



SFC Announcement

Outcome agreement funding for universities – indicative allocations for 2018-19

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Summary: Announcement of indicative university outcome agreement funding allocations for academic year 2018-19

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

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Outcome agreement funding for universities – indicative allocations for 2018-19

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) 2018-19.
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 2018-19.
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 2018-19 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 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.
5. The indicative funding decisions set out in this announcement are based on the Scottish Government's draft budget (which was approved by the Scottish Parliament on 21 February 2018) and are in line with the Minister for Further Education, Higher Education and Science's most recent [Letter of Guidance](#) to SFC of 30 March 2017.

Key points

6. The key points in this indicative 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.

Scottish budget

7. The Cabinet Secretary for Finance and the Constitution announced the [Scottish Budget: Draft Budget 2018-19](#) on 14 December 2017, stating 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".
8. The Draft Budget document stated 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."

9. The Draft Budget document also stated 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 university sector

10. The draft 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 £4.2 million reduction in the HE Capital budget; from £45.5 to £41.3 million, with HE Financial Transactions funding increasing from £10 million to £40 million.
11. In setting SFC’s indicative Academic Year (AY) budget for 2018-19, we span two Financial Years (FYs) 2018-19 and 2019-20. SFC does not have any information on the Scottish Government’s plans 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. (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.) This represents an increase of £16.6 million (1.6%) compared with AY 2017-18.
12. Core Teaching funding has increased from £646.5 million to £658 million. This is shown in Table 4. Core Research and Innovation funding has increased from £278.6 million to £284.6 million. This is shown in Table 6.

Teaching Grants

13. 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 £11.2 million. Table 2 provides a breakdown of Main Teaching Grant and indicative allocations for each university.
14. We have increased gross teaching subject prices by 2.6%. This incorporates the £11.2 million increase outlined above plus funding being re-invested from the changes in teaching grant, brought about by the adjustment to assumed taught postgraduate fees, as set out in paragraphs 22 to 24 below. In total, core teaching funds have been uplifted by £19.4 million in AY 2018-19 (see Table 2, column 6).
15. SFC's revised teaching subject prices 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

16. 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 22-24 below).

Main Teaching Grant – Tolerance thresholds under validation model

17. 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 fees that universities will receive from SAAS and other sources for our funded student places.
18. 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 x place' funding model, which would serve to make the calculation of our teaching grant more straight-forward and transparent.

19. 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 x 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.
20. Following this work, SFC has 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.
21. In addition we have worked with universities in moving funded 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 distribution of funded places following on from this exercise.

Changes to Taught Postgraduate fees

22. 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 SFC 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 tuition fees.
23. Last year SFC reduced its core teaching grant allocations for AY 2017-18 and universities had the opportunity to recoup these funds from their 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 institutions to recover reduced incomes, we decided for AY 2017-18 to increase universities' teaching funding to off-set the reductions resulting from the TPG changes.
24. For AY 2018-19 we have adjusted our core teaching grant allocation by £8.7 million to reflect the fee changes but added this funding into the teaching unit of resource.

Other teaching grants

25. 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.
26. We have provided a similar inflationary uplift (1.8%) to the Small Specialist Institution (SSI) Grant. This provides a total SSI Grant for AY 2018-19 of £9.7 million; an increase of £0.2 million. This is shown in Table 4.

Compensation for expensive strategically important subjects

27. Compensation for expensive strategically important subjects in AY 2018-19 amounts to £17 million and continues to reflect the increased (£9,250) tuition fee level that Scottish universities have been able to charge students from the rest of the UK (from AY 2017-18). This is shown in Table 2 (column 9).

Additional funded places

28. 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 TPG skills places. The places allocated since then will continue, subject to institutions using them for the purpose intended.
29. For AY 2018-19 we are allocating an additional 33 FTE places for articulation, as shown in Table 3. This relates to additional places which were re-allocated in AY 2015-16.

Additional Widening Access places

30. 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.
31. From AY 2017-18 we expected that these places would be used to allow universities to increase the number and proportion of their students from the 20% most deprived areas (SIMD20). We expect that universities will use both these additional places and their core places to continue to make progress in widening access and for this to be clearly articulated in their outcome agreements.
32. SFC has reviewed this widening access scheme for the sector and each of the 10 universities that received additional places. Our review has shown 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 SIMD40 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.

33. Given the scheme's success, SFC has decided to 'mainstream' 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 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.
34. Through our outcome agreement process, we aim to set and agree institutional targets to ensure that we can achieve the above CoWA targets.

Additional Articulation places

35. SFC has allocated an additional 4,416 FTE 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 Full-time Equivalent (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.
36. 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".
37. To support this priority area, SFC has 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. We are, therefore, proposing 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.

38. 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 HN entrants to university should articulate with advanced standing per year by AY 2019-20 rising to 75% by AY 2025-26.
39. SFC expects institutions that are receiving these additional articulation places to make a significant commitment 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, 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

40. SFC has allocated an additional 1,195 FTE undergraduate skills places and 832 FTE TPG skills places between AY 2013-14 and AY 2017-18. We have been monitoring these places and undertook to review these places for AY 2018-19. This review is currently ongoing and we are in discussions with universities on the use of these funded places and their impact on industry engagement.
41. For the purposes of this indicative funding announcement, we have assumed that we continue to allocate the same number of places for AY 2018-19. We may, however, bring forward recommendations from this review – and in the context of the intensification of outcome agreements generally – which could result in some redistribution of funded places for the final funding announcement. We will also consider whether, given the changes to TPG fees and the availability of loans, the places should continue to be offered on a gross funding basis from AY 2019-20.

TPG Innovation Centre places

42. 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 some changes in the indicative allocations of funded places for individual ICs in AY 2018-19 and the overall number of IC places 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.

Expansion of Early Years Education

43. 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 sets out the indicative FTE funded places to be allocated in AY 2018-19 and the expected number of graduates to enter the workforce.
44. 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 graduates from 2018-19 intake	Funded FTE places associated with 2018-19 intake	Continuing funded FTE places associated with 2017-18 intake	Total funded FTE places for 2018-19
	<i>Headcount</i>	<i>FTE</i>	<i>FTE</i>	<i>FTE</i>
HNC (UHI)	164	198	-	198
BA Childhood Practice	353	194	135	329
Total	517	392	135	527

45. Ring-fenced additional teaching funding of £3.2 million will be provided by the Scottish Government to meet the costs of this additional activity.

Intakes to the controlled subjects

46. SFC has received guidance letters from the Scottish Government with recommended AY 2018-19 intakes for the controlled subjects of Medicine, Initial Teacher Education and Pre-registration Nursing & Midwifery. We are awaiting similar recommended intake letters for the controlled subject of Dentistry. We have written to universities with their intake targets for Medicine, Initial Teacher Education, and Pre-registration Nursing & Midwifery, and will publish the associated funded places / funding for the controlled subjects in a separate publication after the indicative funding announcement.

47. Additional controlled funded places provided through additional ring-fenced funding from the Scottish Government will be confirmed in the final funding announcement.

Research and Innovation

48. 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

49. 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 5.
50. The introduction of the new Finance Reporting Standards (FRS) 102 means that from 2015-16 there has been a change in the way institutions may choose to report research income. This will 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 will therefore impact on institutional REG funding allocations for AY 2018-19.
51. We are currently seeking confirmation from universities on their income figures submitted for 2015-16 and assessing the level of fluctuation this is likely to introduce before making a decision on how this is handled. We will also liaise with universities as required. In the meantime, the allocations presented in Table 5 are based on a 1.8% uplift to the constituent parts of the AY 2017-18 REG budget.
52. Any adjustments to these allocations to reflect the new FRS will be announced in the final funding announcement.

Global Challenges Research Fund

53. SFC published indicative levels of [Global Challenges Research Funding \(GCRF\)](#) for 2018-20 on 1 February 2018 (Announcement: SFC/AN/02/2018).
54. Indicative GCRF allocations for 2018-19 are shown in Table 5. Allocations are based on universities' proportionate share of REG(A) and (B). This funding is dependent on universities submitting satisfactory research strategies setting out their intended use of this funding over the next three years. The indicative allocations of GCRF will be subject to change when REG allocations, specifically REG(B), are finalised (as described in paragraphs 50-52).

Research Postgraduate Grant

55. SFC has provided an inflationary uplift of 1.8% to the Research Postgraduate Grant; increasing it by £0.6 million to £35.2 million. This is shown in Table 6.

University Innovation Fund

56. SFC has uplifted the University Innovation Fund by 10%; increasing it by £1.2 million to £13.5 million. This increase is a partial restoration of budget to pre-AY 2016-17 levels and recognises SFC's continuing commitment to innovation. This is shown in Table 6.

Strategic Funds

57. The budget for strategic projects and grants has been set at £42.8 million which will allow SFC to meet all current strategic project funding commitments. This includes our annual funding commitment for the Edinburgh Medical School and our funding contribution for UHI under the European Social Fund programme 'Developing Scotland's Workforce' in the Highlands & Islands transitional region.

Innovation Centres

58. The budget for Innovation Centres (IC) has been set at £18 million. This reflects the level of funding that is required for planned IC expenditure in AY 2018-19.

Capital

59. The Scottish Government's draft budget for FY 2018-19 provided an HE Capital budget of £41.3 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:

<i>Capital budget</i>	£ million
Capital/Maintenance grant	18.2
SRUC	1.8
GSA loan support	3.8
Estates development funding	0.7
Research Capital Grant –SFC match	16.8
Total HE Capital	41.3
Research Capital Grant – from DBEIS	16.8
Financial Transactions	40.0
Total capital funding for universities	98.1

60. The draft 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 £98.1 million.
61. 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

62. 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 will be required (as a condition of grant) to demonstrate how these funds contribute towards Scottish Government wider strategic priorities.
63. 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).
64. 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

65. Indicative 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

66. SFC has £40 million of Financial Transaction (FT) funding available in FY 2018-19; an increase of £30 million from FY 2017-18. The potential use of this funding includes:
- 'Spend-to-save' projects, e.g. low carbon programmes where there are savings downstream to offset repayments.
 - Replacing / supplementing commercial borrowing.
 - Part-financing of general capital programmes which may or may not include low carbon projects as part of them.
 - Collaborative projects, such as university / college joint facilities.
 - Projects that lend themselves to different ways of sculpting their repayments (given SFC would have scope to be flexible in terms of repayments), e.g. projects with longer payback periods to the institution or where payment holidays would be advantageous.
67. We intend consulting with Universities Scotland in the coming weeks to announce the FT programme in sufficient time to allow universities to provide robust proposals and to commit the funds in the required timescales.

Indicative funding tables for AY 2018-19

68. We have attached the following tables:
- Table 1 – University sector – indicative overall budget.
 - Table 2 – Breakdown of indicative Teaching grant.
 - Table 3 – Indicative funded 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 Maintenance Grant and Research Capital Grant (FY 2018-19).

Further information

69. SFC will confirm AY 2018-19 funding allocations and provide further information in our Final Outcome Agreement Funding announcement in May 2018.
70. 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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