budget (Level 3)

Tables 4 and 5 below detail the proposed Scottish Government HEI revenue and capital budget for the SFC, at level 3 expenditure, in both cash and real terms, for the next 2 years. (These include capital grants for both HEIs and colleges, as shown in the Draft Budget document. For HEI only capital projections see Table 1, page 5).

Table 4: SFC Budget for HEIs 2012-13 – 2013-14, Level 3, Cash Terms, £mill

	2012-13 Budget	2013-14 Draft Budget	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
Current Funding for HEIs	1002.2	1,041.6	1,061.8	+39.4	+3.9%
Capital Grants for FE Colleges and HEIs	60.7	45.9	56.4	-14.8	-24.4%

Source: Scottish Government (2012b)

Table 5: SFC Budget for HEIs 2012-13 – 2013-14, Level 3, Real Terms, £mill

	2012-13 Budget	2013-14 Draft Budget	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
Current Funding for HEIs	1,002.2	1,016.2	1,010.6	+14.0	+1.4%
Capital Grants for FE Colleges and HEIs	60.7	44.8	53.7	-15.9	-26.2%

Source: Scottish Government (2012b); Using HMT deflators (HMT 2012)

SFC - Current Expenditure for HEIs

Current funding for HEIs is set to increase from £1,002.2 million in financial year 2012/13 to £1,041.6 million in 2013/14, an increase of £39.4 million or 3.9% in cash terms; or £14.0 million or 1.4% in real terms. This is a result of the Scottish Government’s commitment to closing the ‘funding gap’, discussed in more detail on page 11.

SFC - Capital Expenditure for HEIs

Table 1 (see page 5) shows that projected SFC capital expenditure for the HE sector is set to fall from £33 million in 2012/13 to £19 million in 2013/14, rising again to £29 million in 2014/15 (cash terms). Future and current year estimates were provided by the Scottish Government. These figures were attained through personal correspondence and officials were keen to stress that figures are subject to change.

SFC Allocations to individual Higher Education Institutions (HEIs) for Academic Year 2012/13

In March 2012, the SFC confirmed allocations of £1,021,923 million revenue funding to 19 HEIs in AY 2012-13 for teaching, research and knowledge transfer, and strategic funding (inclusive of £26.5 million in SFC revenue funding for capital). The SFC also allocated Scottish Government ring-fenced funding of £67 million which contributed to medical, teaching, dentistry, nursing and midwifery places. Full details of the allocations can be found in the [SFC's grant letter to HEIs for AY 2012/13](#) (SFC, 2012a)

Indicative SFC allocations by institution for AY 2013/14 will not be announced until December 2012.

POLICY ANALYSIS

MINISTERIAL GUIDANCE

Ministerial Guidance to the SFC for the HE Sector in 2013/14

Following the publication of the 2013-14 Draft Budget the Scottish Government outlined its key priorities for the FE and HE sector in a letter of [Ministerial Guidance to the SFC](#) (Scottish Government, 2012e) released on 4 October 2012. On receiving this guidance, the SFC determines the strategic actions needed within each sector and allocates the public resource accordingly. The Cabinet Secretary for Education and Lifelong Learning is keen to emphasise Scottish universities' 'competitive settlement compared to universities elsewhere in the UK'. In return, and in line with the post-16 education reform agenda, the Government expects universities to focus on widening access to students from Scotland's most deprived areas.

In addition, during academic year 2013-14 the Cabinet Secretary expects universities to deliver the following outcomes through 'robust outcome agreements' which will take precedence over the existing conditions of SFC grant:

- "securing real term efficiencies of around 2% per annum which, along with the savings from Rest of UK student places phasing out, can be reinvested in additional provision;
- investment in an incentive scheme to widen access at the most selective institutions through additional targeted places;
- commissioning additional places to develop the extent to which students can transfer from college to university education through properly organised 2+2 arrangements to be delivered by universities franchising Higher National

places in colleges. Ministers expect this to be part of a step change in the amount of articulation from colleges;

- targeted investment in skills priorities relating to key industries. We would expect a significant proportion of this investment to be at taught postgraduate level and be aligned with initiatives such as Innovation Centres;
- targeted investment in large items of equipment what associated with Innovation Centres, thereby further supporting this important contribution to the innovative economy.”

(Scottish Government, 4 October 2012)

The Scottish Government and SFC envisage outcome agreements will drive efficiencies, improve performance, match capacity to needs and enhance quality within the university sector. Outcome agreements provide a new approach to accountability for, and allocation of, public funding to a system of legally autonomous institutions that rely on public finance to a highly varying degree and have autonomy in how they allocate their income.

[Ministerial Guidance to the SFC for the HE Sector in 2012/13](#) is summarised in Annex 1 (Scottish Government, 2012f).

MAINTAINING A COMPETITIVE HE FUNDING SITUATION WITH REST OF UK

The introduction of a cap of £9,000 on variable tuition fees in England, as well as a move towards the marketisation of the English HE sector, has provided a significant challenge to the Scottish Government in terms of filling the resulting ‘funding gap’ and therefore maintaining the competitiveness of teaching and research in Scotland. UK Minister for Universities and Science, [David Willets MP was quoted in the House of Commons](#) on 28 June 2011 as saying “We estimate that there could be a cash increase in funding for higher education [in England] of around 10% by 2014-15” (in terms of total funding from teaching grants, tuition fees and research grants) (House of Commons, 2011). As a result, the Scottish Government announced the formation of a technical working group (TWG) to examine the extent of any future ‘funding gap’. The working group reported that a gap could develop of between £97 million and £263 million in teaching income between Scotland and England by AY 2014-15, depending on the fee levels set by English institutions, as well as cross-border flows of students.

The technical working group set out a number of potential solutions to [‘filling the funding gap’](#) (Scottish Government, 2011a). These included: the state maintaining primary responsibility for funding (with the possible introduction of a graduate contribution from Scots-domiciled students¹), introducing variable fees in Scotland

¹ This possibility was immediately rejected by the Scottish Government. In a statement to Parliament on 16 March 2011, the Cabinet Secretary confirmed: ‘...we will not introduce tuition fees, up front or backdoor, or any form of graduate contribution’ (Scottish Parliament, 2011a).

for RUK students, potential for an EU management fee, further sector efficiencies, with the remaining estimated gap being filled by public funding. All these suggestions are considered below in more detail.

The introduction of rest of UK (RUK) fees in Scotland

In autumn 2011, the [Scottish Parliament agreed](#) to allow Scottish HEIs to set variable fees for students from the rest of the UK (Scottish Parliament, 2011b). RUK students are defined as 'students who normally live in another part of the UK outside Scotland'. However there has been some controversy (see for example the [BBC Northern Ireland](#), May 2012) surrounding an apparent loophole which enables Northern Irish students to use their Republic of Ireland status to apply to Scottish universities as EU students, and therefore receive free tuition from the Scottish Government (EU treaties oblige the students from other member states to be treated in the same way as Scottish domiciled students). The Scottish Government intends to introduce legislation closing this loophole in time for the 2013/14 academic year. This legislation 'will require dual-national students to provide evidence that they have previously exercised their right of residence elsewhere and will prevent the use of dual-nationality solely to benefit from free tuition' (Scottish Government, 2012g).

According to the Scottish Government, introducing fees for RUK students could help bring the 'net' funding gap to £93 million per year. This is based on a 'starting point' funding gap of £155 million, calculated using average English non-indexed fees of £7,500 (see Technical Working Group [final report](#), (Scottish Government, 2011a)). The Government then deducted £62 million from the starting point figure using estimated income raised from charging students from the Rest of the UK, assuming RUK student numbers in Scotland were maintained at 2011 levels (see [Scottish Government press release](#) (Scottish Government, 2011b). This £62 million income estimate is based on an assumed Scottish RUK variable fee of £6,375 (4 year equivalent to £8,500 in England for a 3 year degree).

Clearly a better understanding of the extent of any net funding gap will be realised once the actual income generated from the introduction of variable tuition fees for RUK students is known.

Furthermore, since the publication of the technical working group's report, the average fee at English HEIs for 2012/13 has been confirmed at £8,385 (£8,123 after fee waivers are taken into account). This figure is index linked, so recent estimates published by the [Office for Fair Access](#) in England (OFFA, 2012) show that in AY 2013/14, the average tuition fee in England is estimated to rise to over £8,507 (£8,263 after fee waivers are taken into account). When all financial support from universities and colleges is taken into account, the estimated average fee cost is £7,898 (£7,789 in £2012-13) (OFFA, July 2012).

If these figures were used, it is highly likely that that the overall funding gap would be greater than the £155 million funding gap initially estimated (for example the technical working group estimated that with an average English fee of £8000 which is index-linked, the funding gap could be equal to £263 million by 2014-15).

From the above paragraphs it is clear that identifying an exact future funding gap figure is difficult. Such a calculation would depend on multiple variables on both sides of the border including predicting the number of students actually taking up

courses in the future, which courses are taken up (some HEIs have varied fees by type of course), what bursary support English and Scottish institutions are offering and what teaching grant they are losing as a result (the net income effect of variable fees); how HEIs will change their fees in future years; and whether SFC maintains the real terms value of funding for teaching. Nevertheless in [evidence to the Education and Culture Committee](#) on the 2nd October 2012, Alastair Sim, Director of Universities Scotland, stated: 'Our view is that the spending review settlement met the teaching funding gap as best it could. We are certainly pleased to see that being perpetuated in the budget proposals' (Scottish Parliament, 2012).

For further details on changes to tuition fee arrangements across the UK, please see SPICe briefing: [Higher Education: Tuition Fees and the Funding Gap](#). Universities Scotland have also produced a 'no nonsense guide' to [the funding gap facing Scotland's universities](#) (Universities Scotland, 2011).

Changes to SFC funding model resulting from the introduction of RUK Fees

Changes have been made to the way the SFC allocates its teaching grant from AY 2012/13, as [outlined in the SFC's technical guidance](#) (SFC, 2012a).

In AY 2012/13, as a result of the deregulation of variable RUK fees, the SFC has removed 5,787 funded student places (the estimated number of RUK entrants in AY 2012/13, based on 2009/10 HESA data) from its public funding methodology and is only providing 'funded student places' for Scottish and other European Union (EU) students.

The removal of these places has freed up £28.6 million of the HEI teaching budget in AY 2012/13 (at 2012/13 prices). The SFC will then remove the balance of 12,062 funded student places (FSPs) currently held by continuing RUK students in four equal tranches over AYs 2013-14 to 2016-17. By removing RUK students from the SFC's public funding methodology, this suggests a total reduction of RUK FSPs over 2012/13 to 2016/17 of 17,849.5 FTEs, at a total value of £96.3 million (in cash terms). The SFC has published the illustrative future amounts and values of rest of UK funded student places to be removed over the Spending Review period by institution (see [Updated funding allocations to universities - technical guidance](#) (SFC, 2012a)).

The SFC guidance states that funds released through the removal of RUK funded student places will be used firstly to provide compensation for higher cost and strategically important subjects (as the RUK fee cap of £9,000 does not cover the full cost of teaching provision for all subject price groups), with the remainder being added into the general unit of resource for teaching.

It can be seen from the [SFC's illustrative table](#) that the numbers of students studying at Scottish HEIs from the RUK varies greatly by institution. Furthermore, Scottish institutions are offering varying support packages to these students. Dependent on the total number of RUK students, the actual fees charged and the student support on offer (for example, the [University of Edinburgh](#) is charging the maximum £9000 fee, but will offer a bursary package of up to a maximum of £7000 for RUK students with household incomes of £16,000 or less), the additional income generated could

impact upon some institutions more than others. The Cabinet Secretary, in [his announcement to Parliament](#), was therefore keen to stress that any additional income generated would benefit *all* Scottish HEIs (Scottish Parliament, 2011b).

EU service charge

One of the potential funding gap solutions identified by the technical working group was to charge EU students some sort of service charge. The actual legality in terms of complying with EU law of introducing a service charge for EU students has been challenged, (see, for example, [Holyrood Magazine](#), June 2011) and whilst the Scottish Government has been actively seeking a solution to this, progress has been limited. [A Scottish Government news release](#) in April 2012 stated that the cost of providing free tuition fees to EU students was approximately £75 million and that negotiations at an EU level have been on-going. The Cabinet Secretary for Education and Lifelong Learning was quoted saying:

“Students from other EU countries cost us around £75 million every year and we need to resolve this. Austria finds itself in a similar situation and we have agreed to share and analyse information on the destinations of graduates. I will also continue to work with the Commissioner to try and find a suitable solution.”

(Scottish Government, 2012h)

Further sector efficiencies

The Technical Working Group also cited ‘sector efficiencies’ as a way of reducing the funding gap, with the sector having ‘a proven track record on efficiency’. Universities Scotland’s [‘Working Smarter: Progress Report 2012’](#) outlines the strategy developed by the HE sector in working to deliver £26 million worth of efficiencies for each of the next three years (Universities Scotland, 2012b). Measures include encouraging universities to collaborate on procurement, shared data storage and virtual learning environments, as well as developing other shared services. The Technical Working Group acknowledges, however, that HEIs across the UK will be going through similar processes and hoping to achieve the same sector efficiencies. Hence it is difficult to argue that efficiency savings will have any net impact on reducing the funding gap between Scottish and English universities.

Acceptances at Scottish universities in AY 2012/13 by country of domicile

The [Scottish Government committed itself to ‘protecting places’](#) for Scottish and EU students following changes to fees for RUK students (Scottish Government, 2012i). There has been significant recent media coverage of a potential issue surrounding Scottish universities and the ‘clearing’ system (for example courses being ‘closed’ for Scottish students whilst still open to RUK and International students (see [Telegraph 17 August 2012](#) for an example)). However this issue is more directly related to the public funding methodology of HEIs rather than the ‘clearing’ system specifically. For example, in order to limit the size of the student support budget through SAAS, the number of ‘funded student places’ is controlled.

In AY 2012/13 the number of ‘funded student places’ was set at 116,330.2 FTEs (plus 8,862 FTE Scottish Government ring fenced funded places) for Scottish, EU and continuing RUK students following the removal of 5,787.4 RUK student places from the baseline ([table 5 of SFC Grant letter to HEIs for AY 2012/13](#) (SFC, 2012a)). There are now no longer limits on the number of RUK students or international students that institutions can recruit. However it is worth noting that the SFC still sets (non-binding) intake targets for controlled subjects such as medicine and dentistry.

[Latest Statistics from UCAS](#) (14 September 2012), looking at applicants and acceptances by entry year across the UK show that

- UK and EU domiciled acceptances to the 2012-13 entry year at this point are 408,500. This is a change of -56,600 (-12 per cent) compared to acceptances into the 2011-12 entry year at the equivalent point in the previous cycle.

On the same basis, by **country of institution**:

England: 340,500, -54,200 (-14 per cent)
 Northern Ireland: 9,700, +200 (+2 per cent)
 Scotland: 36,700, +700 (+2 per cent)
 Wales: 21,500, -3,300 (-13 per cent)

(Statistical Note: the reference point for these statistics is four weeks after the release of A level results (13 September 2012 and the equivalent point in previous cycles)).

Table 6 (below) uses the [UCAS report data](#) to show that as at 13 September 2012, acceptances to Scottish HEIs from Scottish students had risen by 1.2%, with RUK and EU acceptances rising by 5.1% and 3.3% respectively. Figures on international students are not included in the analysis. So far the introduction of RUK fees has not resulted in a reduction of the number of Scottish students being accepted onto courses in Scottish HIEs (UCAS, 2012).

Table 6: UK and EU acceptances to Scottish UCAS institutions by entry year and country of domicile of applicant

	2010/11	2011/12	2012/13	% change 11/12-12/13
Scotland	27,759	27,229	27,554	1.2%
England/Wales/Ni	4,858	4,623	4,858	5.1%
EU	3,857	4,147	4,284	3.3%
ALL	36,474	35,999	36,696	1.9%

(Source: UCAS, 2012)

IMPACT OF SCOTTISH GOVERNMENT SPENDING REVIEW ON SECTOR COMPETITIVENESS

The Scottish Government funding settlement for the 2012-15 spending review period has provided universities and the SFC with some certainty on income streams for their sector. For example, in AY 2012-13, the SFC has restored teaching funding levels back to 2010-11 levels, increased funded places and increased the teaching unit of resource (£15.2 million in 2012/13, followed by uplifts in AY 2013/14 and 2014/15) with an additional £3.6 million for strategically important, high cost subjects (see SFC, 2012a).

The SFC proposes that the Scottish Government settlement, taken with the funds made available from changes to RUK student funding means that **'general teaching funding will increase by approximately 5% (cash terms) in each year and will maintain competitiveness of the Scottish system with the RUK and internationally'** (SFC, 2012a).

COMMERCIALISATION OF HE OUTPUTS AND THE RESEARCH EXCELLENCE GRANT

Research and knowledge exchange is crucial to Scotland's economy and public funding is closely tied to Scottish Government economic priorities (see Scotland Performs, [National Indicator 'Knowledge Exchange'](#)). The Scottish university research base has historically punched above its weight in terms of competing for research funding. According to the SFC the country produces 1.2 per cent of all new knowledge and is second in the world in terms of impact of its research (Scottish Funding Council, ['World Class Research' \(SFC, 2012b\)](#)). It wins over 13% of UK Research Council funding and 12% of the UK sector's funding from industry commerce and public corporations, with 86% of all Research Assessment Exercise (RAE) research judged as being of international quality or better (Universities Scotland ['University research: facts and figures'](#) (Universities Scotland, 2011b)). As with teaching, the research missions of institutions are diverse, as is their research capacity and ability to generate research income. In AY 2012/13 the SFC is allocating £258 million in research and knowledge exchange grants. The specific allocation for AY 2013/14 is not currently known.

Allocation of Research Funding

Research is publicly funded through a dual-support system, where 7 UK Research Councils provide grants for specific projects and programmes (annually allocating around £3 billion) and the SFC provides block grant funding for universities to carry out 'ground-breaking research of their choosing'. Research grants are allocated to HEIs from the SFC, in the form of 2 key grants: the Research Excellence Grant ('REG' - the majority of SFC recurrent research funding) and the Research Postgraduate Grant. These are detailed in Table 7 below, from AY 2010/11 to AY 2012/13.

Table 7: Research and Knowledge Exchange Funding, AY 2010/11 to AY 2012/13

	£ millions		
	2010/11	2011/12	2012/13
Research Excellence Grant	213,027	213,028	223,026
Research Postgraduate Grant	29,669	28,168	33,167
Knowledge Transfer Grant	1,357	1,400	1,330
Total research and knowledge exchange grants	244,053	242,596	257,523

Source: [SFC, 2012a](#) and previous year allocations

The REG was introduced in 2009/10 and its formulaic calculation has largely been informed by the results of the 2008 [Research Assessment Exercise \(RAE\)](#). The RAE will be replaced in 2014 by the UK-wide [Research Excellence Framework \(REF\)](#), which will assess the outputs and impact of HE research across the UK. This is significant as the results of the REF exercise will be used by the SFC from 2015-16 onwards to inform its model for allocations of its two research grants.

Knowledge exchange and transfer

The Knowledge Transfer Grant (KTG), provides a baseline £70,000 to each university to fund dedicated staff to plan exchange projects and work with businesses (£1.3 million in AY 2012/13 and 2013/14) (SFC, 2012a). Other Knowledge Exchange (Strategic) funding for AY 2012-13 totals £15.4 million, which supports universities' innovation activities. In 2012/13, it is being allocated formulaically, but the SFC intends to start using knowledge exchange funds to support larger scale strategic structural projects in future.

The Scottish Government has asked the SFC to use strategic funds to develop, in partnership with Scottish Enterprise and HIE, Innovation Centres (ICs) in the key sectors over the next three years. This follows from the successful establishment of the [Technology Innovation Centre \(TIC\)](#) for energy at Strathclyde University, funded from a variety of public funding sources including EU regional development funds. The intention is that ICs will provide direct industry and academia links, foster entrepreneurship and support industry level skills development. The SFC is allocating £10 million in 2012/13 and £20 million in 2013/14, which will require additional support from other income sources. The Innovation Centres will be developed through an application process, underway at present.

To provide greater strategic and cohesive support to the HE sector, Universities Scotland, SFC, Interface, SE and HIE are working together to deliver a [single 'Knowledge Exchange Office'](#) (KEO) within the next two years. This will support collaboration and commercialisation of HEI research by the business community by 'simplifying the academic landscape for business'. The budget for this proposal will be determined for AY 2013/14 onwards once a final plan has been approved. Once the KEO is established, all institutions will be required to participate as part of their conditions of public grant.

ANNEX 1: SUMMARY OF MINISTERIAL GUIDANCE AND SFC POLICY AY 2012/13

Ministerial Guidance to the Scottish Funding Council for Academic Year 2012/13

On 21 September 2011 the Scottish Government set out more specific priorities for investment in colleges and universities over the spending review in a [Letter of Guidance](#) to the SFC. The Scottish Government provided a further [Letter of Guidance](#) on 25 January 2012, on the funding position for colleges for the academic year 2012-13. This content of this guidance is summarised for both colleges and universities below:

Higher Education

The Ministerial Guidance to the SFC stated that the budget settlement given to HEIs in Scotland, along with the proposals for fees for students from the Rest of the UK (RUK) would ensure that the sector remains competitive. The Scottish Government asked the SFC to seek improved outcomes in:

- Retention;
- Articulation from College;
- Accelerated degrees, including entry into second year of the undergraduate degree programme from school;
- Access to university for people from the widest possible range of backgrounds;
- International competitiveness in research;
- University and Industry collaboration and the exploitation of research;
- The pattern and spread of provision;
- Efficiency, both in the learner journey and of institutions;
- The entrepreneurial and employability skills of graduates.

| It outlined the following specific guidance for the SFC:

1. To restore the unit of resource for teaching to AY 2010-11 levels;
2. To maintain the total number of places for Scottish-domiciled and EU students that were available in Scottish HEIs in 2011-12 and to consider restoring these places to being 'fully funded' as opposed to 'fees only' places;
3. To prioritise the full funding of 'fees only' places at institutions with research strengths in science;
4. To protect subjects where changes to RUK fees do not adequately reflect the cost of provision. In this regard, the SFC should allocate additional funding to ensure that science and small specialist institutions are protected (particularly those who play a key role in the creative industries), as well as possible adjustments for subjects with a clinical component;
5. To concentrate funding for research in those institutions where Scottish Government funding will lever in the greatest additional resource from the UK Research Councils, the European Commission and other major research funders;
6. To restore the reductions in funding for research pooling made last year;

7. To remove any barriers to the exploitation of university research and work towards expanding the 'Easy-Access' IP model, established by the University of Glasgow, across all institutions in order to make as much intellectual property (IP) available to business and industry;
8. To work with institutions to establish a single HE sector 'Knowledge Exchange Office' within the next 2 years;
9. To work towards securing a more coherent spread of provision in teaching across Scotland, seeking substantial efficiency savings through changing the learner journey, collaboration and merger where an educational and financial case exists (currently there are overlaps between what some of the more 'regional' universities teach, in urban areas in particular);
10. Where these efficiencies are not achieved, the SFC should consider mechanisms to reflect this in future funding decisions;
11. The SFC should work with the relevant colleges and universities towards increasing provision for regional areas covered by the University of the Highlands and Islands, and in doing so should consider altering its funding method to an outcomes based method, particularly concentrating on retention;
12. The Scottish Agricultural College (SAC) should be encouraged to continue to work with its three land-based colleges with a view to merger;
13. The SFC should develop 'widening access outcome agreements' with financial penalties where insufficient progress on access is made (these agreements would differ by institution and the Scottish Government is consulting upon whether these agreements should be backed by statutory force);
14. To concentrate strategic funding (the Horizon Fund for Universities or HFU) on supporting structural change within the sector and on supporting projects that can demonstrably contribute to economic growth in Scotland and becoming a low carbon economy.

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