



SFC Announcement

Outcome agreement funding for universities - final allocations for 2016-17

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Summary: Announcement of final funding allocations for university outcome agreements in AY 2016-17.

FAO: Principals, Secretaries and Directors of Scotland's universities

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Outcome agreement funding for universities - final allocations for AY 2016-17

Purpose

1. I am writing to provide you with the Scottish Funding Council's (SFC) final decisions on outcome agreement funding for academic year (AY) 2016-17. The figures provided in this announcement should be used to finalise your outcome agreement and the funding allocation for your university will be taken to be accepted upon the final signing of your outcome agreement for AY 2016-17.
2. The decisions on funding are in line with the Cabinet Secretary's Letters of Guidance of 8 February 2016 and 23 March 2016. They support SFC's strategy, in particular the extent to which the achievements in the 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 agreements where that is likely to affect the amount or type of funding we should allocate for AY 2016-17.

Guidance and policy priorities

3. 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.
 - Meeting the challenges set out by the Developing Scotland's Young Workforce report.
 - Addressing the underrepresentation of women on the governing bodies of universities and at senior levels, and gender balance among student intakes for some key subjects.

4. 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.”*
5. 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.”*

Further guidance

6. The Cabinet Secretary wrote to us again on 23 March 2016 to provide further guidance on her expectations for 2016-17. In her Letter of Guidance the Cabinet Secretary emphasised the Scottish Government’s prioritisation of widening access, their wholehearted acceptance of the recommendations of the Commission for Widening Access with regards to the value of articulation in supporting fair access and the setting of ambitious targets for equal access for students from deprived areas.
7. The Letter went on to state: *“In that context, and as part of our commitment to meeting those targets, I believe it would be appropriate for SFC to support the fourth and final tranche of the additional places scheme for access and articulation in academic year 2016-17, as previously anticipated. This will support the transition to an embedded approach.*

In doing so, I expect the SFC to maintain the unit of resource for core teaching and the protection of core research funded through the Research Excellence Grant as set out in the indicative allocations. Given the tight financial climate we find ourselves in, I expect SFC to manage the costs associated with supporting the final year of additional places for access and articulation in academic year 2016-17 over the coming two financial years (2016-17 and 2017-18).”

8. In response to the guidance from the Cabinet Secretary and in continuing our own commitment to streamlining the learner journey, whilst improving access to Higher Education, we have taken the decision to fund the AY 2016-17 tranche of additional places for widening access and articulation.

Overall available funds for the university sector

9. 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. SFC's available grant-in-aid for FY 2016-17 is set out in the table below:

	£million
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

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

	£million
HE Capital	25.7
Financial Transactions	10.0

11. 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's 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 9 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 51).
12. In line with the guidance from the Cabinet Secretary we have allocated an additional £13.7 million above the revenue budget of £1,014.9 million. This will allow us to fund the fourth tranche of additional places for widening access and articulation. We will seek to manage this additional commitment for AY 2016-17 over financial years 2016-17 and 2017-18 as requested by the Cabinet Secretary (see paragraph 7).

Changes from the indicative funding announcement

13. The following changes have been made in Teaching grant since the indicative funding announcement was made in February (SFC/AN/04/2016):
- +£0.3 million increase as a result of moving Vision Science places at Glasgow Caledonian University from price group 5 to price group 3.

- +£0.1 million increase for additional Crichton campus places for the University of Glasgow.
- +£0.1 million increase for additional Taught Postgraduate places.
- +£3.5 million increase for additional Widening Access places.
- +£5.9 million increase for additional Articulation places.
- +£0.3 million increase as a result of finalising the controlled places for Dentistry, Medicine and Teacher Education.
- £0.1 million advanced to the University of Abertay Dundee for accelerated provision.

14. Other changes since the indicative funding announcement are set out below:

- +£0.9 million increase in the available Fee Anomalies budget.
- +£0.1 million increase in the Small Specialist Institution (SSI) grant as a result of the restoration of the additional places.
- -£0.3 million decrease to the Small Specialist Institution (SSI) Protection grant as a result of the other budget changes described in this section.
- -£0.7 million decrease to the Transitional Funding grant as a result of the other budget changes described in this section.
- -£4.9 million decrease in commitments carried forward from AY 2015-16, this has been reduced following a review of our AY 2015-16 commitments.
- +£3.8 million increase in the budget for strategic grants as we have protected widening access and other priority areas.
- +£0.2 million increase to the Strategic Intervention Fund.
- -£3.8 million decrease to the Capital Maintenance grant - this reduction has been restricted to those universities that attract significant research income and, therefore, receive research capital funding from DBIS.
- +£3.8 million increase in the SFC budget for DBIS capital funding. This attracts an additional £3.8 million research capital from DBIS.
- +£4.3 million increase in the transfer to the Students Awards Agency for Scotland (SAAS) to reflect the additional places for Widening Access and Articulation.

Main Teaching Grant

15. In her Letter of Guidance of 8 February the Cabinet Secretary asked SFC to “protect, as far as possible, the available budget for core teaching and research.” Then in her subsequent Letter of Guidance of 23 March the Cabinet Secretary further set out her expectations for teaching budgets, stating: “I expect the SFC to maintain the unit of resource for core teaching.....as set out in the indicative allocations.” We have, therefore, maintained the teaching price groups at the level set out in the Indicative Funding Announcement for AY 2016-17 that we published in February.
16. Our gross subject prices (including an assumed fee from SAAS) for AY 2016-17 have been reduced by 2.9% from AY 2015-16 and are set out in the table below.

Price group	1	2	3	4	5	6
2016-17 gross price (£)	16,454	9,336	8,274	7,203	6,367	5,190

17. Our gross prices include an assumed level of tuition fees for eligible Scottish domiciled / EU students as set by SAAS. Our assumed tuition fees are:
- Full-time undergraduate - £1,820
 - Full-time taught postgraduate - £3,400
 - Part-time undergraduate - £1,285

Rest of UK funded places

18. 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 fifth and final year of this reduction. The saving for AY 2016-17 is £4.5 million. Details of the RUK funded places removed in AY 2016-17 are set out in Table 3 and details of all RUK funded places removed since AY 2012-13 are set out in Table C3.

Price group validation

19. In light of the reduction in teaching subject 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.

Expensive strategically important subjects

20. We continue to provide compensation for expensive controlled clinical subjects (Medicine and Dentistry) and higher cost strategically important subjects

(including Science, Engineering, Veterinary Science, and Design & Creative Arts) for RUK students at a cost of £15.8 million. This funding recognises the high cost of these subjects and is intended to compensate institutions for the difference in our subject price and the maximum RUK student tuition fee of £9,000 (allowing for differing course durations).

Additional places: Widening Access

21. In AY 2013-14 we initially allocated 727 funded places for the purpose of widening access, with a further tranche being allocated in AY 2014-15. We have monitored the number of additional places allocated and the number of places that have been filled and adjusted the places that have been allocated each year. In AY 2015-16 we allocated a further 680 places for Widening Access and 670 of these places were filled. In AY 2016-17 we have allocated a further 680 places.

Additional places: Articulation

22. In AY 2013-14 we initially allocated 1,020 funded places for 1+3 or 2+2 articulation schemes with colleges, with a further tranche being allocated in AY 2014-15. We have monitored the number of additional places allocated and the number of places that have been filled and adjusted the places that have been allocated each year. In AY 2015-16 we allocated a further 1,118 places for Articulation and 1,112 of these places were filled. In AY 2016-17 we have allocated a further 1,118 places.

Additional places: Skills - undergraduate and taught postgraduate

23. In AY 2013-14 we allocated 815 taught postgraduate (TPG) funded places for Skills. There have been no additional tranches of TPG places since AY 2013-14 but there have been some redistribution of places and some additional places added for universities that did not receive any in the original allocation. In AY 2015-16 a total of 822 funded places were associated with TPG Skills, of which 723.2 were filled. In AY 2016-17 the Royal Conservatoire of Scotland will receive an additional 7 FTE places. The additional TPG places are paid at the gross unit of resource.
24. Those additional TPG places that have been embedded into universities' core teaching grant continue to be funded at the gross unit of resource and institutions should not charge students fees for these places.
25. In the Indicative Outcome Agreement Funding Letter we announced that there will be 171 places available for Undergraduate Skills for Growth in AY 2016-17. We 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 initially on a match basis to those universities previously in receipt of additional Undergraduate Skills for Growth places. SFC will provide these places on the expectation that institutions will get a matched place from industry, up to a sector total of £1.2 million. We recognise that universities may not be able to arrange these places in time to fully utilise them in AY 2016-17. Universities should discuss their medium-term plans for these places with their outcome agreement manager. For a transitional period we will consider relaxation of some of the conditions we set out below.

26. Universities will be asked to provide data on the number of Undergraduate Skills places that they have received industry funding for in their Early Statistics Return. In order to return an industry-funded place, universities should meet the following criteria:
- The student place must be fully funded by industry investment / sponsorship.
 - The industry investment / sponsorship must be new funding sourced for the purpose of the Undergraduate Skills places.
 - The industry funded place (and our match places) should be in the same subject area as the additional Undergraduate Skills places were originally awarded by SFC or in another area of skills need agreed with the university's outcome agreement manager.

Additional places: Crichton

27. We have allocated an additional 15 places in AY 2016-17 to the University of Glasgow to support their work at the Crichton Campus, Dumfries. This is the final allocation of the planned additional places for this purpose.

Additional places: further information

28. Further information on the additional places awarded in AY 2016-17 can be found in Table 3, with a summary of all the additional places awarded in these schemes since AY 2013-14 in Table A5.

Controlled provision and additional Scottish Government ring-fenced places

29. Intakes and funded places for the controlled subjects have been announced since the publication of the Indicative Outcome Agreement Funding Letter. These can be found here:

- Medicine -
www.sfc.ac.uk/communications/Announcements/2016/SFCAN062016.aspx
- Dentistry -
www.sfc.ac.uk/communications/Announcements/2016/SFCAN032016.aspx
- Pre-registration Nursing and Midwifery -
www.sfc.ac.uk/communications/Announcements/2016/SFCAN052016.aspx
- Initial Teacher Education -
www.sfc.ac.uk/communications/Announcements/2016/SFCAN012016.aspx

30. Controlled SFC funded student places for AY 2016-17 can be found in Table A2b. The additional student places funded by the Scottish Government for AY 2016-17 can be found in Table A2b. The student numbers for consolidation for controlled subject areas can be found in Table 5.

Fee Anomalies

31. The budget for the fee anomalies grant has been increased to £1.9 million for AY 2016-17. If total claims for fee anomalies exceed this budget, we will reduce our payments accordingly. However we anticipate that this increased budget will be sufficient to meet the claims that we expect to receive in AY 2016-17.

Small Specialist Institutions

32. The Small Specialist Institution (SSI) grant has increased by £0.1 million from the Indicative Outcome Agreement Funding announcement, which reflects the additional funded places that have been awarded to the Royal Conservatoire for Scotland.

Small Specialist Institutions protection

33. We continue to recognise the unique challenges faced by our SSIs and that even relatively small reductions in funding may have a disproportionate impact on their operations. As a result we have continued to protect the SSI's funding for AY 2016-17.

Accelerated provision - University of Abertay Dundee

34. The University of Abertay Dundee has undertaken a pilot to introduce a three year accelerated programme for some its degrees. SFC has agreed to advance some teaching funding into AY 2016-17 and AY 2017-18, which will then be recovered in later AYs, to reflect the FTE profile under the accelerated programmes.

Transitional funding

35. 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 have a differential impact on universities. As a result we have added £1.0 million of transitional funding to ensure that no university faces a total reduction of more than 3.9% in their combined core teaching and research grants from AY 2015-16 to AY 2016-17.

Research Excellence Grant

36. 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."*
37. 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.
38. There are three elements that contribute to the calculation of REG. Full details of the new REG model are attached to this letter, but in summary:
- 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 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. SFC is allocating £25 million to REGc in 2016-17.
39. The calculation of REGa remains unchanged from AY 2015-16, whereas REGb and REGc have been updated in line with the latest three year Higher Education Statistics Agency (HESA) data on charity and non-charity research income.
 40. 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

41. We have maintained the AY 2016-17 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

42. The University Innovation Fund (UIF) has been introduced from AY 2016-17 to replace the Knowledge Exchange Grant and Knowledge Transfer Grant. The UIF will support the reform and simplification of the innovation support landscape in the university sector, mindful of the Scottish Government's innovation reform priorities highlighted in Cabinet Secretary's Letter of Guidance of 8 February 2016.
43. 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.
44. The entire variable element of the UIF ('Outcomes Grant') will be allocated in future years through the HE outcome agreement process. For AY 2016-17 only, reflecting the overall UIF allocation for this year, £2 million of the Outcomes Grant has been allocated using a separate outcome-based process based on institutional agreements of expected progress towards sector-wide improvement goals in university innovation support, mirroring the HE outcome agreement process.

Commitments carried forward from AY 2015-16

45. In the Indicative Outcome Agreement Funding Letter we stated that £10 million had been set aside to allow SFC to meet commitments which were made mainly to support additional capital requirements, including enabling the sector to secure research capital funding from the Department for Business, Innovation and Skills (DBIS) in AY 2015-16. We have since reviewed the position and the commitment carried forward from AY 2015-16 has been reduced to £5.1 million.

Innovation Centres

46. The funding allocated for the Innovation Centres in AY 2016-17 remains at £20.7 million as announced in the Indicative Outcome Agreement Funding Letter. This 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 funds

47. The budget for strategic projects and grants has been set at £45.5 million for AY 2016-17. As communicated in our in our indicative funding announcement on 19 February, we have had to made a reduction to our anticipated strategic commitments for AY 2016-17 to achieve the overall programme budget.
48. Protecting core research funding and, as far as possible, core teaching funding has been the agreed priority. To achieve the required savings, we adopted a default reduction of 25% for awards with funding that had been allocated for AY 2016-17. However, some awards have not been reduced on the grounds of high Government priority, e.g. widening access, or where a reduction would be impractical for reasons of funding complexity. We have also rephased Innovation Centre budgets. The strategic funding to individual universities (as at 20 April 2016) is set out in Annex C.
49. Given the pressure on our strategic funds in AY 2016-17, we are limited in our capacity to develop and invest in any new proposals from the sector. However, we closely monitor these funds and the timing of projects so some funding may be available in future years.

Strategic Intervention fund

50. We recognise that the funding settlement outlined in this letter may be challenging for some universities. We have therefore set aside £5 million to allow for SFC to invest in institutional change and improvement, if required. This is an increase of £0.2 million from the Indicative Outcome Agreement Funding letter.

Transfer to SAAS

51. We continue to transfer resource to SAAS in recognition of the financial impact on its budget of our additional places for Widening Access, Articulation and Skills and the Part-time Fee Waiver Scheme. We have therefore budgeted £24.3 million in AY 2016-17 for the SAAS transfer. This is £4.3 million higher than what was announced in the Indicative Outcome Agreement Funding letter as a consequence of the additional places for Widening Access and Articulation being restored.

Capital funding

52. 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 can be used to provide additional match funding for any research infrastructure investment from DBIS. The revised capital budget is set out below.

Capital	£ million
HE capital as per paragraph 10	25.7
Financial Transactions	10.0
Revenue to capital transfer (DBIS match – paragraph 11)	11.7
Forecast Capital Grant	47.4

with revised capital allocations for FY 2016-17 of:

Capital budgets	£ million
Financial transactions	10.0
Roslin (University of Edinburgh)	5.0
GSA loan support	5.4
Capital maintenance	11.5
DBIS match funding (SFC contribution)	15.5
Total Capital	47.4

53. Allocations for the Capital Maintenance Grant and DBIS Research Capital Grant are set out in Table 8.
54. We are in discussion with the Scottish Government regarding the arrangements for use of the Financial Transactions fund. This fund will provide the university sector with access to low cost loans to support specific capital projects. We will provide more information to the sector in due course.

Funded places and student numbers for consolidation

55. The Scottish Government's consolidation policy limits the number of full-time Scottish and EU undergraduate students. As in previous years, universities should not exceed their consolidation numbers for non-controlled subjects by more than 10%. We have revised the consolidation number for each university to reflect the increased number of funded places allocated for AY 2016-17 and whether places were filled in AY 2015-16.
56. Four universities took part in a pilot scheme over the two year period 2014-15 to 2015-16 to increase their consolidation limits, where this could be directly linked to their plans to increase widening access or support specific skills such as ICT. We did not adjust their indicative numbers, but allowed them to recruit a small number of places beyond the 10% tolerance level where that met the strategic objectives of the pilot scheme. The two-year pilot scheme ends in 2015-16 and we are currently reviewing its impact.

Acceptance of grant and outcome agreements

57. This letter announces the final funding that will be associated with your outcome agreement for AY 2016-17. By signing your outcome agreement you are agreeing to the funding allocation announced in this letter and the associated conditions of grant (see Annex D).

Funding Tables

58. We have attached the following tables and annexes for AY 2016-17:
 - Table 1 - University Sector - Overall Budget for AY 2016-17
 - Table 2 - Breakdown of Teaching Grant for AY 2016-17
 - Table 3 - Total Funded Places for AY 2016-17
 - Table 4 - Summary of Grants for Teaching for AY 2016-17
 - Table 5 - Consolidation numbers for AY 2016-17
 - Table 6 - Grants for Research and Innovation for AY 2016-17
 - Table 7 - Grants for Teaching, Research and Innovation for AY 2016-17
 - Table 8 - SFC Capital Maintenance, BIS Research Capital and SFC Research Capital (Matched Funding) for FY 2016-17

- Annex A - Funding allocations to universities for AY 2016-17
- Annex B - Student targets for AY 2016-17
- Annex C - Strategic funding for universities in AY 2016-17
- Annex D - University Conditions of Grant for AY 2016-17

Further information

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