



# SFC Announcement

## Outcome agreement funding for universities – final allocations for 2018-19

Issue date: 18 May 2018

Reference: SFC/AN/10/2018

Summary: Announcement of final funding allocations for university outcome agreements in academic year 2018-19.

FAO: Principals/Directors and Board Secretaries of Scotland's universities.

Further information: **Contact:** Lorna MacDonald  
**Job title:** Director of Finance  
**Department:** Finance  
**Tel:** 0131 313 6690  
**Email:** [lornamacdonald@sfc.ac.uk](mailto:lornamacdonald@sfc.ac.uk)

## Outcome agreement funding for universities – final allocations for 2018-19

1. I am writing to provide you with the Scottish Funding Council's (SFC) final decisions on university outcome agreement funding for Academic Year (AY) 2018-19.
2. SFC announced indicative university outcome agreement funding allocations for AY 2018-19 on 27 February 2018 ([SFC/AN/07/2018](#)). The indicative funding decisions reflected the Minister for Further Education, Higher Education and Science's [Letter of Guidance](#) to SFC of 30 March 2017, and were consistent with our wish to intensify outcome agreements, as detailed in the Minister's [Outcome Agreement Guidance letter](#) of 18 October 2017.
3. We received a further Ministerial [Letter of Guidance](#) on 4 April 2018 in which she reiterated the Scottish Government's high-level strategic objectives:
  - SFC's role in contributing to effective delivery of the key aims of the Enterprise and Skills Strategic Board.
  - High quality learning in a system which is seamlessly connected for the learner.
  - Access to further and higher education for people from the widest range of backgrounds.
  - Quality learning and good governance in universities.
  - Internationally competitive and impactful research.
  - Effective knowledge exchange and innovation between universities and colleges and industry.
  - SFC operating as a highly effective public body.
4. Our final funding decisions, set out in this announcement, reflect that guidance.
5. Final funding allocations also reflect the extent to which targets and commitments in outcome agreements for AY 2018-19 meet SFC's national aspirations (as identified in our [Outcome Agreement Guidance](#)).
6. In the main, final funding allocations remain broadly unchanged from the indicative announcement in February. There have, however, been some changes which are set out in a later section.
7. This approach supports the delivery of [SFC's Strategic Plan](#), and is consistent with our wish to intensify outcome agreements, as detailed in the Minister for Further Education, Higher Education and Science's [Outcome Agreement Guidance letter](#) of 18 October 2017.

## Key points

8. The key points in this final funding announcement for AY 2018-19 are:
  - Core teaching and research grants have been increased by 1.8%.
  - Gross teaching subject prices have increased by 2.6%.
  - University Innovation Fund has been increased by 10%.
  - Capital/Maintenance Grant funding has increased by £2.9 million.
  - Financial Transaction funding has increased by £30 million.
  - Research Excellence Grant allocations have been updated since the indicative funding announcement.

## Scottish Budget 2018-19

9. The Scottish Government's [\*Scottish Budget: Draft Budget 2018-19\*](#) was published on 14 December 2017 and approved by the Scottish Parliament on 21 February 2018. When it was announced, the Cabinet Secretary for Finance and the Constitution stated that the Draft Budget:
  - *"...invests around £1.8bn in our colleges and universities – providing a real terms increase in their funding". "This investment funds the teaching, research and innovation that will provide opportunities for our young people, train the workforce of the future and drive our productivity."*
  - *"...protects our continued commitment to university education free of tuition fees".*
  - *supports "the expansion (of publicly funded childcare entitlement) by upskilling the early years workforce" and provides "funding for graduate level Early Learning and Childcare courses".*
10. The Budget document states that *"through the Scottish Funding Council, we invest around £1.8 billion in Scotland's colleges and universities to fund teaching, research and innovation activities for Scotland's learners. The ambitions of the Enterprise and Skills Review, particularly in relation to skills alignment, innovation, internationalisation and securing an improved learner journey post-15 will be driven by the Council's investment and activity in:*
  - *Working in partnership with our colleges and universities to improve Scotland's skills base by providing accessible, high quality learning opportunities, with good outcomes for learners which are aligned to industry needs.*

- *Enhancing knowledge exchange and delivering impactful research and innovation.*
- *Supporting our universities and colleges to work collaboratively in developing international partnerships, to attract international students, and to ensure Scotland has the right skills to secure inward investment.*
- *Focusing efforts in growth employment areas, including through the implementation of the STEM strategy and the expansion of the Early Learning and Childcare workforce.*
- *Promoting a partnership approach between employers and education, to improve skills alignment and deliver high quality training opportunities to up-skill and re-skill the workforce through the Flexible Workforce Development Fund and other routes.*
- *To support an improved, more coherent learner journey post-15 by improving the alignment of our learning and skills system.”*

11. The Budget document also states that, in 2018-19, the Scottish Government will:

- *“Deliver a real-terms increase in SFC funding, including a real-terms increase in higher education budgets.*
- *Work in partnership with our universities to provide high quality learning and teaching; improve Scotland’s skills base; enhance knowledge exchange; and maximise the impact of research, innovation and internationalisation in line with the recommendations of the Enterprise and Skills Review.*
- *Work with the university sector to address gender equality at all levels from course choices to senior staff and boards.*
- *Contribute to the implementation of the STEM strategy, in particular increasing participation in STEM study and research at universities.*
- *Support the expansion of the Early Learning and Childcare (ELC) workforce.*
- *Work with universities to deliver our ambition for equal access to higher education by 2030, including ensuring that every care-experienced young person who meets the entry requirements is offered a place at a Scottish university; developing our evidence base on access-related issues; and supporting the work of the Commissioner for Fair Access.*
- *Work with the higher education sector to use financial transactions funding to invest in low carbon energy saving projects, estates development and innovation.”*

## Overall funds available for the university sector

12. The Higher Education (HE) Resource (revenue) budget for Financial Year (FY) 2018-19 was announced as £1,024.9 million; an £11 million (1.1%) increase from FY 2017-18. There is a £4.3 million reduction in the HE Capital budget; from £45.5 to £41.2 million, with HE Financial Transactions funding increasing from £10 million to £40 million.
13. In setting SFC's AY budget for 2018-19, we span two financial years (FYs) 2018-19 and 2019-20. SFC does not have any information on the level of funding for FYs beyond 2018-19, and as such have planned on the basis of 'flat cash' for FY 2019-20. On that basis we have set an HE Revenue budget for AY 2018-19 of £1,028.8 million (as shown in [Table 1](#)) which represents an increase of £16.6 million (1.6%) compared with AY 2017-18. (This is the FY budget converted to an AY budget, taking account of the proportion of the FY 2018-19 budget that is already committed to AY 2017-18.)
14. Total teaching funding for AY 2018-19 has increased by £11.4 million (from £646.5 million to £657.9 million, as shown in [Table 4](#)). Total research and innovation funding for AY 2018-19 has increased by £6 million (from £278.6 million to £284.6 million, as shown in [Table 6](#).) This is unchanged from the indicative funding announcement that was made in February.

## Changes from the indicative funding announcement

15. Core teaching funding allocations remain broadly unchanged from the indicative outcome agreement funding announcement that was made on 27 February ([SFC/AN/07/2018](#)). There have, however, been some changes, particularly relating to controlled subjects (see paragraphs 17-22).
16. Core research funding allocations, specifically Research Excellent Grant, have changed as a result of the new Finance Reporting Standards accounting treatment (see paragraphs 66-68).

## Controlled provision and additional Scottish Government ring-fenced places

17. AY 2018-19 intakes for the controlled subjects have already been published and can be found on SFC's website:
  - [Dentistry](#).
  - [Medicine](#).
  - [Pre-registration Nursing & Midwifery Education](#).
  - [Initial Teacher Education](#).

18. For the indicative funding announcement, we used the AY 2017-18 funded student places to calculate the funding allocations for the controlled subjects. Final funded places have now been updated following the issuing of the intakes letters above and the resultant changes in funding and places for AY 2018-19 can be seen in [Table 2](#) and [Table 3](#) respectively. Overall, total Main Teaching Grant has reduced by £0.3 million from the indicative announcement.
19. Controlled SFC funded student places for AY 2018-19 are shown in [Annex B](#). Additional student places funded by the Scottish Government are also shown in [Annex B](#). Consolidation student numbers for controlled subjects are shown in [Table 5](#).

### ***Scottish Graduate Entry Medicine programme***

20. AY 2018-19 is the first year of the Scottish Graduate Entry Medicine (ScotGEM) programme and we have set an intake target of 55 FTE places. ScotGEM is a four year programme delivered in collaboration between the University of St Andrews, University of Dundee and the University of the Highlands and Islands. With St Andrews delivering the first two years and Dundee delivering the final two years, funded student places will be allocated to each university to reflect this structure.

### ***Widening Access to Medicine***

21. AY 2018-19 is the third year of the Scottish Government's Widening Access to Medicine programme, and we have set a further intake of 50 FTE places for AY 2018-19. The intake of 50 FTE places is split equally between each of the Scottish medical schools.

### ***Pre-medical Entry Places***

22. The Scottish Government will continue to fund a student intake for two pre-medical entry courses in AY 2018-19, with 20 additional funded places allocated to both the University of Aberdeen and the University of Glasgow for pre-medical entry courses for students from a disadvantaged background. These additional places are not controlled but they will be monitored separately from the two universities' core places.

### **Expansion of Early Years Education**

23. The Scottish Government's plans for the expansion of funded Early Learning and Childcare (ELC) entitlement by 2020 will require a substantial increase in the ELC workforce. AY 2018-19 is the second year of the ELC expansion, and the table below confirms the final FTE funded places to be allocated in AY 2018-19 and the expected number of graduates to enter the workforce. This is unchanged from the indicative announcement.

24. SFC is allocating additional funded places for part-time BA Childhood Practice students and full-time Higher National Certificate (HNC) students which will be delivered by the University of the Highlands & Islands (UHI).

	Expected additional graduates from 18-19 intake	Funded places associated with 18-19 intake	Continuing funded places associated with 17-18 intake	Total funded places for 18-19
	<i>Headcount</i>	<i>FTE</i>	<i>FTE</i>	<i>FTE</i>
HNC (UHI)	164	198	-	198
BA Childhood Practice	353	194	135	329
<b>Total</b>	<b>517</b>	<b>392</b>	<b>135</b>	<b>527</b>

25. Ring-fenced additional teaching funding of £3.2 million will be provided by the Scottish Government to meet the costs of this additional activity.
26. SFC has worked with universities and the relevant Scottish Government departments to finalise funded places for controlled subjects in AY 2018-19, and these are shown in [Annex B](#). Associated student numbers for consolidation purposes are shown in [Table 5](#). Additional ring-fenced places funded by the Scottish Government are also shown in [Annex B](#).

### Mainstreaming strategic funded places

27. Funded places associated with two strategic grants have been moved into our Main Teaching Grant model following a review of the grant outcomes. This is a change from the indicative funding announcement. The two grants are:

Access to the Rural Communities	University of St Andrews	39 FTE places	£0.2 million
Additional Widening Access	Royal Conservatoire of Scotland	19 FTE places	£0.1 million

### Final teaching funding for AY 2018-19

28. SFC has provided an inflationary uplift of 1.8% to all core teaching grants for AY 2018-19, including the Main Teaching Grant which increases by £10.9 million. [Table 2](#) provides a breakdown of Main Teaching Grant and indicative allocations for each university. This is a reduction of £0.3 million from the indicative funding announcement and is due to changes in the controlled subjects.
29. We have increased gross teaching subject prices by 2.6%. This incorporates the £10.9 million increase outlined above plus funding being re-invested from

changes in the Main Teaching Grant (see [Table 2](#)) brought about by the adjustment to assumed taught postgraduate fees, as set out in paragraphs 37 to 39 below.

### Teaching funding subject price groups

30. SFC's revised teaching subject gross prices, uplifted by 2.6% for AY 2018-19, are shown in the table below:

<i>Subject Price group</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
2018-19 gross price (£)	16,875	9,575	8,486	7,387	6,530	5,323

31. Our gross subject prices for AY 2018-19 include the following assumed level of tuition fees for eligible Scottish-domiciled/European Union (EU) students as set by the Student Awards Agency for Scotland (SAAS):
- Full-time first degree: £1,820.
  - Other undergraduate: £1,285.
  - Taught Postgraduate: £5,500 (see paragraphs 37-39 below).

### Main Teaching Grant – tolerance thresholds under validation model

32. SFC calculates universities' Main Teaching Grant based on the previous year's teaching funding adjusted for any changes in policy validated against a 'price × place' model, which also takes into account the assumed fees that universities will receive from SAAS and other sources for our funded student places.
33. Since the introduction of the six new price groups in AY 2012-13, SFC has had a tolerance threshold; and a university's Main Teaching Grant is adjusted annually to be within the tolerance that is in place. When it was introduced six years ago, the tolerance threshold was +/- 5%. SFC's policy intention was to steadily reduce the tolerance threshold over a period of time and eventually revert back to a 'price × place' funding model, which would serve to make the calculation of our teaching grant more straight-forward and transparent.
34. As part of this planned incremental move, SFC reduced the tolerance threshold for AY 2017-18 from 4% to 2%. We also stated our intention that a 'price × place' model would operate from AY 2018-19, subject to a planned review. Over the summer/autumn of 2017, SFC established a sector working group and reviewed our current distribution of funded places within subject price groups against universities' actual distribution of students eligible for funding. We also checked our distribution of subjects to price groups – based on Higher Education Statistics Agency (HESA) cost centres – against Transparent Approach to Costing (Teaching) (TRAC (T)) data.



35. Following this work, SFC decided to maintain the current +/- 2% tolerance threshold for AY 2018-19 and to undertake further work in 2018, including 'Brexit' considerations (e.g. funded places for EU students), before considering implementing any changes for AY 2019-20.
36. In addition we have worked with universities in moving funded student places between subject price groups and level of provision, on a cost neutral basis, to better reflect current and planned provision at universities. [Table 3](#) (column 2) reflects the revised final distribution of funded places following on from this exercise.

### ***Changes to taught postgraduate fees***

37. In December 2016 the Scottish Government announced that, from AY 2017-18, full-time taught postgraduate (TPG) students would have access to loans of up to £10,000; for tuition fees of up to £5,500 and £4,500 living costs. SFC had previously worked on a fee assumption that the TPG student tuition fee was £3,400 and we paid the additional teaching costs associated with the relevant subject price. As a result of this change, under our funding model SFC allocates less teaching grant to universities as more resources are available to universities through loan-supported student tuition fees.
38. Last year SFC reduced its core teaching grant allocations for AY 2017-18 and universities had the opportunity to recoup those funds from their student tuition fee income. However, due to some uncertainties about the pattern of student demand once the changes to TPG funding were in place (given that was the first year) which might have affected the ability of all universities to recover reduced incomes, SFC decided for AY 2017-18 to increase universities' teaching funding to off-set the reductions resulting from the TPG changes.
39. For AY 2018-19 SFC has adjusted its core teaching grant allocation by £8.7 million to reflect the student tuition fee changes, but we have added this funding into the teaching unit of resource.

### **Compensation for expensive strategically important subjects**

40. Compensation for expensive strategically important subjects in AY 2018-19 amounts to £17.2 million; an increase of £1.4 million from AY 2017-18. This is shown in [Table 2](#) (column 9).
41. This represents a £0.2 million increase from the indicative announcement, which reflects updated rest of UK (rUK) student data on the controlled subjects. The compensation continues to reflect the £9,250 tuition fee level that Scottish universities have been able to charge new rUK students from AY 2017-18.

## **Additional funded places**

42. SFC introduced three new investment schemes in AY 2013-14 providing universities with additional funded student places to widen access, increase articulation and support key sectors of the economy with additional undergraduate and TPG skills places. The funded places we have allocated since AY 2013-14 will continue, subject to universities using them for the purpose intended.
43. For AY 2018-19 we are allocating an additional 33 Full-Time Equivalent (FTE) student places for articulation, as shown in [Table 3](#). (This relates to additional places that were re-allocated in AY 2015-16.)

## ***Additional Widening Access places***

44. SFC remains committed to the principles of widening access based on the potential to learn regardless of a student's background. Universities must continue to use the additional funded places that have been allocated to them since AY 2013-14 for the purpose of widening access.
45. SFC expects additional widening access places to be used to allow universities to increase the number and proportion of their students from the 20% most deprived areas (SIMD20) of Scotland. We also expect that universities will use both their additional places and their core places to continue to make progress in widening access, and for this to be clearly articulated in outcome agreements.
46. SFC reviewed this widening access scheme for the sector and each of the 10 universities that received additional places. Our review showed that this investment scheme has been successful in meeting the original aim of widening access to university, and in each year from AY's 2013-14 to 2016-17 the actual intake from the 40% most deprived areas (SIMD40) of Scotland exceeded the expected level. There has, however, been less growth in SIMD20 which SFC aims to address going forward through our re-prioritisation of these places in line with the Commission on Widening Access (CoWA) recommendations.
47. Given the scheme's success, SFC has decided to 'mainstream' the additional widening access places within universities' core places from AY 2018-19. In return for the mainstreaming of these places, SFC expects the sector as a whole and each university to meet the following CoWA targets:
  - By 2021, students from the 20% most deprived backgrounds should represent at least 16% of full-time first degree entrants to Scottish universities as a whole and 10% to every individual Scottish university.
48. Through our outcome agreement process, SFC has set and agreed institutional targets to ensure that we can achieve the above CoWA targets.

### ***Additional Articulation places***

49. SFC has allocated an additional 4,416 FTE student funded places between AY's 2013-14 and 2017-18 for the specific purpose of articulation. In AY 2018-19, a final tranche of 33 FTE funded places will be reallocated to universities based on previous agreements, as shown in [Table 3](#) (column 3). These additional places must be used for articulating students in association with colleges.
50. Streamlining the learner journey by encouraging articulation between colleges and universities remains a priority for SFC. This was further emphasised in a [letter to the Chair of SFC](#), dated 18 October 2017, which set out the Minister's expectations that "*SFC, alongside universities and colleges, closely monitors the expansion of articulation to ensure it continues to support disadvantaged learners to progress to degree level study. Where this is not achieved my expectation is, in line with the recommendation, that a proportion of articulation places will be prioritised for disadvantaged learners*".
51. In supporting this priority area, SFC reviewed the additional articulation places (associate students) scheme. The scheme has proved successful in increasing the number of articulating students and – with some minor exceptions – the additional places were filled. There will, therefore, be no change to the additional articulation places scheme for AY 2018-19 (and AY 2019-20), subject to satisfactory outcome agreement targets with the universities that receive these places. Universities (and colleges) should continue with current arrangements to meet the priorities set out by the Minister to expand articulation and ensure it continues to support disadvantaged learners to progress to degree level study. This will be measured through targets set through the outcome agreement process.
52. SFC expects universities (and colleges) to make a purposeful commitment in their outcome agreements to articulation; doing so should support the following ambitions for growth – themselves designed to respond to recommendations 8 to 10 in the '*Blueprint for Fairness*':
  - Between 4,200 and 4,500 students articulate to university with advanced standing per year by 2016-17 rising to 5,500 per year by 2019-20.
  - At least 60% of Higher National (HN) entrants to university should articulate with advanced standing per year by AY 2019-20 rising to 75% by AY 2025-26.
53. SFC expects universities that are receiving these additional articulation places to make a significant commitment to increasing articulation from their core funding (over and above the additional places allocated). To meet the priorities set out by SFC and the Scottish Government, we also expect universities to monitor and report in their outcome agreements how additional articulation

places are used to support learners (with a particular emphasis on disadvantaged learners) into degree level study. Additionally, as discussed and emphasised in previous SFC [guidance](#) for the scheme, we expect 75% of funding for those years in which activity is delivered in colleges to be transferred from universities to colleges. SFC will continue to monitor the transfer and impact of this funding and, subject to budget availability, will continue these arrangements.

### ***Additional Skills places***

54. SFC has allocated an additional 1,195 FTE undergraduate (UG) Skills places and 832 FTE taught postgraduate (TPG) Skills places between AY 2013-14 and AY 2017-18. We have been monitoring the take up of places as part of a review of the scheme and the outcomes of that review are summarised below.
55. Our review of the UG Skills places has shown that this investment has been successful in meeting the original aim and enhancing course links with industry. There will, therefore, be no change to the UG Skills places scheme for AY 2018-19, subject to satisfactory outcome agreement industry collaboration measures being agreed.
56. Our review of the TPG Skills places has found that the filling of these places is varied across the sector. Many universities, however, have reported an increased number of enrolments on these courses in AY 2017-18. Consequently it is our intention to maintain the allocation of funded places for AY 2018-19, and with further changes to be considered for AY 2019-20.

### ***TPG Innovation Centre places***

57. SFC continues to provide additional funded student places for Masters level courses to be delivered under the Innovation Centre (IC) programme. These places put particular emphasis on the development of provision to help address the skills needs of the IC's relevant industry. This involves close industry engagement, often in the form of a student placement at an IC's industrial partner.
58. The changes in the allocations of funded places for individual ICs in AY 2018-19 outlined in the indicative announcement have not changed and are now confirmed in this final announcement. The overall number of IC places in AY 2018-19 has reduced by 10 places; from 215 to 205. This is shown in [Table 3](#) and the resulting funding changes are shown (and referenced) in [Table 2](#).

### **Other teaching grants**

59. SFC has provided an inflationary uplift of 1.8% to the Widening Access and Retention Fund; an increase of £0.3 million to give an AY 2018-19 budget of

£15 million. This is shown in [Table 4](#) and is unchanged from the indicative announcement.

60. We have provided a similar inflationary uplift (1.8%) to the Small Specialist Institution (SSI) Grant. In addition the SSI allocations have been updated to reflect the mainstreaming of the strategic funded places for additional widening access at the Royal Conservatoire of Scotland (paragraph 27 refers); an increase of £0.1 million from the indicative announcement. This provides a revised total SSI Grant for AY 2018-19 of £9.8 million; an increase of £0.3 million (3%) from AY 2017-18. This is shown in [Table 4](#).
61. £0.1 million has been allocated to support accelerated provision at the University of Abertay Dundee. This is also a change from the indicative announcement.

### **Fee Anomalies**

62. The Fee Anomalies budget has been maintained at £1.9 million for AY 2018-19. If total claims for fee anomalies exceed this budget, we will reduce our payments accordingly. However, we anticipate that this budget amount will be sufficient to meet the claims that we expect to receive in AY 2018-19.

### **Transfer to Student Awards Agency for Scotland**

63. As tuition fees for eligible students are paid to universities from the Student Awards Agency for Scotland (SAAS), we will continue to transfer funding to SAAS to cover the cost of our additional places. We have, therefore, continued to budget for a total of £22.3 million in AY 2018-19 for the SAAS transfer. We will continue to work with SAAS on the required fees transfer to maximise the funds available to the sector.

### **Research and Innovation**

64. Confirmed changes in core research and innovation funding from AY 2017-18 to AY 2018-19 are set out in [Table 6](#), and are described below.

#### ***Research Excellence Grant***

65. SFC has provided an inflationary uplift of 1.8% to the Research Excellence Grant (REG); increasing it by £4.2 million to £236 million (from £231.8 million). This is shown in [Table 6](#) and [Table B2](#).
66. The introduction of the new Finance Reporting Standards (FRS) 102 means that from AY 2015-16 there has been a change in the way universities can choose to report research income. This is considered likely to result in greater year-on-year fluctuations in reported income. To calculate REG allocations for AY 2018-

19, SFC would normally use income data relating to AY 2013-14 to AY 2015-16 to calculate REG(B) and REG(C). FRS 102, therefore, impacts on institutional REG funding allocations for AY 2018-19.

67. Since the indicative funding publication in February, we have been consulting with universities through a sub-group of finance directors and Universities Scotland on the ways in which fluctuations on reported income could be mitigated; and also the way in which income that would previously have been reported over several years should be taken account of in the model without unbalancing the allocations. Following these discussions we have made the following amendments to our model for calculating REG:
- The REG model should take into account 4 years of research income data, rather than 3 years as it does at present.
  - Deferred capital grant balances, which prior to FRS 102 would have been treated as income but have been taken directly to reserves, will be attributed over a 10 year period to smooth the impact of this change in accounting treatment.
68. These amendments result in changes to individual university REG allocations for AY 2018-19, which are shown in [Table 6](#) and [Table B2](#).

### ***Global Challenges Research Fund***

69. SFC published indicative levels of Global Challenges Research Funding (GCRF) on 1 February 2018 ([SFC/AN/02/2018](#)). This covered the two-year period 2018-20 and totalled £17.9 million. The final levels of GCRF total £22.1 million, an increase of £4.2 million.
70. Final GCRF allocations for AY 2018-19 total £10.3 million; an increase of £2 million from the indicative announcement. This is shown in [Table B2](#). Allocations are based on universities' proportionate share of REG(A) and (B), and have been updated in light of the changes to REG (as described in paragraphs 65 to 68). Final GCRF allocations are conditional upon universities submitting satisfactory research strategies, setting out their intended use of this funding over the next three years.

### ***Research Postgraduate Grant***

71. Research Postgraduate Grant (RPG) allocations for AY 2018-19 remain unchanged from the indicative funding announcement. SFC has provided an inflationary uplift of 1.8% to the RPG; increasing it by £0.6 million from AY 2017-18 to £35.2 million. A breakdown of university allocations are shown in [Table 6](#) and [Table B3](#).

## *University Innovation Fund*

72. The University Innovation Fund (UIF) allocations for AY 2018-19 also remain unchanged from the indicative funding announcement. SFC has uplifted the UIF by 10%; increasing it by £1.2 million from AY 2017-18 to £13.5 million. This increase is a partial restoration of the UIF budget to pre-AY 2016-17 levels and recognises SFC's continuing commitment to innovation. This is shown in [Table 6](#).

## **Strategic Funds**

73. The AY 2018-19 budget for strategic projects and grants has been set at £42.9 million, which will allow SFC to meet all current strategic project funding commitments. This includes SFC's annual funding commitment for the Edinburgh Medical School and our earmarked funding contribution for UHI under the European Social Fund programme 'Developing Scotland's Workforce' in the Highlands & Islands transitional region. Institutional allocations of awarded strategic funding can be found in [Annex C](#).

## **Innovation Centres**

74. The budget for Innovation Centres (IC) remains unchanged from the indicative funding announcement at £18 million. This reflects the level of funding that is required for planned IC expenditure in AY 2018-19.

## **Capital**

75. University Capital budgets are largely unchanged from the indicative funding announcement. The Scottish Government's budget for FY 2018-19 provides an HE Capital budget of £41.2 million. This will support a Capital/Maintenance Grant of £18.2 million and SFC's £16.8 million match funding for research capital grant from the UK Department for Business, Energy & Industrial Strategy (DBEIS). This will also help SFC to fulfil commitments to SRUC (highest priority backlog maintenance) and GSA (loan support), and allow a small amount of estates development funding. This breakdown is set-out below:

<b>Capital budget</b>	<b>£ million</b>
Capital/Maintenance grant	18.2
SRUC	1.8
GSA loan support	3.8
Estates development funding	0.6
Research Capital Grant –SFC match	16.8
<b>Total HE Capital</b>	<b>41.2</b>
Research Capital Grant – from DBEIS	16.8
Financial Transactions	40.0
<b>Total capital funding for universities</b>	<b>98.0</b>

76. The Budget also provided Financial Transactions funding of £40 million which, together with the £16.8 million research capital grant from DBEIS, provides an overall capital funding budget for universities in FY 2018-19 of £98 million.
77. Following a recently completed review, SFC now has a robust evidence base of the sector's year-on-year life-cycle maintenance needs, which reflects the diversity across the Scottish university estate of the costs associated with maintaining teaching and research facilities. We plan to enhance that evidence base during the course of FY 2018-19 to include information on the sector's backlog maintenance needs.

### ***Capital/Maintenance Grant***

78. The sector Capital/Maintenance Grant for FY 2018-19 has been set at £18.2 million as shown in [Table 8](#). This is an increase of £2.9 million from FY 2017-18. Universities are required (as a condition of grant) to demonstrate how these funds contribute towards Scottish Government wider strategic priorities and we will be consulting shortly with the sector on how best to achieve this.
79. This grant is normally allocated pro-rata to a university's share of its Main Teaching Grant. SFC committed to review this distribution model to determine whether there was a better proxy for institutional need that could be operated. We have looked at a number of alternative options but, as an interim arrangement, have decided to retain the current distribution model for FY 2018-19 (as shown in [Table 8](#)). Individual university allocations have been updated to reflect changes to the Main Teaching Grant (described above).
80. We will continue to consider alternative distribution models in more detail prior to potential implementation in 2019-20. Following discussion between SFC and the university sector, and building on the evidence base SFC now has, we are exploring whether there are better proxies for institutional need or ways of allocating against strategic priorities.

### ***Research Capital Grant***

81. Research capital grant funding totalling £33.5 million (£16.8 million from DBEIS and a further £16.8 million from SFC) will also be allocated in FY 2018-19. This is also shown in [Table 8](#).

### ***Financial Transactions***

82. SFC has £40 million of Financial Transaction funding available in FY 2018-19; an increase of £30 million from FY 2017-18. We are currently considering, with the sector and Scottish Government, the potential use of this funding, however, there are two broad themes which look best suited to



Financial Transaction loan finance:

- Spend to save projects (notably energy efficiency and space efficiency projects).
  - Strategic development of estates (including projects designed to improve the student experience and equipment/facilities in support of research and knowledge exchange).
83. In terms of the latter theme, we are currently exploring with colleagues in the Scottish Government Innovation, Industries and Investment Directorate, the potential to align SFC Financial Transaction loan finance with their own Financial Transactions within the recently announced Building Scotland Fund.
84. We intend in the coming weeks to formally seek proposals for the use of our Financial Transaction loan finance in sufficient time to allow us to prioritise investment and allow universities time to commit the funds in the required timescales.

#### **Final funding tables for AY 2018-19**

85. We have attached the following tables:
- [Annex A](#) – Core funding allocations to universities
  - [Annex B](#) – Funded places and student number targets for universities
  - [Annex C](#) – Strategic funding allocations to universities
  - [Annex D](#) – Conditions of grant
  - [Annex E](#) – Profile of monthly payments for core grants
  - [Table 1](#) – University sector – overall budget
  - [Table 2](#) – Breakdown of Teaching grant
  - [Table 3](#) – Funded places
  - [Table 4](#) – Summary of grants for Teaching
  - [Table 5](#) – Consolidation numbers
  - [Table 6](#) – Summary of grants for Research and Innovation
  - [Table 7](#) – Summary of grants for Teaching, Research and Innovation
  - [Table 8](#) – Capital Maintenance Grant/Research Capital Grant (FY 2018-19)
86. Additional technical tables are also available on SFC's website.

## Acceptance of grant and Outcome Agreements

87. This letter announces the final funding that will be associated with your outcome agreement for AY 2018-19. Funding is dependent on agreeing a satisfactory outcome agreement. By signing your outcome agreement you are agreeing to the activity/funding allocations announced in this letter and the associated terms and conditions of grant.

## Further information

88. Please contact Lorna MacDonald, Director of Finance, Tel: 0131 313 6690, email: [lornamacdonald@sfc.ac.uk](mailto:lornamacdonald@sfc.ac.uk) or Martin Smith, Chief Funding & Information Officer, tel: 0131 313 6528, email: [msmith@sfc.ac.uk](mailto:msmith@sfc.ac.uk).



**Lorna MacDonald**  
Director of Finance