ESF Simplified Cost Options – SFC funding models

Simplified Cost Options

1. The 2014-2020 programme sees a significant shift towards simplification, and a move away from using only actual costs. There are two simplified cost options available; standard scale-of-unit costs and flat rate models.

Standard Scale-of-Unit Costs

2. The Scottish Government's National Rules on Eligibility of Expenditure state that unit costs are paid:

   "…on the basis of quantified activities, outputs or results multiplied by standard scale-of-unit costs established by the Member States. The option can be used for any type of grant, project or part of project, when it is possible to define quantities related to an activity and standard scale of unit costs. Standard scales of unit costs apply typically to easily identifiable quantities, such as training hours, training days, certificates obtained, training modules finalised, consultant hours worked, hotel nights, or meals."

3. Article 67, Paragraph 5(a) of European Commission (EC) Regulation 1303/2013 states that the calculation of unit costs must be fair, equitable and verifiable and based on:

   - Historical data.
   - Accepted current accounting practices.
   - Statistical data or other objective information (e.g. representative samples, information from other European Union-funded or national programmes).

SFC funding principles

4. The funding principles which underpin the Scottish Funding Council's funding allocation methods for colleges and universities are summarised below:

   - Effective – no barriers to particular types of provision or delivery.
   - Underpins quality – so that quality of provision is consistently maintained.
   - Responsive and adaptable – to help providers meet key policy priorities.
   - Equitable – recognises necessary diversity in system, but justifies differences in treatment with reference to differential costs.
   - Predictable.
   - Transparent – evidence based.
   - Efficient.

SFC Unit Cost Funding Models

Background

5. EC rules allow for a standard scale of costs to be used for ESF-funded activity. For the 2014-2020 European Structural & Investment Funding (ESIF) programme, SFC's funding models for colleges and universities were approved as flat-rate standard-scale of unit cost funding models.

6. SFC has operated funding methodologies for allocating and paying teaching grants to Scotland's colleges and university since its inception in 1992. This is based on fixed prices and takes account of different cost drivers experienced by individual institutions. SFC also collects extensive data on the activity delivered using its grants.

7. Through its ESF Priority 1 and Priority 5 projects (2007-2013 ESIF), SFC supported colleges to recruit more students to meet the increased demand caused by the economic downturn and provide additional support to help the long-term unemployed progress into employment. Grants were allocated to colleges using a combination of revenue funding from ESF and SFC match funding.

SFC funded institutions

8. SFC funds 25 colleges and 19 universities in Scotland, allowing them to educate, build confidence, develop skills, encourage innovation and help to drive future economic growth. The colleges and universities are listed under bodies eligible for funding through SFC outlined in Schedule 2 of the Further and Higher Education (Scotland) Act.

9. As part of the reform of post-16 education in Scotland, SFC changed its relationship with colleges and universities by introducing an outcomes-based approach. This means we now negotiate the outcomes that we expect colleges to deliver in return for the significant investment by the Scottish Government. Importantly, this approach allows colleges and universities to make clear their contribution to the priorities of the Council and Scottish Government.

10. Each year, around April / May, SFC issue final funding allocations for the forthcoming Academic Year (AY) through an 'outcome agreement' process. Each college / university outcome agreement sets out what the institution will deliver for the funding that SFC has agreed to provide and includes targets and conditions of grant.

11. The 'Final Outcome Agreement Funding' publications provide a breakdown of resources that SFC has available for both the college and university sector for the coming AY. It also sets out the details of each individual institution's allocations of teaching grant and student support funds. SFC provides supporting documentation detailing the methods used to calculate and allocate funds. More information is available at:

    http://www.sfc.ac.uk/publications-statistics/announcements/announcements-2018/SFCAN092018.aspx

    http://www.sfc.ac.uk/publications-statistics/announcements/announcements-2018/SFCAN102018.aspx

SFC Standard Scale of Unit Cost Model for Colleges (Credit Funding Model)

12. SFC funds colleges to deliver training activities using a credit-based unit cost model. This simplified model was introduced by SFC in AY 2015-16 and ensured a clearer relationship between the activity delivered by colleges, learning hours, and funding.

13. The new simplified unit cost model replaced SUMs (Student Units of Measurement) with credits; with one credit being equivalent to 40 hours of learning.

14. SFC recognises that some subject areas are more expensive to deliver than others. For example, an engineering course may cost more to deliver than a business course as it requires specialist equipment and can only be safely delivered to small classes because of health and safety considerations.

15. For this reason SFC worked with the sector to categorise all programmes across five individual price groups, based on the course subject classification (superclass).

16. Additional information and guidance on credits and the collection of AY 2018-19 student activity data can be found in SFC's Credit Guidance for AY 2018-19

    http://www.sfc.ac.uk/publications-statistics/guidance/guidance-2018/SFCGD102018.aspx

Demographic model

17. SFC operates a demographic model to help inform decisions on any changes to activity which colleges may be asked to undertake. The principles behind the demographic model ensure that we have an evidence base for identifying growing and declining regions and that college student places are being allocated in the right place. The model takes account of SFC/Scottish Government priorities and uses current population data from various sources,

including the General Register Office for Scotland (as part of National Records of Scotland), the Higher Education Statistics Agency (HESA), the UK Government Department for Work and Pensions (DWP) and the Scottish Government, to inform needs-led activity targets and the outcome agreement process.

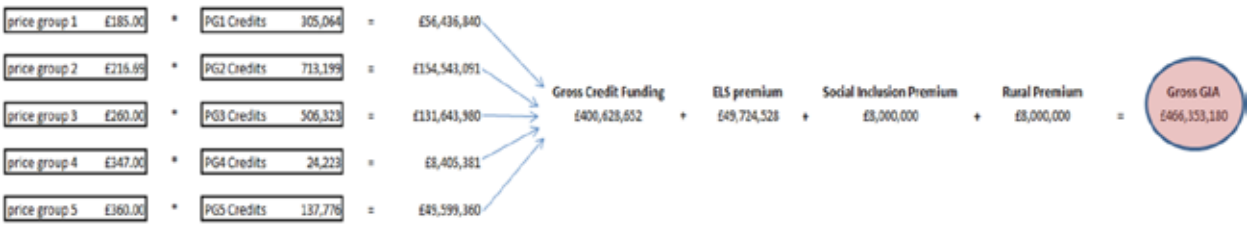
18. The model currently uses the following parameters for each local authority area (while taking account of the historical flow of students between local authority areas):

- Activity is allocated for school-college provision based on the share of the Scottish S3 to S6 school-roll.
- A full-time student place (15 credits) set aside for each 16 & 17 year old who is not in school, university, on Skills Development Scotland (SDS) training or in employment (otherwise known as 'outwith a positive destination').
- 10 credits for each 18 or 19 year old outwith a positive destination.
- The historic number of full-time credits delivered to the 20 to 24 year old group plus additional credits for those claiming Job Seeker's Allowance (JSA) aged 20 - 24.
- Additional credits allocated for upskilling on the basis of the share of those in employment across Scotland.
- Additional credits allocated for those in long-term unemployment (over one year).
- Additional credits allocated to those from the most deprived 10% of the population.

19. The final decision on any changes to activity is supported by the demographic model but also SFC's assessment/knowledge (informed by the outcome agreement process) of each college's/region's capacity to deliver and achieve targets.

College funding allocations

20. SFC has now been operating its new national credit funding system for three years. The model allocates the majority of funding on the individual credit price for each region, which differs across Scotland dependant on the mix of subjects within that region. All subjects are mapped into one of five price groups which each reflect the cost of delivering a course in that subject area. The remaining teaching grants are used to support policy premiums for Extended Learning Support, Social Inclusion and Rurality (but not for ESF). An illustration of how the national credit funding system operates is shown overleaf.



21. For the ESF project we use our national credit funding system to cost the additional credits to be delivered and derive the gross teaching funding for the college. Normally we would add the three premiums above to these totals, but for ESF activity we do not.

22. SFC only pays around half of the student tuition fees each year, with the balance being paid by SAAS, SDS, employers, students, etc. SFC therefore adjusts the college grant for the expected fee income from sources other than SFC. The assumed fees from non-SFC sources are based on the profile from previous FES returns. The gross teaching grant minus fees from other sources is referred to as the Net Teaching Grant.

23. For ESF students, all fees are paid by SFC/ESF. The gross teaching grant for ESF is not therefore adjusted for fees from other sources. However, if a college recruits additional full-time Higher Education (HE) students then the assumed fees from other sources will increase accordingly for future years. For example, if a college increases its SAAS income in AY 2017-18 then this is likely to increase the assumed fees from other sources for AY 2019-20 that will be deducted from the gross amount of SFC funding. There is an increasing demand for HE places at college.

24. This has been SFC's approach to ESF for the Youth Employment Initiative (YEI) and Developing Scotland's Workforce (DSW) in AY 2015-16 because activity was not targeted at HE students. From 2016-17, DSW in Lowlands & Uplands Scotland (LUPS) is largely targeted at HE provision only. However, we have not deducted the tuition fees and paid a lower rate (net price) to the colleges (on the grounds that SAAS would pay the tuition fee element). The reasons for this are:

    - A non-SFC fee adjustment to reflect any increase in HE places will be made in future years (as outlined above).

    - The higher rate reflects the strict eligibility criteria and additional administrative/audit burden of ESF and the fact that it is based on completed units/credits (which is more restrictive than SFC's core funding which is based on planned units/credits).

SFC Standard Scale of Unit Cost Model for Universities

University teaching grant - validation model

25. To calculate a university's teaching grant, SFC uses a 'top-down' method where a university's main teaching grant for the previous year is increased or decreased by a set percentage in line with the available budget.

26. This 'top-down' allocation is then validated against what the main teaching grant would be were we to use a 'bottom-up' model of multiplying the number of funded student places in each of our price groups by the price which SFC pays for each FTE student place. This validation model of funding has been in place since AY 2012-13.

Tolerance threshold

27. In checking the 'bottom-up' method against the 'top-down' calculation, SFC uses a 'tolerance threshold'. This means that if a university's 'bottom-up' calculation (funded places multiplied by price) is up to x% higher or lower than the 'top-down' funding allocation (i.e. previous year's funding adjusted based on the budget available), the allocation remains unchanged.

28. If the 'bottom-up' funded places calculation is more than x% higher or lower than the 'top-down' funding allocation, we will decrease or increase the university's allocation accordingly to bring it within the x% threshold.

29. The new SFC price groups were introduced in AY 2012-13 with a +/-5% tolerance threshold, which was subsequently reduced to +/- 4%. It has always been SFC's intention to steadily adjust the tolerance threshold and revert back to a 'price x place' funding model, which will serve to make the calculation of our teaching grant more straight-forward and transparent.

30. As part of this planned incremental move, we have set the tolerance threshold in the validation model for the calculation of the Main Teaching Grant for AY 2018-19 at +/-2%.

31. It is our intention that a 'price x place' model will operate from AY 2018-19. In addition we will review our current distribution of funded places within subject price groups against universities' actual distribution of students eligible for funding. We will also check our distribution of subjects to price groups - based on HESA cost centres - against Transparent Approach to Costing (Teaching) (TRAC (T)) data.

Core teaching

32. SFC uses the previous year's final core Main Teaching Grant as a starting point. The core Main Teaching Grant is then adjusted for any elements that are due to be recalculated (i.e. the funding for expensive strategically important subjects, and adjustments to funding received from the validation model) in order to give a core teaching grant which provides the basis for the calculation of the Main Teaching Grant.

Adjustment for price group validation

33. In order to validate the main teaching grant, the total for validating (as described above) is compared to the resources for teaching as calculated using a places × price model. The total funded places for validating exclude any adjustments to controlled subjects - the places and funding are amended for this after the validation.

34. Each university's funded places for validating are split into six price groups and are then multiplied by the teaching price (i.e. a price without any adjustment made for any assumed fees that the university will receive) to calculate validated gross resources for teaching.

Tuition fees

35. The price represents the gross amount of funding per full-time equivalent (FTE) student. For most Scottish and EU undergraduates their tuition fee is paid by the Students Awards Agency for Scotland (SAAS). Where a student is not eligible they may be required to pay fees. For taught postgraduate provision, students can apply for fee support from SAAS.

36. To calculate the grant that we provide to the institution we deduct an assumed level of tuition fees that the institution will collect from SAAS and other sources.

Activity measurement (FTE students eligible for funding)

37. We set out guidance on students eligible for funding each year in the notes of guidance covering the Early Statistics Return. This covers the categories of students and teaching provision that SFC funds through its main teaching grants.

38. Students on full-time courses are normally counted as 1 FTE (Full-Time Equivalent). Where possible, the FTE for a part-time student should be based on the proportion of credits enrolled compared to an equivalent full-time course. For courses where there is no equivalent full-time course, standard credit values should be used to calculate the FTE and these are provided in the

Early Statistics guidance notes. For example, the standard credit value for a four-year Honours degree would be 480 credits.

39. To be counted against funded places, in general the student must be a student eligible for SFC funding, attending a course eligible for SFC funding. To be eligible, students should be paying Scottish tuition fee levels (this would include EU students but not rUK students).

40. In terms of courses, students are normally classed by level of provision into three general categories (research postgraduate, taught postgraduate and undergraduate). Research postgraduate covers postgraduates who are mainly engaged in research, whether or not they receive some formal teaching. Taught postgraduate covers postgraduates on courses which are mainly taught, including graduate certificates and diplomas, although they may require students to complete a dissertation. Undergraduates include students taking undergraduate degrees, diplomas and certificates not at postgraduate level.