



SFC Announcement

Outcome Agreement funding for universities - indicative allocations for 2016-17

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Summary: Announcement of indicative funding allocations for university outcome agreements in academic year 2016-17.

FAO: Principals and directors of Scotland's universities.

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Outcome agreement funding for universities – indicative allocations for AY 2016-17

Purpose

1. I am writing to provide you with the Scottish Funding Council's (SFC) initial decisions on funding Outcome Agreements for academic year (AY) 2016-17. The figures are indicative only and cannot be finalised until the budget bill has been agreed by the Scottish Parliament and we have finalised and agreed your Outcome Agreement, which we expect to be in April. The purpose of providing these indicative figures is to help you plan your provision and for us to move towards your finalised Outcome Agreement for AY 2016-17.
2. The decisions on funding are in line with the Cabinet Secretary's Letter of Guidance of [8 February 2016](#). They support SFC's strategy, in particular the extent to which the achievements in the emerging draft Outcome Agreements meet the national aspirations identified by SFC. The decisions have also been guided by negotiations on Outcome Agreements including consideration of performance against past Outcome Agreements where that is likely to affect the amount or type of funding we should allocate for AY 2016-17.

Overall available funds for the university sector

3. The Deputy First Minister and Cabinet Secretary for Finance, Constitution & Economy announced Scotland's Spending Plans and Draft Budget 2016-17 on 16 December 2015. The HE Resource budget for financial year (FY) 2016-17 was announced as £1,027.2 million (a reduction of 3.3% from FY 2015-16). SFC's available grant-in-aid for FY 2016-17 is set out in the table below:

	£million
Draft Budget 2016-17	1,027.2
Retained for HE related activity	-0.6
SFC available grant in aid for FY 2016-17	1,026.6

4. SFC's capital as set out in the Scottish Government's draft budget is £35.7 million and is set out in the table below:

	£million
HE Capital	25.7
Financial Transactions	10.0

5. In setting our indicative academic year (AY) budget for 2016-17 we span two financial years 2016-17 and 2017-18. We do not have any information on the Scottish Government plans for the financial years beyond 2016-17, and as such

have planned on the basis of flat cash for future financial years. We have set a revenue budget for AY 2016-17 of £1,014.9 million. This is the available grant set out above in paragraph 3 reduced by £11.7 million which we have transferred to capital to provide match funding for research infrastructure investment from the Department for Business, Innovation and Skills (DBIS) (see paragraph 40).

6. The budget is indicative and cannot be finalised until the budget bill has been agreed by the Scottish Parliament which we expect to be in March 2016. There will also be additional ring-fenced funding for student places in controlled subjects (Medicine, Dentistry, Teacher Education and Nursing) yet to be finalised. We, therefore, plan to confirm the overall budget position and final outcome agreement allocations in April 2016.

Guidance and policy priorities

7. In her Letter of Guidance of [8 February 2016](#), the Cabinet Secretary reiterated the Scottish Government's high-level strategic objectives remained unchanged from her earlier letter of [10 September 2015](#). These were:
 - High-quality, effective learning.
 - Access to education for people from the widest range of backgrounds.
 - Learning which prepares people well for the world of work and successful long-term careers, and in doing so supports our ambitions for economic growth.
 - Internationally competitive and impactful research.
 - Effective knowledge exchange and innovation including excellent university / industry collaboration.
 - Meet the challenges set out by the Developing Scotland's Young Workforce report.
 - Address the underrepresentation of women on the governing bodies of colleges and universities and at senior levels, and gender balance among student intakes for some key subjects.
8. The Guidance Letter also *“welcomed the publication of the SFC’s Strategic Plan 2015-18 in November 2015 – a plan which is broad in scope and stretching in terms of ambition. I note the three main outcomes set out in the plan which are to be delivered by 2018: delivery of high quality learning and teaching; provision of world leading research; and stimulating innovation in the economy”*.

9. In her Letter of Guidance the Cabinet Secretary highlighted the potential for *“a more streamlined approach to the learner journey, ensuring that there is a clearer, more targeted path for young people between schools, colleges, universities and employment.”* The Cabinet Secretary went on to say that she would like to see us *“allocate funding in a way that can best support more impactful delivery and, crucially, improvement in the quality of the learner experience.”*
10. In response to the themes raised by the Cabinet Secretary and in continuing our own commitment to streamlining the learner journey, whilst improving access to Higher Education, we will examine ways in which we could incentivise schools, colleges and universities to offer a diverse range of learner journeys, with a view to make changes starting in AY 2017-18. We will provide information on any planned changes in the final outcome agreement funding announcement for AY 2016-17, which should allow us to take into account the findings of the Commission on Widening Access.

Teaching funds

11. Table 2, attached, shows the AY 2016-17 teaching grants. We have continued to reduce funded places as originally planned, to phase out funded places for rest of UK (RUK) students. We are removing 309.1 places for RUK in AY 2016-17, which is the last year of this reduction. The RUK saving for AY 2016-17 is £4.5 million. Our teaching funding continues to provide compensation for strategically important subjects at a cost of £15.8 million.

Additional funded places

12. In AY 2013-14 we introduced four new investment schemes providing universities with additional funded places to widen access, increase articulation from college, and support key sectors of the economy with additional undergraduate and taught postgraduate places. AY 2015-16 saw the third tranche of additional undergraduate places being allocated for each of these schemes.
13. In light of the 3.3% reduction in SFC’s grant-in-aid and to help minimise reductions in core teaching grant allocations, we have decided that the fourth tranche of additional undergraduate places will not be allocated to universities in AY 2016-17 for the widening access and articulation schemes, whilst the model for the undergraduate skills for growth places will be changed in order to encourage collaboration with industry.

Widening access and articulation places

14. SFC remains committed to the principles of widening access and to streamlining the learner journey by encouraging greater articulation routes between colleges and universities. While we are not funding the fourth tranche of additional places, we will continue to fund additional places at the level that had been reached last year. That means that universities will continue to receive the majority of their additional places as we intend to continue the tranches of funding we have previously awarded, subject to universities continuing to make effective use of these places to widen access. We expect that universities will use these places and their core resource to continue to make progress in widening access and in providing articulation routes between colleges and universities in AY 2016-17 as part of their outcome agreements.
15. We will issue further guidance on the widening access and articulation schemes in advance of the final outcome agreement funding allocations, and our expectations with regards to these schemes should be agreed between individual universities and their outcome agreement managers. In the context of the upcoming final report of the Commission for Widening Access and the stated strong support from the sector for widening access, we expect that universities will continue to set aspirational targets in this area.

Undergraduate skills for growth

16. There will be 171 places available for undergraduate skills for growth in AY 2016-17. We would expect universities to collaborate with industry to provide additional skills provision in the key sectors of energy and life science. These places will be available on a match basis to those universities previously in receipt of additional undergraduate skills for growth places. For every new place which is fully funded by industry, SFC will provide a matched place, up to a sector total of £1.2 million. We recognise that universities may not be able to arrange these places in time to utilise them fully in 2016-17. Universities should discuss their medium term plans for these places with their outcome agreement manager. We will issue further guidance on the undergraduate skills for growth scheme in advance of the final outcome agreement funding allocations.

Small specialist institutions

17. We continue to support our small specialist institutions and will provide a Small Specialist Institutions (SSI) grant at the same level as in AY 2015-16 to Glasgow School of Art, Royal Conservatoire of Scotland and SRUC. SFC recognises the unique challenges faced by our small specialist institutions and that even small changes to budget lines may have a disproportionate impact on their funding landscape. As a result we continue to protect the small specialist institutions.

Widening Access and Retention Fund

18. The Widening Access and Retention Fund (formerly known as 'Regional Coherence' funding) has been maintained in cash terms for AY 2016-17. In AY 2014-15 we carried out a review of Regional Coherence funding to ensure our approach was embedded into the Outcome Agreement process. Following on from that review, universities in receipt of the Widening Access and Retention Fund (WARF) are expected to continue to demonstrate and maintain a significant commitment to the support, retention and successful outcomes of students from the most disadvantaged and deprived backgrounds. We also expect these universities to deliver higher proportions of and support larger cohorts of widening access students particularly in relation to those from the 20% most deprived areas than those who are not in receipt of these funds.

Transitional funding

19. We are aware that reducing the core teaching grant (in addition to other changes to teaching described above) and changes to research set out below result in a differential impact on universities. As a result we have added £1.7 million of transitional funding to ensure that no institution faces a total reduction of greater than 3.9% in their combined core teaching and research grants from AY 2015-16 to AY 2016-17.
20. As a result of these changes to teaching funding, our gross subject prices for AY 2016-17 are reduced by 2.9%. In light of the reduction in teaching prices and in recognition of the differential impact that the reduction will have on universities, we have decided to retain the tolerance band in the validation model for calculating main teaching grant at +/-4%. It remains our intention to move to a 'price-only' model over time.
21. Our prices include an assumed level of tuition fees for eligible Scottish domiciled/EU undergraduate students, which is paid for by the Student Awards Agency for Scotland (SAAS). Our assumption is that the tuition fees will remain at £1,820. This figure will be confirmed with SAAS in the early part of 2016. Our gross teaching prices for AY 2016-17 (including an assumed fee from SAAS) are set out below.

Price group	1	2	3	4	5	6
Indicative gross price (£)	16,454	9,336	8,274	7,203	6,367	5,190

Research Excellence Grant

22. We have maintained the budget for the Research Excellence Grant (REG) at £231.8 million. This is in line with the Cabinet Secretary's guidance that *"the budget settlement for the university sector will enable the core research budget for higher education to be protected as a key investment for the future of Scotland that supports the leverage of funds into Scotland from elsewhere. In recognition of this, I would ask SFC to seek to maintain the Research Excellence Grant in 2016-17 at the same level as in 2015-16."*
23. In March 2015 we wrote to universities with indicative allocations of REG along with details of the revised REG funding model.
(www.sfc.ac.uk/web/FILES/Announcements_SFCAN062015/Outcome_Agreements_for_universities_indicative_research_funding_decisions.pdf).
24. There are three elements that contribute to the calculation of REG:
 - REGa supports quality and is allocated on volume, quality and a weighting (previously the cost factor). It is calculated at each of the 36 units of assessment for each institution and then summed. SFC is allocating £166.8 million to REGa in AY 2016-17.
 - REGb is a contribution towards meeting full economic costs (fEC) for Research Councils UK (RCUK) and other competitively funded research and is allocated in proportion to the amount of (non-Charity) research income each institution receives i.e. if they secured 10% of Scotland's research income they will be allocated 10% of this grant. SFC is allocating £40 million to REGb in AY 2016-17.
 - REGc is a contribution towards meeting fEC for charity funded research and is allocated in proportion to the amount of competitively won charity research income each institution receives i.e. if they secured 10% of Scotland's charity research income they will be allocated 10% of this grant. Technical details of the model are attached to this letter. SFC is allocating £25 million to REGc in 2016-17.
25. The calculation of REGa remains unchanged from AY 2015-16, whereas REGb and REGc have been updated in line with the latest (three year) HESA data on charity and non-charity research income.
26. AY 2016-17 is the second of the three year transition to the full implementation of the new REG model. REG for AY 2016-17 is calculated on the basis of one third of the AY 2014-15 allocations and two thirds of the indicative AY 2017-18 allocations. By AY 2017-18 we will have fully implemented the new model.

Research Postgraduate Grant

27. We have maintained the budget for the Research Postgraduate Grant at £34.6 million. The distribution of funding has been updated in line with research postgraduate student numbers for AY 2012-13 and AY 2013-14, derived from the HESA student numbers.

University Innovation Fund

28. The University Innovation Fund (UIF) has been introduced for AY 2016-17 to replace the Knowledge Exchange Grant and Knowledge Transfer Grant.
29. The UIF is made up of two strands; a baseline allocation (Platform Grant) of £250,000 with the remainder of the funding split (as an initial allocation for AY 2016-17 only) pro-rata to each institution's share of the formula-based element of the Knowledge Transfer Grant for AY 2015-16.
30. The entire variable element of the UIF (the Outcomes Grant) will be allocated in future years through the Outcome Agreement process. For AY 2016-17 only, reflecting the overall UIF allocation for this year, £2 million of the Outcomes Grant will be allocated using an analogous outcome-based process, currently underway. Adjustments to individual universities' UIF allocations are therefore possible, subsequent to this communication.

Strategic funds

31. The budget for strategic projects and grants has been set at £41.7 million for AY 2016-17. This is a 12% reduction from our anticipated strategic commitments for AY 2016-17 and SFC is currently carrying out an exercise to identify areas of strategic funding where it will be possible to make savings (up to a maximum of 25% per project). Outcome Agreement Managers and Lead Officers for specific projects will contact universities in the near future to finalise reductions for individual projects.

Innovation Centres

32. SFC has reviewed the required profile of expenditure for the Innovation Centres and, as a result, have set the AY 2016-17 budget at £20.7 million, which is £4.1 million higher than the budgeted allocation in AY 2015-16. It remains SFC's intention to distribute up to £120 million to the Innovation Centres programme by the end of 2019, as per the draft budget for FY 2016-17.

Strategic Intervention Fund

33. We recognise that the funding settlement outlined in this letter may be challenging for some universities. We have, therefore, set £4.9 million aside to

allow for SFC to invest in institutional change and improvement, if required.

Fee anomalies

34. The budget for the Fee Anomalies grant has been maintained at £1 million for AY 2016-17. However, we expect that the total claims we will receive will exceed that budget. In light of this expectation, if total claims for fee anomalies exceed the £1 million budget in AY 2016-17 we will reduce our payments accordingly.

Commitments carried forward from AY 2015-16

35. A budget of £10 million has been set to allow SFC to meet commitments which were made mainly to support additional capital requirements including enabling the sector to secure Department for Business, Innovation and Skills (DBIS) research capital in AY 2015-16.

Transfer to SAAS

36. As tuition fees are paid to universities for eligible students from SAAS, we will continue to transfer resource to SAAS to cover the cost of our additional places for widening access, articulation and skills. In addition, SAAS now administers the part-time Fee Waiver Scheme, previously administered by SFC. We have, therefore, budgeted for a total of £20 million in AY 2016-17 for the SAAS transfer.

Additional ring-fenced funding

37. SFC allocates additional controlled funded places, provided through additional ring-fenced funding from the Scottish Government, for the subjects of Initial Teacher Education (ITE), Dentistry, Medicine, and pre-registration Nursing and Midwifery education. SFC has already announced the 2016-17 intakes and funded places for ITE and Dentistry – see links below:
- Initial Teacher Education www.sfc.ac.uk/communications/Announcements/2016/SFCAN012016.aspx
 - Dentistry www.sfc.ac.uk/communications/Announcements/2016/SFCAN032016.aspx
38. Announcements on the 2016-17 intakes and funded places for Medicine and pre-registration Nursing and Midwifery are currently being finalised in discussion with the Scottish Government and will be issued as soon as possible.
39. The final Outcome Agreement Funding announcement will provide a summary

of the funded places for the controlled subjects of ITE, Dentistry, Medicine and Nursing and Midwifery, along with the associated funding for those places.

Capital funding

40. The Scottish Government’s draft budget for FY 2016-17 set the HE capital budget as £35.7 million. Following on from that announcement, SFC has been working closely with the Scottish Government to maximise the capital budget available to the sector. As a result of those discussions it has been agreed that £11.7 million of the resource budget be used to provide match funding for any research infrastructure investment from DBIS. The indicative revised capital budget is set out below.

Capital	£ million
HE capital as per paragraph 4	25.7
Financial Transactions	10.0
Indicative revenue to capital transfer (DBIS match – paragraph 5)	11.7
Forecast Capital Grant	47.4

with revised indicative capital allocations of:

Capital budgets	£ million
Financial transactions	10.0
Roslin (University of Edinburgh)	5.0
GSA loan support	5.4
Capital maintenance	15.3
DBIS match funding (SFC contribution)	11.7
Total Capital	47.4

41. Allocations for the capital maintenance grant are set out in Table 8, and we are in negotiations with DBIS with regards to the use of the “11.7 million that has been allocated for match funding.” The DBIS research capital grant will be confirmed to the sector at the earliest opportunity.
42. We are in discussion with the Scottish Government regarding the arrangements for use of the financial transactions fund. This fund will provide the HE sector with access to low cost loans to support specific capital projects.

Indicative funding tables

43. We have attached the following tables:

- Table 1 – University sector – indicative overall budget for AY 2016-17
- Table 2 – Breakdown of indicative Teaching Grant for AY 2016-17
- Table 3 – Indicative Funded places for AY 2016-17
- Table 4 – Summary of indicative grants for Teaching for AY 2016-17
- Table 5 – Indicative Research Excellence Grant for AY 2016-17
- Table 6 – Indicative grants for Research and Innovation for AY 2016-17
- Table 7 – Indicative grants for Teaching, Research and Innovation for AY 2016-17
- Table 8 – Indicative SFC Capital maintenance grant for FY 2016-17

Further information

44. We will provide further information on funding allocations when we finalise Outcome Agreement funding for AY 2016-17 in April.
45. Please contact Lorna MacDonald, Director of Finance, Tel: 0131 313 6690, email: lornamacdonald@sfc.ac.uk or Martin Smith, Chief Funding and Information Officer, Tel: 0131 313 6528, email: msmith@sfc.ac.uk.



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