



SFC Announcement

Outcome agreement funding for universities – indicative allocations for AY 2019-20

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Summary: Announcement of indicative university outcome agreement funding allocations for Academic Year 2019-20.

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

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Outcome agreement funding for universities – indicative allocations for AY 2019-20

1. I am writing to provide you with initial Scottish Funding Council (SFC) decisions on indicative outcome agreement funding for universities in academic year (AY) 2019-20.
2. The purpose of providing these indicative allocations is to help universities plan their provision and for SFC to move towards finalised outcome agreements for AY 2019-20.
3. The indicative allocations set out in this announcement are based on the progress universities have made towards meeting the targets outlined in their previous outcome agreements. Final funding allocations will reflect, in particular, the extent to which the targets and commitments in draft outcome agreements for AY 2019-20 meet SFC's national aspirations, as identified in our outcome agreement guidance. Should SFC conclude that an outcome agreement is unsatisfactory, we will make the appropriate adjustments to final funding allocations.
4. This approach supports the delivery of SFC's Strategic Plan and is in line with our outcome agreement guidance. It is also consistent with the Minister for Further Education, Higher Education and Science's [Outcome Agreement Guidance Letter](#) of 14 November 2018 and the additional [Joint Strategic Guidance](#) provided to enterprise and skills agencies on 11 January 2019.
5. The indicative funding decisions set out in this announcement are based on the Scottish Government's draft [Scottish Budget 2019-2020](#), announced in December 2018, which was approved by the Scottish Parliament on 21 February 2019.

Key points

6. The key points in this indicative funding announcement for AY 2019-20 are:
 - SFC's baseline Revenue budget for AY 2019-20 has decreased by circa £6 million from AY 2018-19 (paragraph 13).
 - Total Teaching and Research Funding budgets have been maintained at the same level (in cash terms).
 - Strategic funding has decreased by c.£13 million (paragraph 53).
 - Capital funding, including Financial Transactions, has increased by c.£12 million.

Scottish budget

7. The Cabinet Secretary for Finance and the Constitution announced the draft (now approved) '[Scottish Budget 2019-2020](#)' on 12 December 2018 which maintains the Scottish Government's "...investment of over £1 billion in universities to develop our future talent and innovation".
8. In 2019-20, the Scottish Government will:

- "Guarantee that higher education will remain free of tuition fees for all eligible Scottish or EU-domiciled undergraduate students studying in Scotland.
- Ensure every eligible care-experienced student receives a full £8,100 non-repayable bursary to finance their studies.
- Ensure that the poorest HE students receive increased bursary support and increased access to bursaries through improvements to the HE bursary threshold."

9. The Scottish Budget in 2019-20 will:

- Provide "continued investment in further and higher education, with a focus on enabling equal access to learning and skills opportunities.
- Continue to invest in the quality of our teaching profession and support teacher recruitment through new routes into the profession.
- Continue to take forward actions through our Science, Technology, Engineering and Mathematics (STEM) education and training strategy to improve the supply of STEM and strengthen partnerships between schools, colleges, universities, science centres and employees.
- Invest in additional capacity in relevant courses in Scotland's colleges and universities and in apprenticeship programmes to expand the Early Learning and Childcare workforce.
- Support the internationalisation of our universities and colleges including access for Scottish students to take part in international exchanges and to attract talented students to study in Scotland. (*continued*)

- Continue to work with the public, private, and university and college sectors to drive forward our Innovation Action Plan – taking action to support innovation across businesses, sectors and places, using public sector spend to catalyse innovation, and make best use of the research, knowledge and talent of our universities and colleges to drive innovation and growth.
- Improve mental health services for young people and provide support in schools, colleges, universities.
- Provide access to free sanitary products in schools, colleges and universities and extend access to those on a low income who require them.”

10. The SFC budget “invests in Scotland’s colleges and universities, to develop well-educated, highly skilled people and drive inclusive economic growth through skills, research and innovation. In 2019-20 the Scottish Government will work with the SFC to:

- Play a leading role in improving Scotland’s skills base by aligning our investment and activities with public sector partners and ensuring that provision in colleges and universities supports employability and productivity in line with the vision set out in the Enterprise and Skills Strategic Plan and our Economic Action Plan.
- Enable learners to move through education into fair work through continuous improvement in learner outcomes; and progressing the ambitions of our Developing the Young Workforce and Learner Journey programmes.
- Deliver key commitments in the STEM Education and Training Strategy to ensure further and higher education provision meets the needs of employers in Scotland.
- Maximise the impact of our investment in research, innovation and internationalisation to support a thriving, outward-looking Scotland.
- Champion diversity at all levels, from course choices to the make-up of senior staff and boards. *(continued)*

- Support all learners to achieve their full potential in education by continuing to make progress towards equal access to higher education by 2030; fund improvements to further education bursary support; support the sector to tackle gender-based violence through Equally Safe; and support students' mental health and wellbeing, including providing additional counsellors across the sector.
- Deploy Financial Transactions to support further universities' estate projects."

11. The Budget paper contains a note on the potential impact on the budget of Brexit outcomes – "If Brexit can be avoided, those resources currently invested in contingency planning and mitigation can be reinvested into our public services and economy. However, if we face a no deal or cliff-edge Brexit I will have to return to Parliament to reassess our spending priorities".

Overall funds available for university sector

12. The HE Resource (revenue) budget for Financial Year (FY) 2019-20 was announced as £1,025.3 million, this included a technical adjustment of £0.4 million giving SFC actual funding of £1,024.9 million; the same as for FY 2018-19. There is an £11.8 million increase in the overall Capital budget (including Financial Transactions); from £81.2 million to £93.0 million.
13. In setting SFC's indicative Academic Year (AY) budget for 2019-20, we span two Financial Years (FYs): 2019-20 and 2020-21. SFC does not have any information on the Scottish Government's plans for FYs beyond 2019-20, and as such have planned on the basis of flat cash for FY 2020-21. On that basis we have set an HE Revenue budget for AY 2019-20 of £1,022.9 million which represents a (cash) decrease of £5.9 million (0.6%) compared with AY 2018-19. This is shown in [Table 1](#). (Due to the way SFC has to convert FY budgets into AY budgets, the HE Revenue budget for AY 2018-19 included an additional one-off increase of c.£6 million. For AY 2019-20, this increase is not available.)
14. Our total Teaching Funding budget has been maintained, in cash terms, at the same level as AY 2018-19; £661.0 million (as shown in [Table 1](#)). Core research funding has also been maintained in cash terms at £284.6 million (as shown in [Table 6](#).)

Teaching Funding / Main Teaching Grant

15. Indicative Main Teaching Grant for AY 2019-20 has been adjusted to reflect the redeployment of the additional taught postgraduate (TPG) Skills places and has been set at £627.3 million as shown in [Table 2](#). A further £5.8 million previously associated with the TPG Skills places, has been reallocated for 'upskilling / skills

shortages’ as described in paragraphs 35-38. Indicative allocations, based on the amount of funding previously received through the additional TPG Skills places, are shown in [Table 4](#).

16. Total teaching funding allocated to universities for AY 2019-20 has been set at £657.9 million (as shown in [Table 1](#)). This includes Main Teaching Grant, the Widening Access and Retention Fund, funding for Small Specialist Institutions and funding for upskilling / skills shortages. Indicative allocations are shown in [Table 4](#).
17. As set out above, having retained the funding associated with the TPG Skills places (which has been repurposed for AY 2019-20), **our overall teaching funding budget is unchanged from AY 2018-19 at £661.0 million**. This is shown in [Table 1](#).

Teaching Subject Prices

18. Gross teaching subject prices are unchanged from AY 2018-19 and 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>
2019-20 gross price (£)	16,875	9,575	8,486	7,387	6,530	5,323

19. Our gross subject prices for AY 2019-20 include the following assumed level of tuition fees for eligible Scottish-domiciled / European Union (EU) students:
 - Full-time first degree: £1,820.
 - Other undergraduate: £1,285.
 - Taught Postgraduate: £5,500.

Teaching funding validation model – tolerance thresholds

20. In AY 2019-20, the tolerance threshold within SFC’s teaching funding validation model will remain at +/-2%.
21. SFC calculates universities’ Main Teaching Grant based on the previous year’s teaching funding – adjusted for any changes in policy – validated against a ‘price x place’ model, which also takes into account the assumed student tuition fees that universities will receive from [Student Awards Agency Scotland](#) (SAAS) and other sources for our funded places.
22. Since the introduction of new subject price groups and a validation model in AY 2012-13, SFC has had a ‘tolerance threshold’ - and a university’s Main Teaching Grant is adjusted annually to be within that tolerance. When the model was introduced in AY 2012-13, the tolerance threshold was +/- 5%, with

the intention to steadily reduce that threshold down to 0% and revert back to a price x place funding model, which would ensure that funding for each university would be more closely related to the average cost of provision. It would also serve to make the calculation of SFC's teaching grant more straight-forward and transparent.

23. As part of that planned incremental move, SFC reduced the tolerance threshold for AY 2017-18 from 4% to 2%. We also stated our intention that a price x place model would operate from AY 2018-19, subject to a planned review. In 2017 SFC established a sector working group to look at whether the tolerance thresholds should be removed and we 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 HESA cost centres – against (TRAC (T)) data.
24. The HE Funding Model Review Group met again in March 2018 and discussed a number of different options for 2019-20 and beyond (taking into account Brexit amongst other considerations). As part of that discussion, an option of removing the negative tolerance was proposed and discussed. Following these discussions, SFC recommended that for AY 2019-20, subject to the Scottish Government budget settlement, we should seek to implement a system of 'no negative tolerance', i.e. the tolerance band would only be removed from some universities so that no one would receive less funding than they would through a price x place (0% tolerance) model.
25. Given the final budget settlement for FY 2019-20 announced by the Scottish Government, it would not be affordable for the 'no negative tolerance' system to be introduced and therefore the tolerance threshold will remain at +/-2% for AY 2019-20.

Other teaching grants

26. The Widening Access and Retention Fund (WARF) has been maintained (in cash terms) at the level of AY 2018-19; £15 million. This is shown in [Table 4](#).
27. The Small Specialist Institution (SSI) Grant has been adjusted to reflect the removal of the additional TPG Skills places (see paragraphs 35-38) and totals £9.7 million for AY 2019-20; a reduction of £0.1 million. This is also shown in [Table 4](#).

Widening Access and Retention Fund

28. SFC intends to consult with the sector on a planned review of the Widening Access and Retention Fund. This review and consultation is necessary to implement and deliver on the [Commission on Widening Access](#) (CoWA) recommendations.

Compensation for expensive strategically important subjects

29. Compensation for expensive strategically important subjects in AY 2019-20 amounts to £16.9 million and continues to reflect the difference between the teaching funding SFC allocates for higher subject price groups and the annual tuition fee level that Scottish universities can charge students from the rest of the UK (£9,250 from AY 2017-18). This is shown in [Table 2](#) (column 6) and represents a reduction of £0.3 million from AY 2018-19.

Additional funded places for access and articulation

30. In AY 2013-14 SFC introduced three new investment schemes providing universities with additional funded places to widen access, increase articulation and support key sectors of the economy with additional undergraduate and taught postgraduate skills places. (AY 2016-17 saw the fourth tranche of additional UG places being allocated for each of these schemes).
31. Last year we allocated an additional 33 Full-Time Equivalent (FTE) places for articulation which related to additional funded places that had been re-allocated in AY 2015-16. There are no further allocations of additional places proposed for AY 2019-20.
32. In AY 2018-19 SFC 'mainstreamed' the additional Widening Access places with universities' core funded 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 relevant CoWA targets. Through our outcome agreement process, we set and agreed institutional targets to ensure that those targets can be achieved.
33. Following a review, we announced last year that there would be no change to the additional articulation places 'Associate student' 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) are therefore asked to continue with the current arrangements for AY 2019-20 and to meet the priorities set out by the Minister to expand articulation, ensuring they continue to support disadvantaged learners to progress to degree level study. This will be monitored by way of targets set through the outcome agreement process.
34. We continue to expect 75% of additional articulation funding for Associate students to be transferred from universities to colleges (for those years in which activity is delivered in colleges). SFC will continue to monitor the transfer and impact of this funding.

Additional Skills places

35. 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. There are no changes to the UG skills places scheme for AY 2019-20, subject to satisfactory outcome agreement industry collaboration measures being agreed.
36. Last year's review of the TPG skills places found that the filling of these places was varied across the sector. We maintained the allocation of TPG places for AY 2018-19 but committed to consider changes for AY 2019-20, subject to further review and discussions with universities on the use of these funded places (and their impact on industry engagement).
37. The following was then stated in the foreword of SFC's latest [Outcome Agreement Guidance](#), published in October 2018:

- "Institutions will note that the Strategic Board's Strategic Plan sets a series of ambitious actions for the enterprise and skills agencies, and for SFC in particular. Clearly, we want to respond positively to the Strategic Board's thinking; to that end, we shall be considering with our Council the funding associated with new starts on our earmarked taught postgraduate skills scheme.... "

38. For AY 2019-20, therefore, we have removed these places – apart from a small number (66.3 FTEs) that are associated with students on part-time courses in 2018-19 whose studies are due to continue in 2019-20, which we will continue to support until the courses are complete. The associated funding (£5.8million) has been repurposed to support new types of course aimed at upskilling people already in work and / or addressing skills shortages. We have begun discussions with the sector on the ways that this can be done. Indicative allocations are shown in [Table 4](#) and are based on the amount of funding previously received through additional TPG Skills places (excluding continuing part-time students).

Innovation Centre TPG places

39. 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. There are no changes to these additional places for AY 2019-20.

Expansion of Early Years Education

40. In support of the Scottish Government's plans to increase entitlement to free childcare, we will continue to allocate additional funded places in AY 2019-20 for additional part-time / work-based BA Childhood Practice students. We will also continue to allocate additional places for full-time Higher National Certificate (HNC) students at the University of the Highlands & Islands (UHI).
41. The numbers of places for AY 2019-20 have yet to be finalised with the Scottish Government but will be confirmed prior to the announcement of the final funding allocations in May. We expect the Scottish Government will continue to meet the costs of this activity through an additional ring-fenced grant.

Intakes to the controlled subjects

42. Following the receipt of guidance letters from the Scottish Government, SFC has published AY 2019-20 intake targets for the controlled subjects of [Dentistry](#) and [Pre-registration Nursing & Midwifery](#), and is due to publish similar targets for Medicine and Initial Teacher Education shortly. We will publish the associated funded places / funding as part of the final outcome agreement funding announcement.

Mental health

43. The Scottish Government's Programme for Government outlines a radical reform of the way we respond to mental ill-health. As part of that, the Government has committed to "providing more than 80 additional counsellors in Further and Higher Education over the next four years." We expect additional ring-fenced funds to be transferred to SFC from the Scottish Government for this purpose and will be working with the university sector on setting a baseline for monitoring this activity and a method of allocating this funding. We anticipate being able to finalise details by the time we announce final outcome agreement funding decisions.

Free sanitary provision

44. SFC anticipates that a further year's funding for the provision of free sanitary products in universities will be announced in due course. We are currently working with the Scottish Government to confirm funding for FY 2019-20.

Research and Innovation Funding

45. Indicative core research and innovation grant allocations for AY 2019-20 are set out in [Table 6](#), and are described below.

Research Excellence Grant

46. Research Excellence Grant (REG) funding has been maintained, in cash terms, at the same level that was announced in last year's final funding allocations in May 2018; that is £236 million.
47. Excellence remains the cornerstone of SFC's research funding policy and therefore we have made a modest adjustment to the REG formula in order to further recognise the highest quality research. Specifically, we have adjusted the ratio of quality response in the REG (A) component from 3:1 to 3.31:1 when responding to 4* and 3* research assessment in the Research Excellence Framework (REF) respectively.
48. This maintains the revised weightings used in the additional REG funding that was announced as part of last year's 'Additional funding for research and innovation' ([SFC/AN/12/2018](#)) at the end of July 2018 through Barnett consequentials. Individual university allocations are shown in [Table 5](#).

Global Challenges Research Fund

49. The UK Department of Business, Energy and Industrial Strategy (DBEIS) has indicated that it will allocate £11.8m to SFC under the Global Challenges Research Fund. These funds will be allocated to universities based on their proportionate share of REG (A) and (B). This funding will be confirmed as part of the final funding announcement.

Research Postgraduate Grant

50. Research Postgraduate Grant funding has been maintained, in cash terms, at AY 2018-19 levels; that is £35.2m. Indicative allocations for AY 2019-20 are shown in [Table 6](#).

University Innovation Fund

51. The University Innovation Fund has also been maintained, in cash terms, at AY 2018-19 levels (as per the final outcome agreement funding announcement in May 2018); that is £13.5m. Indicative allocations for AY 2019-20 are also shown in [Table 6](#).

Strategic funds

52. A portion of SFC's annual funding for universities is earmarked for strategic investments. Strategic funds are used for:
 - Services which are best procured on a sector-wide basis, such as the Joint Information Systems Committee (JISC) and the Quality Assurance Agency (QAA).

- Leveraging in other funds to support SFC’s strategic objectives and Scottish Government priorities.
- Driving change or to kick-start new activity.

53. The budget for Strategic projects / grants in AY 2018-19 (including Innovation Centres) totalled £60.9 million. Allocating the same budget for AY 2019-20 is not affordable. To ensure, therefore, that SFC avoids any over-commitment in AY 2019-20, and maintains overall teaching grant at the same level (in cash terms) as AY 2018-19, the indicative budget for Strategic funds has been reduced by £12.7 million to £48.2 million.

Funding transfer to SAAS

54. SFC anticipates a transfer of funding to SAAS totalling £29.1 million. This is an increase of £6.8 million from AY 2018-19 to fund the Scottish Government’s student support commitments.

Capital

55. The Scottish Government’s FY 2019-20 budget provides an HE Capital budget of £37.5 million. The budget also provides Financial Transactions funding of £55.5 million which, together with £16.8 million Research Capital Grant funding from DBEIS (which will be matched by SFC) provides an overall amount of capital funding available to universities in FY 2019-20 of £109.8 million as shown below:

<i>Capital budgets</i>	<i>£ million</i>
Capital Grant	16.7
Edinburgh Medical School	4.0
Research Capital Grant - SFC match	16.8
Total HE Capital	37.5
Financial Transactions	55.5
Research Capital Grant – from DBEIS	16.8
Total Capital funding for universities	109.8

Capital Grant

56. The budget for Capital Grant has been set at £16.7 million; a reduction of £1.5 million from FY 2018-19 to accommodate funding for the Edinburgh Medical School (which was previously funded through Strategic funds).
57. This grant is allocated pro-rata to a university’s share of its Main Teaching Grant. Since last year we have considered a number of alternative distribution models. This work has included the ongoing development of 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 are continuing to enhance that evidence base during the course of FY 2019-20 to include information on the sector's backlog maintenance needs. Based on that work, for FY 2019-20 we have decided to continue to distribute this grant in proportion to Main Teaching Grant as we consider this model provides a reasonable and transparent proxy for need that is consistent with the evidence base. Individual university allocations are shown in [Table 8](#).

Research Capital Grant (DBEIS)

58. Indicative research capital grant funding totalling £33.5 million (£16.8 million from DBEIS and a further £16.8 million from SFC) is forecast to be allocated in FY 2019-20. This funding is dependent on confirmation of budget availability from DBEIS.

Financial Transactions

59. SFC has £55.5 million of Financial Transactions (FT) funding available in FY 2019-20. Building on last year, the two broad themes that we are proposing FT loan finance can be utilised for are:
- Spend to save projects (notably energy efficiency and space efficiency projects).
 - Strategic development of estates (including projects designed to improve student experience and equipment / facilities in support of research and knowledge exchange).
60. SFC will work with the sector to maximise the impact of all its capital funding, including Financial Transactions, and to ensure that SFC's funding levers investment from other sources wherever possible.
61. Where projects emerge which are more focused around industry-led innovation, we will continue to explore the potential for these projects to be funded through the Scottish Government Building Scotland Fund, which is a precursor to the Scottish National Investment Bank.

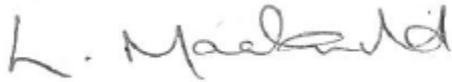
Tables

62. We have attached the following tables for AY 2019-20:
- [Table 1 – University sector – indicative overall budget](#)
 - [Table 2 – Breakdown of indicative Main Teaching Grant](#)
 - [Table 3 – Indicative funded student places](#)
 - [Table 4 – Summary of indicative grants for Teaching](#)
 - [Table 5 – Indicative Research Excellence Grant](#)
 - [Table 6 – Indicative grants for Research and Innovation](#)

- [Table 7 – Indicative grants for Teaching, Research and Innovation](#)
- [Table 8 – Indicative Capital Grant \(FY 2019-20\)](#)

Further information

63. SFC will confirm final AY 2019-20 funding allocations and provide further information in our final outcome agreement funding announcement in May 2019.
64. For more information, please contact Lorna MacDonald, Director of Finance, tel: 0131 313 6690, email: lornamacdonald@sfc.ac.uk or Martin Smith, Chief Funding & Information Officer, tel: 0131 313 6528, email: msmith@sfc.ac.uk.



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