

SPICe Briefing

Higher Education Institutions: Finance

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This briefing describes the various sources of income and expenditure for Higher Education Institutions (HEIs), and provides analysis of the latest data on income, expenditure and operating balances of Scottish and UK HEIs, and for individual Scottish institutions (2008-09). It examines current public funding of the Scottish HEI sector for academic year 2010-11 and provides an overview of financial governance arrangements for HIEs, including the role of the Scottish Funding Council.



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EXECUTIVE SUMMARY

- The [Higher Education Statistics Agency](#) (HESA) is the official agency for the collection, analysis and dissemination of quantitative data about higher education in the UK. HEIs have six main sources of income, as defined by the HESA. These are: Funding Council grants; Tuition fees, education grants and contracts; Research grants and contracts; Endowment and investment income; and other income (other services rendered, and other)
- In 2008-2009, the total income for HEIs in Scotland was £2.66 billion (cash terms). Approximately 40% of Scottish HEI's total income came from Scottish Funding Council (SFC) grants. Between 2007-08 and 2008-09, the total income of Scottish HEIs rose by 7.2% in cash terms (4.37% real terms), from £2.48 billion to £2.66 billion. The largest increase year on year was in income from 'research grants and contracts', which rose by 16.6% (13.5% in real terms).
- Total expenditure by Scottish HEIs rose by 8.2%, from £2.4 billion in 2007-08 to £2.6 billion in 2008-09. The largest expenditure by 'type' for HEIs is 'staff costs'. In 2008-09, over £1.5 billion of this was attributed to staff costs. This accounted for 58% of total HEI expenditure in Scotland. UK and Scottish HEIs saw significant increases in expenditure on 'interest and other finance costs' from 2007-08 to 2008-09 (33.3% and 41% respectively).
- The overall operating surplus for Scottish HEIs in 2008-09, was +£26.2 million. This compares with a balance of +£45 million in 2007-08. The operating surplus for UK HEIs as a whole in 2008-09 was +£428.8 mill, in comparison to +£551.5 mill in 2007-08.
- The majority of Scottish Government funding for HEIs is split into current and capital expenditure and is included within level 3 budget lines for the Scottish Funding Council (SFC). HEIs also receive public funds in the form of tuition fees that are paid on behalf of some students by the Student Awards Agency Scotland (SAAS), as well as receiving income through various contracts with public bodies, such as UK Research Councils or the NHS.
- The Scottish Funding Council (SFC) allocates the majority of public funding to Scottish colleges and HEIs on an academic year basis (August to July), with the exception of capital funding. A different method of allocating funding to Scottish HEIs was introduced for the academic year 2009-10. The SFC now allocates its budget to Scottish HEIs via two funding streams: the General Fund for Universities (GFU) which provides main grants for teaching and research; and the Horizon Fund for Universities (HFU) which funds projects that support seven strategic outcomes identified in the SFCs [Corporate plan 2009-12](#). These strategic outcomes are designed to address current Scottish Government priorities.
- The SFC and its executive are expected by Scottish Ministers to regulate the use of public funding by colleges and HEIs so as to "safeguard the public interest and promote high standards of governance and administration; and to hold Scotland's colleges and HEIs accountable for delivering the quantity, quality and relevance of further and higher education and research sought by Scottish Ministers, for achieving best value from public funds, and for managing their financial and other resources in a sustainable way".

- The SFC has a [Financial Memorandum](#) with each incorporated college and HEI. This Financial Memorandum sets out what institutions can expect from the SFC, the mandatory requirements placed on the institution and the conditions of accepting funding from the SFC. Colleges and HEIs are required to provide financial statements and external audit reports to the SFC by the 31st December each year. Within their financial statements, HEIs and colleges are required to include a statement covering the responsibilities of their governing body in relation to corporate governance.
- As part of the SFCs Financial Health Monitoring Framework, reviews of Scotland's colleges and HEIs financial statements are undertaken and published by the SFC every year. The SFC also reviews the college and universities Strategic Plan Forecasts (SPFs), which provide forecast figures covering the current academic year and three years beyond that. The SFC is currently reviewing the latest SPF round for 2009-10 to 2012-13.

HIGHER EDUCATION INSTITUTIONS - FINANCE

Introduction

This briefing provides analysis of the latest income and expenditure data for Scottish and UK HEIs (2008-09), examines current public funding of the HEI sector for academic year 2010-11 and provides a brief overview of financial governance arrangements for Scottish HEIs.

Sources of Higher Education Institution (HEI) Income

The [Higher Education Statistics Agency](#) (HESA) is the official agency for the collection, analysis and dissemination of quantitative data about higher education in the UK. HEIs have six main sources of income, as defined by the HESA. These are:

- 1. Funding Council grants** - funding body grants include those from the Higher Education Funding Council for England (HEFCE), the Higher Education Funding Council for Wales (HEFCW), the Scottish Further and Higher Education Funding Council (SFC), the Training and Development Agency for Schools (TDA) and the Department for Employment and Learning Northern Ireland (DEL(NI))
- 2. Tuition fees, education grants and contracts** - this includes all income received in respect of fees for students on all courses for which fees are charged. Following the introduction of variable student fees in the 2006/07 academic year for institutions in England, Northern Ireland and Wales, this information is now administration specific
- 3. Research grants and contracts** - this includes all income in respect of externally sponsored research carried out by the institution or any subsidiary undertaking for which directly related expenditure has been incurred (such as UK Research Council contracts or contracts with UK charities)
- 4. Endowment and investment income** - this includes income from specific endowment asset investments, general endowment asset investments, other investment income and other interest receivable
- 5. Other income – other services rendered** - this includes all income in respect of services rendered to outside bodies, including the supply of goods and consultancies (such as income from UK central government/local authorities, health and hospital authorities, EU government bodies)
- 6. Other income – other** – this includes catering operations such as conferences, grants from local authorities, or income from intellectual property rights)

For further explanation of these definitions, please see [HESA Finance Definitions 2008-09](#) (HESA 2010a).

Income of Scottish HEIs

In 2008-2009, the total income for HEIs in Scotland was £2.66 billion (cash terms). Table 1 and figure 1 below show a breakdown of this income in cash terms and real terms, using the HESA categories listed above (HESA, 2010b). Real terms income is calculated using latest financial year (FY) [HM Treasury GDP deflators](#) to provide the figures in current (2009-10) prices¹.

Table 1: Income of HEIs in Scotland by source, 2007-08 and 2008- 09 (2009-10=100)

Income of Scottish HEIs 2007-08 to 2008-09 (£ million)	2007-08 (cash terms)	2008-09 (cash terms)	% change year on year (cash terms)	2007-08 real terms (2009-10=100)	2008-09 real terms (2009-10=100)	% change year on year (real terms growth)
Funding Council Grants	1030	1068	3.70%	1074	1084	0.90
Tuition Fees, Education Grants and Contracts	498	556	11.60%	519	564	8.64
Research Grants and Contracts	492	574	16.60%	513	583	13.53
Other Income	404	426	5.40%	421	432	2.61
Endowment and Investment Income	58	39	-32%	60	40	-34.57
Total Income	2483	2663	7.20%	2590	2703	4.37

(Source: HESA 2010b)

¹ (Index year set at 2009-10=100. 2008-09 =98.517. 2007-08 =95.868). It should be noted here that the FY for HM Treasury runs from April to March, all HESA financial returns data from HEIs is based on their FY of 1st August to 31st July.

Figure 1: Percentage Income of HEIs in Scotland by source, 2008- 09 (HESA 2010b)

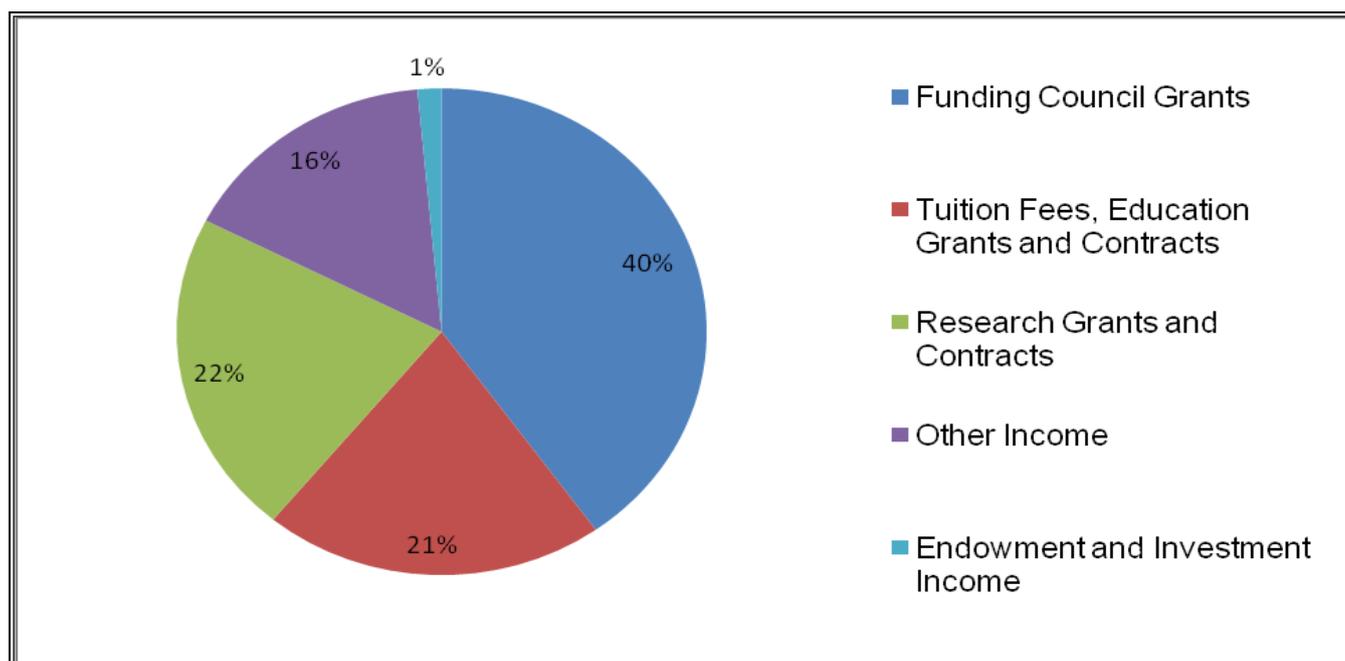


Figure 1 shows that in 2008-09 approximately 40% of Scottish HEI's total income came from Scottish Funding Council (SFC) grants. 21% was made up of tuition fees, education grants and contracts, and 22% from research grants and contracts. 'Other income' accounted for 16% of the total.

Between 2007-08 and 2008-09, the total income of Scottish HEIs rose by 7.2% in cash terms (4.37% real terms), from £2.48 billion to £2.66 billion. This can be seen in table 1 above. The largest increase year on year was in income from 'research grants and contracts', which rose by 16.6% (13.5% in real terms).

There was a significant decrease in the income received by Scottish HEIs from endowments and investments (-32% cash terms) over the same period. The same decrease in this income stream was experienced by UK HEIs as a whole, as can be seen in table 2. HESA explained that this decrease could be due to the financial crisis and recession (BBC, 2010a).

The total income of Scottish HEIs accounted for 10.5% of the total income of UK HEIs in both 2007-08 and 2008-09. 'Research grants and contracts' income of Scottish HEIs accounted for 13.8% of total 'research grants and contracts' income of UK HEIs in 2008-09, a slight increase from 13.3% in 2007-08.

Income of UK HEIs

The total income for HEIs in the UK (including Scotland) was £25.37 billion in 2008-09. Table 2 and figure 2 below show the sources of this income, both in cash terms and real terms (HESA, 2010b). Again, income in real terms is calculated using latest financial year (FY) [HM Treasury GDP deflators](#) to provide the figures in current (2009-10) prices².

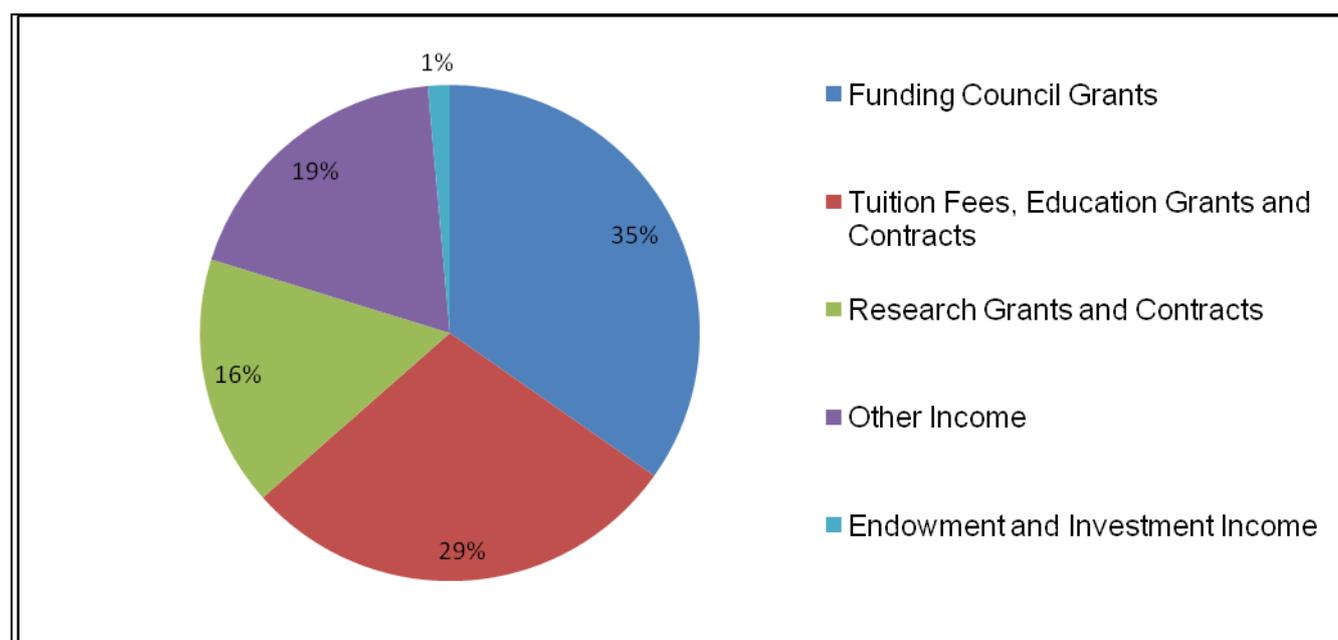
² (Index year set at 2009-10=100. 2008-09 =98.517. 2007-08 =95.868). It should be noted here that the FY for HM Treasury runs from April to March, all HESA financial returns data from HEIs is based on their FY of 1st August to 31st July.

Table 2: Income of HEIs in UK by source, 2007-08 and 2008- 09 (2009-10=100)

Income of UK HEIs 2007-08 to 2008-09 (£ million)	2007- 08 (cash terms)	2008- 09 (cash terms)	% change year on year (cash terms)	2007-08 real terms (2009- 10=100)	2008-09 real terms (2009- 10=100)	% change year on year (real terms growth)
Funding Council Grants	8486	8819	3.90%	8852	8952	1.13
Tuition Fees, Education Grants and Contracts	6267	7283	16.20%	6537	7392	13.08
Research Grants and Contracts	3713	4145	11.60%	3873	4207	8.62
Other Income	4441	4770	7.40%	4632	4842	4.52
Endowment and Investment Income	522	357	-31.60%	544	362	-33.43
Total Income	23429	25373	8.30%	24439	25755	5.39

(Source: HESA 2010b)

Figure 2: Income of UK HEIs by source, 2008-09 (HESA, 2010b):



Approximately 35% of UK HEI's total income came from Funding Council grants in 2008-09, a lower proportion of total income than for Scottish HEIs. 29% was made up of 'tuition fees, education grants and contracts' and 16% from 'research grants and contracts'. 'Other income' accounted for 19% of the total.

Table 2 shows that UK HEIs increased their total income by 8.3% between 2007-08 and 2008-09, from £23.43 billion to £25.37 billion (a 5.39% increase in real terms). The largest increase in income stream for UK HEIs was 'tuition fees, education grants and contracts', which rose by 16.2% cash terms year on year or 13% in real terms. This compares to an 11.6% cash terms increase, or 8.6% real terms increase for Scottish HEIs. Income from 'research grants and contracts' also increased by 11.6% cash terms (in comparison to a 16.6% cash terms rise for Scottish HEIs).

In 2008-09, a higher proportion of the total income of Scottish HEIs came from 'Funding Council Grants' and 'Research Grants and Contracts' in comparison to UK HEIs. Adversely, UK HEIs sourced a higher proportion (29%) of their total income from 'tuition fees, education grants and contracts' than Scottish HEIs (21%).

Table 3 below provides income figures for each Scottish HEI in 2008-09. It should be noted here that figures on income, expenditure and operating balances of individual HEIs throughout this briefing are not analysed in the context of numbers of students at each institution.

Table 3: Income of Scottish Higher Education Institutions, by source of Income, 2008-09 (£'000s, cash terms)

	Funding body grants	Tuition fees & education contracts	Research grants & contracts	Other income - other services rendered	Other income - other	Endowment & investment income	Total income	% of total Scottish HEI income	% of total SFC grants income	% of total research grants income
Total Scotland	1067943	556156	574103	104672	321199	39130	2663203			
The University of Aberdeen	75774	40198	65954	7438	25554	1805	216723	8.1	7.1	11.5
University of Abertay Dundee	21261	8240	1341	1590	4953	427	37812	1.4	2.0	0.2
The University of Dundee	82341	32510	58943	8047	25019	827	207687	7.8	7.7	10.3
Edinburgh College of Art(#15)	9541	4438	709	387	1307	121	16503	0.6	0.9	0.1
Edinburgh Napier University(#8)	54753	26103	6024	5288	7298	926	100392	3.8	5.1	1.0
The University of Edinburgh	183524	91932	174648	32752	94289	14388	591533	22.2	17.2	30.4
Glasgow Caledonian University	69770	26942	4350	1870	7908	541	111381	4.2	6.5	0.8
Glasgow School of Art	10855	5270	955	0	2150	232	19462	0.7	1.0	0.2
The University of Glasgow	156248	75654	126022	16123	40493	6612	421152	15.8	14.6	22.0
Heriot-Watt University	42672	47970	19876	4195	18570	1218	134501	5.1	4.0	3.5
Queen Margaret University, Edinburgh	16129	9635	3183	0	6164	63	35174	1.3	1.5	0.6
The Robert Gordon University	40901	33446	4083	4842	6045	2403	91720	3.4	3.8	0.7
The Royal Scottish Academy of Music and Drama	7244	3564	33	190	1839	299	13169	0.5	0.7	0.0
The University of St Andrews	41541	39505	35774	1873	24965	3403	147061	5.5	3.9	6.2
Scottish Agricultural College	21680	2217	7680	4189	11414	244	47424	1.8	2.0	1.3
The University of Stirling	42832	21517	8013	4200	20189	195	96946	3.6	4.0	1.4
The University of Strathclyde	98319	64831	40407	5111	17668	4318	230654	8.7	9.2	7.0
UHI Millennium Institute	26504	6290	13532	4676	1082	83	52167	2.0	2.5	2.4
The University of the West of Scotland	66054	15894	2576	1901	4292	1025	91742	3.4	6.2	0.4

(HESA, 2010b)

#8: The Institution changed its name in the HESA publications for 2008/09 from Napier University to Edinburgh Napier University.

#15: The 2008/09 HESA financial submission for the Edinburgh College of Art is based on its draft consolidated financial statements.

N.B. Although The Open University teaches throughout the UK, its administrative centre is located in South East England, and except where shown separately, is counted as a wholly English institution in HESA stats, so is not included in figures for Scotland.

HEI Expenditure

Expenditure of Higher Education Institutions by 'Type'

As mentioned previously, HESA is also responsible for collecting annual expenditure data from all UK HEIs. Expenditure data is analysed in several ways. Tables 4 and 5 below show total expenditure by 'type' for both Scottish and UK HEIs in 2007-08 and 2008-09 (figures rounded to the nearest million). Expenditure by 'type' is broken down into 'staff costs' and 'non-staff costs' (including operating expenses, depreciation, interest and other finance costs).

It can be seen from tables 4 and 5 below that by far the largest expenditure by 'type' for HEIs is 'staff costs'. In 2008-09, over £1.5 billion in Scottish HEIs and over £14 billion in UK HEIs was attributed to staff costs. This accounted for 58% of total Scottish HEI expenditure. UK and Scottish HEIs saw significant increases in expenditure on 'interest and other finance costs' from 2007-08 to 2008-09 (33.3% and 41% respectively).

Total expenditure by Scottish HEIs rose by 8.2%, from £2.4 billion in 2007-08 to £2.6 billion in 2008-09. This compares with an increase of 9% over the same period for UK HEIs, from £22.9 billion to £24.9 billion.

Table 4: Expenditure of HEIs in Scotland by type, 2007-08 and 2008- 09 (cash terms)

Expenditure by type for Scottish HEIs 2007-08 and 2008-09 (£ million – cash terms)	2007-08	2008-09	% change year on year
Staff costs	1408	1528	8.60%
Other operating expenses	886	953	7.60%
Depreciation	127	132	3.50%
Interest and other finance costs	16	23	41.00%
Total Expenditure	2438	2637	8.20%

(Source: HESA 2010b)

Table 5: Expenditure of HEIs in UK by type, 2007-08 and 2008- 09 (cash terms)

Expenditure by type for UK HEIs 2007-08 and 2008-09 (£ million – cash terms)	2007-08	2008-09	% change year on year
Staff costs	13130	14165	7.90%
Other operating expenses	8269	9097	10.00%
Depreciation	1191	1300	9.10%
Interest and other finance costs	287	383	33.30%
Total Expenditure	22877	24944	9.00%

(Source: HESA 2010b)

Expenditure of HEIs by 'Activity'

The total expenditure by higher education institutions can be also analysed by the activities under which their expenditure is incurred. These activities are split into seven categories using HESA definitions, which are provided below. The seven 'activities' can then be broken down by 'type' of expenditure i.e. 'staff' and non-staff costs as above. For further explanation of these definitions, please see [HESA Finance Definitions 2008-09](#) (HESA 2010a).

1. Academic departmental cost centres - This includes all expenditure incurred by, or on behalf of, academic departments (including departments of continuing education), and expenditure incurred in connection with special and short courses which is not reimbursable by research councils or other bodies in respect of work carried out on their behalf. There are 34 departmental cost centres to which this expenditure can be attributed. These are listed below:

01 Clinical medicine	21 Mechanical, aero & production engineering
02 Clinical dentistry	23 Architecture, built environment & planning
03 Veterinary science	24 Mathematics
04 Anatomy & physiology	25 Information technology & systems sciences & computer software engineering
05 Nursing & paramedical studies	26 Catering & hospitality management
06 Health & community studies	27 Business & management studies
07 Psychology & behavioural sciences	28 Geography
08 Pharmacy & pharmacology	29 Social studies
10 Biosciences	30 Media studies
11 Chemistry	31 Humanities & language based studies
12 Physics	33 Design & creative arts
13 Agriculture & forestry	34 Education
14 Earth, marine & environmental sciences	35 Modern languages
16 General engineering	37 Archaeology
17 Chemical engineering	38 Sports science & leisure studies
18 Mineral, metallurgy & materials engineering	41 Continuing education
19 Civil engineering	
20 Electrical, electronic & computer engineering	

2. Academic services - This includes expenditure incurred by centralised academic services such as the library and learning resource centres, central computers and computer networks (including maintenance and operating costs), expenditure on centrally run museums, galleries and observatories, and any other general academic services not covered elsewhere.

3. Administration & central services – this category can be further split into three areas: central administration and services, general education expenditure; and staff and student facilities.

Central administration & services: includes expenditure in respect of central administrative staff and such payments to Heads of Institutions, Professors, Deans, Tutors, Faculty Officers and the like as are made in respect of central (as distinct from departmental) administrative work. This category also includes expenditure associated with the running costs of an administrative computer system and the following other costs if not charged to their relevant academic cost centre: public relations, advertising, recruitment, removal expenses of all staff, publications (excluding educational publications), rating or council tax advisors, security of wages, bank charges (excluding interest), central postage, superannuation management, expenses of head of institution, legal and audit fees, general insurance costs not included elsewhere and telephone costs where centrally charged.

General education expenditure: includes expenditure incurred on examinations, fellowships, scholarships, prizes and other expenditure of a general educational nature. It includes the direct costs of examinations, for example, of external examiners, salaries, printing, etc. Also included are fee remission and provisions for bad debts in respect of unpaid fees and the following items that cannot be appropriately charged elsewhere: educational publications, public lectures,

concerts and exhibitions, subscriptions and contributions to learned societies and similar bodies, contributions to representative bodies and agencies, works of art, contributions to the institution's Press, research projects not returned under other heads, representation at conferences, explorations and expeditions, administration of non-departmental arts centres, widening participation activity and student recruitment costs from home and overseas.

Staff & student facilities: includes expenditure incurred on the provision of facilities and amenities for the use of students and/or staff, e.g. Careers Advisory Service, all grants to student societies, payments to wardens of halls of residence, accommodation office, athletic and sporting facilities (excluding maintenance) and the institution's health service.

4. Premises - This includes all expenditure incurred (whether centrally or departmentally) on the management of premises (including academic buildings, central academic services, art centres, institution's health service premises, pavilions, sports buildings, etc) and on roads and grounds, except residences and catering. This category can be further broken down into: 'repairs and maintenance' and 'other expenditure' (such as rates, depreciation and insurance of buildings)

5. Residences & catering operations (including conferences) - This includes the gross expenditure incurred in providing the residence, catering and any conference operations, including the cost of maintenance of residential and catering premises, salaries and any other identifiable costs relating to these operations. The depreciation costs and financing costs of these operations are included in the appropriate categories of expenditure.

6. Research grants & contracts - This includes the total of the direct costs attributed to research grants & contracts as detailed for research grants & contracts income.

7. Other expenditure – This includes pension cost adjustments and the total direct costs attributed to other services rendered and all other expenditure not covered above.

Figure 3 below shows the split of expenditure by activity for Scottish HEIs in 2008-09. Expenditure by academic departments accounted for the largest proportion of costs at 39% of the total, with expenditure on research grants and contracts accounting for 18%.

Figure 3: Expenditure by Activity for Scottish HEIs, 2008-09 (HESA, 2010b)

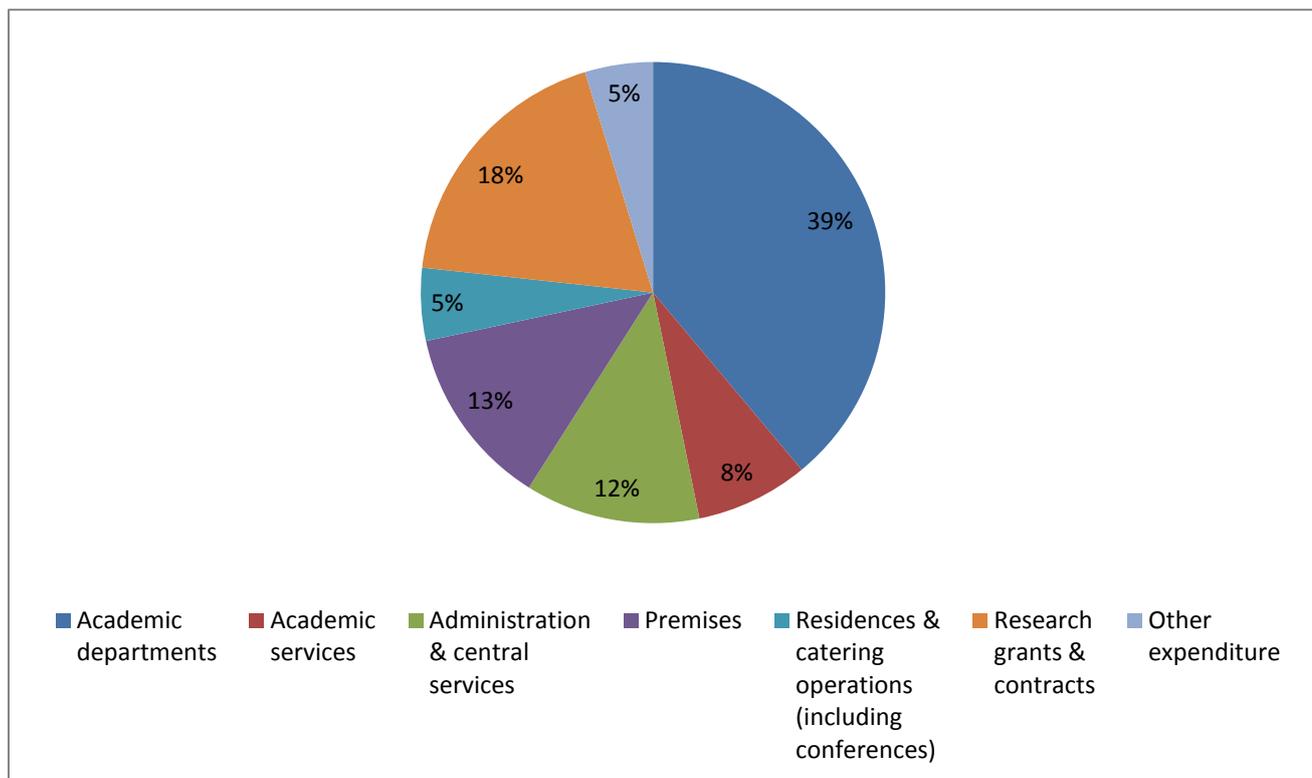


Table 6 below details the expenditure of all Scottish HEIs by activity in 2007-08 and 2008-09, both in cash terms and real terms (calculated using latest financial year (FY) [HM Treasury GDP deflators](#). Index year set at 2009-10=100. 2008-09 =98.517 2007-08 =95.868). It should be noted here that the FY for HM Treasury runs from April to March, all HESA financial returns data from HEIs are based on their FY of August to July). Expenditure on all 7 activities by Scottish HEIs rose, both in cash and real terms, from 2007-08 to 2008-09. The only ‘activity’ to experience a real terms year on year decrease was ‘academic services’ (-1.6%). The largest proportionate increase in expenditure, both in real and cash terms, was for ‘residences and catering operations, including conferences’. It should, however, be noted that this ‘activity’ accounts for a fairly small proportion of the total expenditure of HEIs (5% in 2008-09).

Table 6: Expenditure by activity of Scottish HEIs, 2007-08 to 2008-09 (£ million, cash and real terms)

	2007-08	2007-08 (real terms - 2009-10 prices)	2008-09	2008-09 (real terms - 2009-10 prices)	% change year on year (cash terms)	% change year on year (real terms at 2009-10 prices)
Academic departments	969	1011	1027	1042	6.0	3.1
Academic services	205	214	207	210	1.1	-1.6
Administration & central services	298	311	321	326	7.8	4.9
Premises	302	315	334	339	10.5	7.6
Residences & catering operations (including conferences)	118	123	134	136	14.4	11.3
Research grants & contracts	429	447	489	496	14.0	10.9
Other expenditure	118	123	125	127	5.9	3.1
Total	2438	2543	2637	2677	8.2	5.3

(Source: HESA 2010b)

Table 7 below provides expenditure figures for each Scottish HEI in 2008-09:

Table 7: Expenditure of Scottish Higher Education Institutions by Activity, 2008-09 (£000's – cash terms)

	Academic departments	Academic services	Administration & central services	Premises	Residences & catering operations (including conferences)	Research grants & contracts	Other expenditure	Total	% of total Scottish HEI expenditure
Total Scotland	1026814	207122	321008	333828	134457	489004	124741	2636974	
The University of Aberdeen	79093	13184	19755	16355	15641	57923	11962	213913	8.1
University of Abertay Dundee	11904	3730	7683	5606	1591	2407	4058	36979	1.4
The University of Dundee	81786	12649	22126	23001	7936	51603	7409	206510	7.8
Edinburgh College of Art(#15)	7658	1032	4795	3422	334	781	612	18634	0.7
Edinburgh Napier University(#8)	41860	10111	18518	9489	5982	4667	8236	98863	3.7
The University of Edinburgh	222826	36152	41051	95398	27006	143165	22038	587636	22.3
Glasgow Caledonian University	52103	15711	14659	14053	1013	5711	3082	106332	4.0
Glasgow School of Art	9379	2065	2325	4009	607	1055	0	19440	0.7
The University of Glasgow	139438	28281	51669	53477	15267	115295	12428	415855	15.8
Heriot-Watt University	51656	8341	32635	12265	10298	12170	5701	133066	5.0
Queen Margaret University, Edinburgh	11762	3757	5211	8390	4681	3526	1234	38561	1.5
The Robert Gordon University	39848	9203	12221	11256	6319	3675	7605	90127	3.4
The Royal Scottish Academy of Music and Drama	7390	876	2688	1768	343	122	368	13555	0.5
The University of St Andrews	54295	11823	18214	11543	15937	27158	4203	143173	5.4
Scottish Agricultural College	13224	5141	8716	2975	392	3908	12141	46497	1.8
The University of Stirling	37867	7677	12642	11775	9383	6493	11070	96907	3.7
The University of Strathclyde	101577	20778	23134	36736	8214	30065	8847	229351	8.7
UHI Millennium Institute	22469	3962	8614	602	0	15633	579	51859	2.0
The University of the West of Scotland	40679	12649	14352	11708	3513	3647	3168	89716	3.4

(HESA, 2010b)

#8: The Institution changed its name in the HESA products for 2008/09 from Napier University to Edinburgh Napier University.

#15: The 2008/09 HESA financial submission for the Edinburgh College of Art is based on its draft consolidated financial statements.

N.B. Although The Open University teaches throughout the UK, its administrative centre is located in South East England, and except where shown separately, is counted as a wholly English institution in HESA stats, so is not included in figures for Scotland.

Operating Surplus/Deficit by Institution 2008-09

The operating surplus or deficit of an HEI in a given year can be calculated by simply subtracting expenditure from income. Scottish HEIs had an operating surplus of £26.2 million in 2008-09³. This compares with a surplus of +£45 million in 2007-08. The operating surplus for UK HEIs as a whole in 2008-09 was +£428.8 mill, in comparison to +£551.5 mill in 2007-08. These figures are in cash terms and have not been adjusted using deflators. The operating surplus/deficit for each Scottish HEI in 2008-09 is shown in table 8 below. Figures are rounded to the nearest £ million. The next HESA financial returns data for HEIs in 2009-10 will be available in spring 2011.

Table 8: Operating Surplus/Deficit of Individual Scottish HEIs, 2008-09 (£ million, cash terms)

	total income	total expenditure	operating surplus/deficit for the year
Total Scotland	2663	2637	26.2
The University of Aberdeen	217	214	2.8
University of Abertay Dundee	38	37	0.8
The University of Dundee	208	207	1.2
Edinburgh College of Art	17	19	-2.1
Edinburgh Napier University	100	99	1.5
The University of Edinburgh	592	588	3.9
Glasgow Caledonian University	111	106	5.0
Glasgow School of Art	19	19	0.0
The University of Glasgow	421	416	5.3
Heriot-Watt University	135	133	1.4
Queen Margaret University, Edinburgh	35	39	-3.4
The Robert Gordon University	92	90	1.6
The Royal Scottish Academy of Music and Drama	13	14	-0.4
The University of St Andrews	147	143	3.9
Scottish Agricultural College	47	46	0.9
The University of Stirling	97	97	0.0
The University of Strathclyde	231	229	1.3
UHI Millennium Institute	52	52	0.3
The University of the West of Scotland	92	90	2.0

³ The SPICe 'Higher Education Institutions: Finance' Briefing uses UK Higher Education Statistics Agency (HESA) return statistics to analyse income, expenditure and operating surplus of Scottish HEIs, for the purposes of comparison with the rest of the UK. It should be noted therefore that the HESA statistics used in this briefing (pages 15 to 17) provide a figure for total operating surplus for Scottish Higher Education Institutions in 2008-09 of £26 million. However, the Scottish Funding Council's published review of the financial statements of the institutions for 2008-09 gave the sector surplus as £13.9m. SFC officials have explained the difference in the figures between HESA and SFC figures as being due to exceptional restructuring costs which have included in the calculation of the operating surplus of £13.9m but which, on the HESA returns, have been shown separately as exceptional items "below the line".

PUBLIC FUNDING OF HIGHER EDUCATION INSTITUTIONS

The majority of Scottish Government funding for HEIs is split into current and capital expenditure and is included within level 3 budget lines for the Scottish Funding Council (SFC), part of the education and lifelong learning portfolio. HEIs also receive public funds in the form of tuition fees that are paid on behalf of some students by the Student Awards Agency Scotland (SAAS), as well as receiving income through various contracts with public bodies, such as UK Research Councils or the NHS.

PUBLIC FUNDING TO SCOTTISH HEIS – ACADEMIC YEAR 2010-11

Although the Scottish Government allocates its budget for further and higher education by financial year, the Scottish Funding Council (SFC) is responsible for allocating the majority of public funding to Scottish colleges and HEIs and it does this on an academic year basis (August to July), with the exception of capital funding. The Scottish Government informs the SFC of its key priorities for use of public funds (described below), the SFC then determines the strategic actions needed within the sector and allocates the resources accordingly.

Scottish Government Priorities for 2009-12

The Scottish Government's overall priorities for the college and university sector over the period 2009-12, particularly in light of the economic downturn, were outlined in a [letter of Ministerial Guidance to the SFC](#) from the previous Cabinet Secretary for Education and Lifelong Learning on 18 November 2008 (Scottish Government, 2008b). The guidance relevant to Scottish HEIs is summarised below:

- The Scottish Government published [Skills for Scotland: A lifelong Skills Strategy](#) in September 2007 and established Skills Development Scotland (SDS) as part of its ambition to improve Scotland's skills performance (Scottish Government, 2007a). It is expected that the SFC's Skills Committee will help to deliver this change
- The SFC has a role to play, alongside Scotland's colleges and universities, in embedding the new [Curriculum for Excellence](#) into learning for 3-18 year olds
- The SFC will, along with other key stakeholders, take forward the work of the [Joint Future Thinking Taskforce on Universities](#) and implement the Scottish Government priorities for the newly established strategic 'Horizon Fund for Universities' (Scottish Government, 2008a)
- The SFC, colleges and universities will engage with the new [Science and Innovation Frameworks](#) (Scottish Government, 2007c). The SFC will need to consider how the sector can respond to an expected higher future demand for science courses
- In light of the economic downturn, the SFC and publicly funded FE and HE institutions are expected to clearly demonstrate their contribution to the economy
- The SFC will work closely with [Skills Development Scotland](#) (SDS) to ensure that learning provision is flexible enough to respond to the short term skills needs of the economy, and to address future changing patterns in demand for learning and skills

- The SFC will develop its own outcomes for further and higher education in Scotland, which will support the delivery of the Scottish Government's [National Outcomes](#) (Scottish Government, 2007d)
- In developing their outcomes, the SFC will consider how it will support integration of the Curriculum for Excellence; and how it can help the following key sectors of the economy: energy, financial and business services, food and drink, life sciences, tourism; and creative industries (Scottish Government, 2008b)
- The SFC should work closely in partnership with [Scottish Enterprise](#) , [Highlands and Islands Enterprise](#), [COSLA](#), SDS, [UK Research Councils](#) and other relevant bodies to jointly develop ideas and deliver outcomes, to optimise their use of public funding and their contribution to the Scottish economy and society. The SFC will also encourage publicly funded FE and HE institutions to work together in partnership, and with other external bodies
- The SFC will develop a more comprehensive performance management framework, and will keep Scottish Government officials informed of its progress against its outcomes
- SFC priorities for the newly developed 'Horizon Fund for Universities' are: employability and skills interventions to support a changing economic environment; widening access and progression to FE and HE (with particular emphasis on better collaboration between schools, colleges and universities); knowledge transfer and innovation; encouraging diversity and specialism amongst HEIs and colleges; collaboration amongst institutions to realise economies of scale within the sectors; and continuing to produce world class research to remain internationally competitive.

Recent Scottish Government Guidance to the SFC

Following the Scottish Parliament's approval of the Draft Budget Bill on 3 February, the most recent [letter of guidance](#) from the Cabinet Secretary for Education and Lifelong Learning to the Scottish Funding Council on 25 February 2010 re-iterated the above priorities and announced the budget allocations for FE and HE in the academic year 2010-11. This guidance also included the following additional priorities relevant to Scottish HEIs (Scottish Government, 2010b):

- The Scottish Government places high importance on the SFC preserving current numbers of funded student places at colleges and universities, particularly for young people aged 16-24 years old who wish to study at college
- The SFC must focus on seeking efficiencies in light of the likely future pressures on public finances, for both core funding to institutions and strategic interventions. A large proportion of SFC funding is already committed to 2011-12. It should therefore consider the future balance between its 2 main funding streams to HEIs – the main recurrent grant and the strategic Horizon fund for Universities.

IMPLEMENTING 'NEW HORIZONS' – THE GFU AND HFU

As mentioned previously, Ministerial guidance to the SFC states that the SFC should continue to take forward its proposals for implementing the findings of the [Joint Future Thinking Taskforce on Universities](#) (JFTT). The JFTT final report '[New Horizons: Responding to the](#)

[Challenges of the 21st Century](#) in 2008 recommended changing arrangements for allocating resources to HEIs, with the creation of a new funding stream designed to fund strategic projects that will support the Scottish Government's priorities and better demonstrate the outcome of public investment in HEIs (Scottish Government, 2008a). For background on the Joint Future Thinking Taskforce for Universities, its report and Scottish Parliament Committee consideration, please see SPICe Briefing [SB09-10 - The Future for Scotland's Universities](#) (Mullen, 2009).

Following the endorsement of 'New Horizons' a different method of allocating funding to Scottish HEIs was introduced for the academic year 2009-10. The SFC now allocates its budget to Scottish HEIs via two funding streams: the General Fund for Universities (GFU) which provides main grants for teaching and research; and the Horizon Fund for Universities (HFU) which funds projects that support seven strategic outcomes identified in the SFCs [Corporate plan 2009-12](#). These strategic outcomes are designed to address the Scottish Government priorities, and are: employability and skills interventions; access and progression; knowledge exchange; specialism and diversity; collaboration; world class research; and effective institutions (SFC, 2009a). Both funding streams include current and capital expenditure lines.

In addition to the GFU and HFU, a relatively small amount of funding is ring-fenced by the Scottish Government to help address specific workforce planning issues in Scotland, such as increasing the number of dentistry, medical or teaching graduates from Scottish HEIs. In 2010-11, a total of £6.77 million has been ring-fenced, details of which are included below

The GFU for AY 2010-11 includes:

- 1. Funding for teaching** (broken down into: the main teaching grant (which includes a separate Scottish Government grant of £59.4 million for nursing and midwifery pre-registration places), funding for the Scottish Agricultural College, part-time fee waiver scheme funding, the fee anomalies grant);
- 2. Funding for research and knowledge transfer** (split into: the research excellence grant, the research postgraduate grant and the knowledge transfer grant); and
- 3. GFU capital funding** which is allocated on a financial year basis (SFC, 2010a).

The HFU for AY 2010-11 includes:

- 1. Allocated strategic awards** including: funding for strategic additional funded student places, part-time incentive premium, widening access retention premium (WARP), disabled student premium, specialism, small specialist institutions supplementary grants, funding for Sabhal Mor Ostaig, funding for the Royal Scottish Academy of Music and Drama (RSAMD) Junior Academy
- 2. Previously announced strategic funding commitments** for research pooling activities and employability and skills interventions
- 3. Strategic funding not yet allocated, but earmarked** for knowledge exchange and innovation activities
- 4. Third category activities** including committed ongoing funding for the Joint Information Systems Committee (JISC), the Quality Assurance Agency (QAA), the Higher Education Academy (HEA) and SUPER-JANET
- 5. Strategic funding still to be allocated**

6. HFU capital funding allocated on a financial year basis (SFC, 2010c)

For definitions of the various premiums and grants included in the GFU and HFU above, please see **Annex A**.

Scottish Government Ring Fenced Grants for AY 2010-11:

1. **Teacher training (£2.97 million)** - Funding for 510.5 Bachelor of Education (BEd) funded student places for continuing students, all of which are in primary education. These funded student places are allocated among: The University of Aberdeen, the University of Dundee, the University of Edinburgh, the University of Glasgow, the University of Stirling, the University of Strathclyde and the University of the West of Scotland. No additional BEd or Postgraduate Diplomas in Education (PGDE) are to be funded by the Scottish Government for AY 2010-11, due to a current oversupply of newly qualified teachers in the labour market
2. **Undergraduate dentistry (£0.9 million)** - Funding for 71 undergraduate dentistry funded student places at the University of Glasgow and the University of Dundee (the Aberdeen Dental School is separate and is funded through the HFU)
3. **Postgraduate medical training (£0.74 million)** - Funding for 55 continuing medical graduates in clinical training (4th year). These funded student places are now split between 4 clinical schools at the University of Aberdeen, the University of Dundee, The University of Edinburgh and the University of Glasgow. This temporary increase in funded student places was recommended in the 2004 [Calman Review of Basic Medical Education in Scotland](#) (SFC, 2010a)
4. **Edinburgh Medical School (£2.16 million)** - Funding for Edinburgh Medical School's running costs (this funding is allocated in financial year 2010-11)

For academic year 2010-11, the SFC is allocating a total of £1040.4 million of current funding and £83.2 million of capital funding to Scottish HEIs, a total of £1123.6 million. 88.5% of this funding is streamed through the GFU and the remaining 11.5% through the HFU (SFC, 2010a). This excludes the Scottish Government ring-fenced grants of £6.8 million. It should be noted here that funds to HEIs are for AY 2010-11 and therefore differ from the Scottish Government's budget total of £1126.7 million for FY 2010-11 (current funding of £1043.5 million including £40.3 million transfer of tuition fee funds to SAAS, plus £83.2 capital funding, following summer budget revisions). In determining these allocations for AY 2010-11, the SFC has assumed that cash resources for FY 2011-12 will remain flat due to economic pressures. The breakdown of these funds between the GFU and HFU can be seen below in tables 9 and 10.

Table 9 - The SFC GFU Budget Allocation to HEIs for Academic Year 2010-11

GFU Allocations	GFU for AY 2010-11 (£ million)
1.Total Teaching Grants	678.15
Main Teaching Grant	669.79
Scottish Agricultural College	4.45
Part-time Fee Waiver Scheme	3.67
Fee Anomalies Grant	0.25
2.Total Research and Knowledge Transfer Grants	244.05
Research Excellence Grant	213.03
Research Postgraduate Grant	29.67
Knowledge Transfer Grant	1.36
TOTAL GFU current funding	922.21
3.GFU Capital Funding (Financial Yr 2010-11)	71.9

(Source: SFC, 2010a)

Table 10 - The SFC HFU Budget Allocation to HEIs for Academic Year 2010-11

HFU Allocations	HFU for AY 2010-11 (£ million)
1. Allocated Strategic Awards, of which:	28.77
Additional Strategic Funded Student Places	2.7
Part-time Incentive Premium	8.46
Widening Access Retention Premium (WARP)	10.38
Disabled Students Premium	2.6
Specialism	2.5
Small Specialist Institution Supplementary Grants	1.68
Sabhal Mor Ostaig	0.14
RSAMD Junior Academy	0.32
2.Previously announced strategic allocations	33.65
3.Funding earmarked for knowledge exchange and innovation activities	32.35
4.Third category activities	11.23
5.Horizon fund still to be allocated	12.2
TOTAL HFU current funding	118.19
6.HFU capital funding (Financial Year 2010-11)	11.3

(Source: SFC, 2010c)

How is the GFU Allocated to Individual HEIs?

The GFU is mainly allocated to individual HEIs using a formulaic method. Current Funding from the GFU is split between teaching grants and research and knowledge transfer grants. Each of the grants and how they are allocated are explained below.

Teaching Grants

Teaching grants in the GFU are divided into: the main teaching grant, funding for the SAC, the part-time fee waiver scheme and the fee anomalies grant. The main teaching grant is the largest grant to Scottish HEIs. In AY 2010-11 it is worth £669.8 million and accounts for 99% of total teaching grants and 60% of all SFC current and capital funding to HEIs.

The main teaching grant is allocated to each institution by a formula related to the number of students and the subjects taught at an institution. The SFC has 'funding subject groups', all of which have a 'unit of resource'. In other words, a 'price'. This reflects the fact that provision of courses in certain subject groups will cost more than others. For example, providing courses in sciences or engineering may have a higher unit cost to teach than for English literature.

Funding subject groups are categorised into: 'controlled subjects' such as clinical and veterinary studies or education, 'non-controlled, priority subjects' such as science, maths, engineering and technology (STEM) subjects; and 'non-controlled, non-priority subjects'. Although HEIs have the autonomy to allocate their funding amongst subject and courses as they see fit and do not have to follow the same formula the SFC uses to determine their resources, some subject areas are classified as 'controlled'. This is to ensure that a certain number of students are studying these subjects as they are seen as important for the development of the Scottish workforce and economy. For example, controlling the intake of Scottish medical graduates to ensure sufficient doctors will be available in future for the NHS. The funding subject groups are shown in table 11 below.

Table 11: Funding Subject Groups

Funding Subject Group	Funding Subject Group Status
Clinical and Veterinary Practise	controlled
Engineering and Technology	non-controlled, priority
Science	non-controlled, priority
Computing and Information Science	non-controlled, priority
Pre-clinical	controlled
Creative Arts and Hospitality	non-controlled, non-priority
Education	controlled
Other Health and Welfare	non-controlled, non-priority
Other Health and Welfare (Nursing and Midwifery pre-registration education)	controlled
Built Environment	non-controlled, non-priority
Mathematics, Statistics and Operational Research	non-controlled, priority
Humanities, Language and Business	non-controlled, non-priority (languages - priority)
Social Sciences	non-controlled, non-priority

(Source: SFC, 2010b)

The Scottish Government sets out the number of full-time equivalent (FTE) students that will be eligible for public funding in any given year, known as 'students eligible for funding'. By setting this number it allows for the control of public expenditure on tuition fees and student support. In AY 2010-11, expenditure plans assume 133,350 'students eligible for funding' (SFC, 2010b). SFC then allocates a number of funded student places (FSP) which are designated between 'funding subject groups'. HEIs are only allowed to enrol student numbers within a tolerance level. For non-controlled priority subjects, they can enrol up to 10% over their indicative number and for non-controlled non-priority subjects, they can enrol up to 7% over (this limit was 10% in 2009-10). If HEIs overshoot these limits, they can be charged a penalty by the SFC. For controlled subjects, the Scottish Government and SFC set the amount of funded student places available for each subject.

Next it is assumed that, for each of these funded student places, the HEI will receive income from tuition fees (which are fixed in Scotland by the Scottish Parliament). An assumed tuition

fee income is calculated for each HEI by multiplying the assumed tuition fee by the number of funded student places. The allocation of the main teaching grant to individual HEIs is then calculated by this formula:

(Number of funded student places in each subject group X 'unit of resource' or cost of subject group) – assumed fee income.

For a detailed explanation of the method of allocating teaching grants to HEIs, the part-time fee waiver scheme and the fee anomalies grant, please see [the SFC General Fund for Universities: Supplementary Guidance and Tables 2010-11](#)

Research and Knowledge Transfer Grants

In the GFU, there are three main grants related to research and knowledge transfer. These are: the Research Excellence Grant, Research Postgraduate Grant; and the Knowledge Transfer Grant.

The Research Excellence Grant (REG) is the main method used by the SFC to distribute research funding to HEIs. It was introduced in 2009-10 and is distributed according to a number of indicators, one of the main indicators being the quality and quantity of research output by academic staff at individual HEIs, which is measured by the UK Research Assessment Exercise, or RAE, the latest of which was undertaken in 2008. The distribution of the REG is also determined by other indicators including: the cost of research, the number of research assistants, the number of research students and third party income (from UK charities or UK research councils for example). In AY 2010-11, the REG is £213 million and accounts for 87% of SFC research grants. Included in this funding is £5 million specifically for supporting subject activity related to economic priorities and the Scottish Government's [Science and Innovation Frameworks](#).

The Research Postgraduate Grant (RPG) is allocated in two main ways. The majority of the RPG is distributed in proportion to the number of research postgraduate enrolments at each institution, weighted according to subject group. Since 2008-09, the SFC has used part of this grant to fund research postgraduate studentships. In AY 2010-11, £28.2 million of the RPG will be allocated formulaically and £1.5 million will be used to fund research postgraduate studentships (SFC, 2010a).

The Knowledge Transfer Grant (KTG) provides HEIs with funds to have specialised knowledge exchange staff who can deal with KT projects. In AY 2010-11, each Scottish HEI will receive £70,000 through the KTG in the GFU, and will receive a share of £15 million in the HFU (SFC circular 24/2010). Institutions are not expected to use the same formula to allocate their teaching and research grants internally, it is for HEIs to decide how to allocate their resources appropriately, whilst ensuring that they take account of Scottish Government and SFC strategic priorities (this is a condition of accepting public funding).

Table 12: Allocation of GFU to Individual Scottish HEIs, 2010-11, £'s

	Main Teaching Grant	Research Excellence Grant	Research Postgraduate Grant	Knowledge Transfer Grant	SAC ring-fenced	Total of these grants
The University of Aberdeen	47,138,000	19,930,000	2,634,000	70,000		69,772,000
The University of Abertay Dundee	16,342,000	678,000	220,000	70,000		17,310,000
The University of Dundee	47,713,000	20,024,000	1,605,000	70,000		69,412,000
Edinburgh College of Art	6,494,000	1,023,000	120,000	70,000		7,707,000
Edinburgh Napier University	48,758,000	2,153,000	494,000	70,000		51,475,000
The University of Edinburgh	77,683,000	70,706,000	8,362,000	70,000		156,821,000
Glasgow Caledonian University	56,344,000	2,157,000	776,000	70,000		59,347,000
Glasgow School of Art	7,514,000	1,511,000	100,000	70,000		9,195,000
The University of Glasgow	83,545,000	42,135,000	5,785,000	70,000		131,535,000
Heriot-Watt University	24,426,000	9,615,000	1,481,000	70,000		35,592,000
Open University in Scotland	18,809,000			70,000		18,879,000
Queen Margaret University, Edinburgh	12,295,000	608,000	220,000	70,000		13,193,000
The Robert Gordon University	36,032,000	2,235,000	285,000	70,000		38,622,000
The Royal Scottish Academy of Music and Drama	3,451,000	163,000	100,000	70,000		3,784,000
Scottish Agricultural College	2,025,000			27,000	4,448,500	6,500,500
The University of St Andrews	18,863,000	16,170,000	2,178,000	70,000		37,281,000
The University of Stirling	28,793,000	5,358,000	812,000	70,000		35,033,000
The University of Strathclyde	60,092,000	16,006,000	3,464,000	70,000		79,632,000
UHI Millennium Institute	18,915,000	1,682,000	381,000	70,000		21,048,000
The University of the West of Scotland	54,553,000	873,000	652,000	70,000		56,148,000
Total	669,785,000	213,027,000	29,669,000	1,357,000	4,448,500	918,286,500

(*) SAC is being funded through a ring-fenced grant for August 2010 to March 2011, and through formula funding for April 2011 to July 2011.
(Source: SFC, 2010a)

How is the HFU allocated to Individual HEIs?

The Horizon Fund for Universities (HFU) is an incentivised funding stream that is designed to help deliver key Scottish Government priorities and policies. The current priorities for the HFU, outlined in the most recent Ministerial [letter of guidance](#) are: employability and skills interventions; widening access and progression; knowledge transfer and innovation; differentiation, diversity and specialism; collaboration; and world class research (SFC, 2010d). The SFC has set out the key principles by which the operation of the HFU is guided. These are:

1. It will be outcome-focussed – projects should be able to clearly demonstrate what impact will be achieved from the public investment
2. It will be time-limited – the HFU is not designed to be treated as a recurrent grant. It will provide initial investment for a limited period of time for a specific activity. HEIs will be expected to plan how they will continue to support these activities (if longer term) once the initial HFU investment has finished
3. The HFU will be risk-embracing
4. It will support collaboration where it is considered the right approach

The HFU is allocated in a variety of ways. Part of it will be allocated by formula, but it will also fund projects that are proposed and bid for by institutions, individually or collectively, or SFC strategic projects that are taken forward in partnership with HEIs and other stakeholders, such as Scottish Enterprise or the UK Research Councils (SFC, 2010d). The SFC will generally use a 'rolling approvals process' to consider project proposals, rather than a fixed bidding timetable (there may be some exceptions to this process for specific initiatives).

HFU Project Appraisal

All proposals will be appraised using two key elements: the outcomes of the project (what measurable impact it will have on learners, businesses or a specific industry for example) and the deliverability of the project (whether the project will realistically be able to deliver the outcomes proposed). Institutions are strongly encouraged to engage with the SFC at an early point for guidance to develop their proposals in line with HFU priorities, and not to invest significant resource in their proposals without speaking to the SFC first. Throughout the appraisal process, all proposals will be assessed against the following SFC criteria for expected outcomes and their 'deliverability' and it will ultimately be the decision of the SFC as to whether proposals are approved for HFU funding (SFC, 2010d):

Outcome Criteria:

- How the proposed outcomes demonstrate that they will contribute to the delivery of the SFC's strategic outcomes and the Scottish Government's Purpose
- What the projected impact of the outcomes is and how this impact will be measured, with particular reference to economic factors
- The proposal's value for money
- The extent to which the proposal fills a strategic gap
- The extent to which the proposal is aligned with the proposers' strengths and expertise.

Deliverability Criteria:

- Consideration of existing SFC funding for similar outcomes (where applicable)
- The institution's overall financial position and the 'stretch' the investment will put on the institution which might affect its capacity to deliver
- The option appraisal process being used to determine the most appropriate delivery mechanism for the outcomes
- The extent to which the proposed outcomes are achievable with the resources being committed to the project
- The project management arrangements being established by the proposers, including governance, risk management and self-evaluation
- The arrangements being put in place to secure sustainability of outcomes (which may or may not include future funding)
- The track record of the institution(s) and its/their partners in managing projects similar in scope or complexity; and
- The proposed approach to be taken to procurement (where relevant), including confirmation that the proposers have, where appropriate, consulted [Advanced Procurement for Universities and Colleges \(APUC\)](#)

The SFC's newly established [Investment Committee](#) has the delegated authority to decide on individual HFU proposals up to the value of £15 million and provides advice to the SFC on HFU proposals in excess of this limit. The Investment Committee will in turn draw on the specialist advice of the SFCs [subject committees](#), and in some cases external experts, to help inform the appraisal process. The SFC Investment Committee meets quarterly and it is intended that new HFU resource announcements will be made in line with these meetings, rather than in an annual circular (SFC, 2010d). For further detail on the project appraisal process for the HFU, please see the SFCs [HFU guidance for universities 2010-11](#).

In AY 2010-11, a total of £118.2 million current funding and £11.3 million of capital funding (FY 2010-11) will be allocated through the HFU. As detailed in table 12, most of this funding has already been committed to strategic projects. £28.8 million is being allocated through specific strategic awards to individual HEIs, the breakdown of which is shown in table 13 below (SFC, 2010c).

Future of HFU Funding

Currently, some of the activities funded by the HFU are fairly long-term, but the SFC states in its guidance that funding streams will be periodically reviewed to ensure that they are being spent on the highest priorities and are being used the most effectively. In the [HFU guidance for universities 2010-11](#), the SFC states:

'The SFC intends to continue commitments that have already been agreed. However, following the recent UK General Election there has been a revised budget for 2010-11, and budgets for financial year 2011-12 and beyond will be set out in a spending review expected to conclude in the autumn. In light of the uncertainties over budgets, universities should note that we reserve

the right to make in-year adjustments to universities' allocations as well as changes to future years' profiles.' (SFC, 2010d)

All activities funded by the HFU are also being reviewed by the SFC. Activities that are currently being considered are: The part-time incentive grant; the widening access and retention premium (WARP); museums, galleries and collections; research libraries support grant; funding for vision sciences, and Interface. Reviews are expected to be complete by the end of July 2011. For definitions of these activities, please see **Annex A**

Table 13: Allocations of strategic awards within the HFU to Individual Scottish HEIs in AY 2010-11, £'s (Source: SFC, 2010c)

	Additional strategic funded student places	Part-time Incentive Premium	Specialism	Widening Access Retention Premium*	Disabled Students Premium	Small Specialist Institution Supplement Grant	Sabhal Mòr Ostaig	RSAMD Junior Academy	Total of these awards
The University of Aberdeen	798,000	622,000		208,000	181,000				1,809,000
The University of Abertay Dundee	183,000	169,000		340,000	64,000				756,000
The University of Dundee	120,000	830,000		684,000	158,000				1,792,000
Edinburgh College of Art	83,000	28,000		27,000	52,000	511,000			701,000
Edinburgh Napier University	104,000	590,000		724,000	180,000				1,598,000
The University of Edinburgh		516,000			287,000				803,000
Glasgow Caledonian University		1,104,000		1,898,000	213,000				3,215,000
Glasgow School of Art	21,000	32,000		49,000	52,000	511,000			665,000
The University of Glasgow	488,000	735,000		753,000	293,000				2,269,000
Heriot-Watt University		91,000		207,000	91,000				389,000
Open University in Scotland				782,000	74,000				856,000
Queen Margaret University, Edinburgh		239,000		197,000	52,000				488,000
The Robert Gordon University	21,000	570,000		326,000	134,000				1,051,000
The Royal Scottish Academy of Music and Drama	291,000	4,000	2,496,000	35,000	52,000	479,000		319,000	3,676,000
Scottish Agricultural College		27,000		25,000	20,000	182,000			254,000
The University of St Andrews		92,000			86,000				178,000
The University of Stirling	197,000	308,000		522,000	120,000				1,147,000
The University of Strathclyde		408,000		941,000	227,000				1,576,000
UHI Millennium Institute	196,000	1,075,000		619,000	68,000		141,000		2,099,000

	Additional strategic funded student places	Part-time Incentive Premium	Specialism	Widening Access Retention Premium*	Disabled Students Premium	Small Specialist Institution Supplement Grant	Sabhal Mòr Ostaig	RSAMD Junior Academy	Total of these awards
The University of the West of Scotland	196,000	1,019,000		2,042,000	195,000				3,452,000
Total	2,698,000	8,459,000	2,496,000	10,379,000	2,599,000	1,683,000	141,000	319,000	28,774,000

SFC'S ROLE IN THE FINANCIAL GOVERNANCE OF SCOTTISH HIGHER EDUCATION INSTITUTIONS

The SFC has a statutory duty to use its functions to secure high quality further education and higher education by colleges and HEIs. The Council and its executive are also expected by Scottish Ministers to:

“- regulate the use of public funding by colleges and HEIs so as to safeguard the public interest and promote high standards of governance and administration; and

- hold Scotland's colleges and HEIs accountable for delivering the quantity, quality and relevance of further and higher education and research sought by Scottish Ministers, for achieving best value from public funds, and for managing their financial and other resources in a sustainable way.”

In addition to the main duties and powers set out in [The Further and Higher Education \(Scotland\) Act 2005](#), a [Management Statement and Financial Memorandum](#) between the SFC and the Scottish Government form part of the governance framework in which the Council operates. The Management Statement describes the relationship between the Council and the Scottish Government, and its powers, functions and responsibilities. The Financial Memorandum sets out the terms and conditions which apply to the funds provided by Scottish Ministers to the SFC (SFC, 2006a). In turn, the SFC also has a [Financial Memorandum](#) between itself and each incorporated college and HEI. This Financial Memorandum was put in place on 1 January 2006 and sets out what institutions can expect from the SFC, the mandatory requirements placed on the institution and the conditions of accepting funding from the SFC (SFC, 2006b). [The latest version of the mandatory requirements](#) placed on institutions was published in November 2007. An additional section on 'audit and accounting' was added in October 2008. Principals of HEIs were notified of this change by letter.

Colleges and HEIs are required to provide financial statements and external audit reports to the SFC by the 31 December each year. Within their financial statements, HEIs and colleges are required to include a statement covering the responsibilities of their governing body in relation to corporate governance.

The SFC's [Accounts Direction for Scotland's Colleges and Universities](#) outlines the mandatory information required by the SFC in relation to institutions financial statements and their corporate governance (2006c). As part of the mandatory requirements outlined in the Financial Memorandum, each institution's governing body has to establish its own audit committee and is responsible for ensuring the effective internal audit of its institution. It is the remit of the SFC's [Audit and Compliance Committee](#) to consider the financial health and related governance and management matters of the college and university sectors.

As part of the SFCs Financial Health Monitoring Framework, reviews of Scotland's colleges and HEIs financial statements are undertaken and published by the SFC every year. The latest SFC [Review of HEI Financial Statements for 2008-09](#) provides an overview of the general financial health of Scottish HEIs (for AY 2008-09) and highlights any issues raised through the internal and external audit process (SFC, 2010e).

The SFC also reviews the college and universities Strategic Plan Forecasts (SPFs), which provide forecast figures covering the current academic year and three years beyond that. The latest reviews for 2008-09 to 2011-12 are available here:

[Review of Colleges' Financial Forecast Returns 2008-09 to 2011-12](#)

[Review of Higher Education Institutions Financial Forecast Returns 2008-09 to 2011-12](#)

The SFC is currently reviewing the latest SPF round for 2009-10 to 2012-13. For information on the data SFC has requested from HEIs within the SPF, please see the SFCs [HEIs Strategic Plan Forecasts for AY 2009-10 to 2012-13: Guidance for Completion](#) (SFC, 2010f)

The SFC also provides resources and guidance to support HEIs and colleges in their financial governance and sustainability arrangements.

The British Universities Finance Directors Group

The British Universities Finance Directors Group [BUFDG](#) is the representative body for finance office staff in the HE sector in the UK. Its members are the Finance Directors of nearly all UK HEIs. It states that its objectives are:

- To be the pre-eminent source for information, advice and comment on matters of financial strategy and management in higher education in the UK.
- To be the recognised channel for the provision, analysis and dissemination of information and comment to external agencies and all members concerning best practice in financial management and related topics in higher education.
- To promote high standards and best practice in accounting, audit and financial management in higher education.
- To provide appropriate opportunities for training and development of finance directors and their staff.
- To work in partnership with related organisations to provide forums for discussion, consultation and exchange, both nationally and regionally

CURRENT ISSUES

SFC Review of Teaching Funding Methodologies

In September 2009, the SFC consulted with HE stakeholders on simplifying the 'funding subject groups' and their 'units of resource' or 'price', which are used to determine allocations of the main teaching grant in the GFU. As discussed on page 20 of this briefing, currently there are 12 funding subject groups and 23 'prices'. In its consultation [Teaching Funding Subject Price Groups for Higher Education Institutions](#), the SFC proposed moving to a simplified system of only four 'subject price groups'. This proposal was informed by TRAC(T) data (Transparent Approach to Costing for Teaching), which is a UK wide data collection that tracks the actual amount of expenditure by HEIs on publicly funded teaching for different subject groups. However, following the SFC's consideration of the [consultation responses](#), it announced that changes to the teaching funding methodology would not be introduced for AY 2010-11 due to some concerns raised about the robustness of TRAC(T) data and the effect of implementing these changes in time for AY 2010-11 in the wider context of the current economic climate. Therefore, SFC has delayed the implementation of any new price groups until technical issues are resolved, and the wider funding picture is clearer.

Universities Scotland has recently published commissioned research that measures the economic contribution of Scottish HEIs as being worth over £6 Billion of GVA (Gross Value Added) to the Scottish economy, with the sector supporting a total of 150,000 jobs in Scotland. The research was undertaken by Biggar Economics between 2008 and 2010. A summary report of the findings is available [here](#).

ANNEX A – GLOSSARY

Part-time fee waiver scheme: waives fees of part-time undergraduate students from groups under-represented in HE, including unemployed, those from low income groups and those in receipt of non-means tested disability living allowance

Part-time incentive premium: to encourage more part-time provision and increased part-time student enrolments

Fee anomalies grant: to compensate institutions for shortfalls in funding arising from anomalies in fee income, for rest of UK students on an ERASMUS exchange, and for any situations arising from the change in full-time tuition fee rates that have not been incorporated into our main grant allocations

Widening access retention premium: to support institutions in improving the experience for learners with potential from disadvantaged backgrounds, so that these students are more likely to complete their courses successfully.

Disabled student premium: to assist universities with the additional costs that they incur in providing additional materials and services for disabled students

Small specialist institutions supplementary grant: provides additional support for teaching to Edinburgh College of Art, Glasgow School of Art, the Royal Scottish Academy of Music and Drama (RSAMD) and the Scottish Agricultural College to reflect diseconomies of scale

Research libraries support grant: supports the library access scheme and funding for the research information network, which has the aim of leading and co-ordinating the provision of research information across the UK

Sabhal Mor Ostaig grant: to provide part recognition of Sabhal Mor Ostaig's specialist mission and activities

Museums, galleries and collections grant: to support the additional costs borne by institutions housing nationally significant collections

Specialism grant: contributes towards recognising the particular specialism of RSAMD's high level performance training in music

Vision sciences grant: to support the costs of the clinical provision for Vision Sciences at Glasgow Caledonian University (the 'Eye Clinic')

Joint Information Systems Committee grant: supports the innovative use of digital technologies across education and research

QAA grant: pays for the cost of our service level agreement with QAA Scotland, which enables the Council to fulfil its statutory duty to make arrangements to assure and enhance the quality of provision

SUPER-JANET grant: ensures that all universities and colleges in Scotland have access to the JANET network, which provides fast, reliable network connections to support research and teaching, along with network management and procurement services provided by JANET UK

Scottish Institute for Enterprise: provides funding to the Scottish Institute for Enterprise whose aim is to help students start-up their own ventures and develop their entrepreneurial talent

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