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SPICe Briefing

Higher Education: Tuition fees and the 'funding gap'

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This briefing provides information on the current and future arrangements for tuition fees in Scotland and the rest of the UK, as well as a discussion of the 'funding gap' debate which followed the introduction of higher variable tuition fees in England.



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EXECUTIVE SUMMARY

In Scotland, tuition fees for higher education are fixed by the Scottish Government and approved by the Scottish Parliament. In academic year (AY) 2011-12 full-time first degree students studying at a Scottish Higher Education Institution (HEI) are currently charged fixed tuition fees of £1,820 per year or £2,895 per year for those studying medicine, with eligible Scottish and EU students having their fees paid on their behalf by the Scottish Students Awards Agency for Scotland (SAAS). In the other devolved administrations and in England, tuition fees are variable by institution, but are capped at a maximum level of £3,375 (AY 2011-12).

Following the Browne Report into Higher Education funding and student finance in England, the UK Government announced that it would raise the cap on variable tuition fees charged by English HEIs from £3,375 to £9,000, from AY 2012-13. Following this announcement, the average tuition fee in English HEIs has been confirmed at £8,267 (after fee waivers), although a number of these HEIs may reduce their fees prior to AY 2012-13.

Proportionally, in 2010-11, funding levels for higher education in Scotland and England were broadly comparable. However, following the announcement of an increase in the cap on variable tuition fees in England from 2012-13, concerns have been voiced that the resulting additional income generated for English HEIs may create a 'funding gap' between English and Scottish HEIs. This funding gap, which relates to the differences in levels of teaching income, through changes in the balance of tuition fees and government funding, between Scottish and English HEIs, has caused concern that Scottish HEIs would lose their competitive position, as students and staff would be attracted to HEIs that were better funded. A Scottish Government / Universities Scotland Joint Technical Working Group estimated that the size of the annual funding gap would be between £97m and £263m by 2014-15, depending on the assumptions made. Estimating the exact size of the funding gap is difficult as it will depend on how many students actually take up courses from AY 2012-13, what courses they take up and how fees change in future years.

The Scottish Government has maintained its opposition to charging Scottish domiciled students studying in Scotland tuition fees. In response to the proposed increase in the cap on variable tuition fees at English HEIs, Michael Russell, the Cabinet Secretary for Education and Lifelong Learning, [announced](#) that if returned to office after the election the Scottish Government would ensure that any funding gap would be closed in order to maintain the competitive position of Scottish HEIs within the UK, without charging eligible Scottish and EU students tuition fees. In order to do this, the Scottish Government has increased Scottish Government funding of HEIs by an additional £135.5 million to 2014-15, and has brought forward secondary legislation that will allow Scottish HEIs to introduce variable tuition fees charged to rest of UK (RUK) students (up to a maximum of £9,000 a year) from AY 2012-13. The Scottish Government has claimed that this will close any perceived funding gap.

The proposed secondary legislation on fees for RUK students is expected to be approved by the Scottish Parliament by the end of 2011. A voluntary fee cap of £9,000 has been agreed with HEIs and the intention is for primary legislation to be introduced for AY 2013-14 to set this fee limit in statute. Indicative fees announced by Scottish HEIs suggest that the average fee for a four year degree will be around **£6,841** per year.

Proposals to increase tuition fees at English HEIs, have also led other devolved administrations to consider the impact this will have on their own students, and on the funding of higher education more generally. In Northern Ireland, the tuition fees for Northern Ireland domiciled students will rise in line with inflation to £3,465 in 2012-13. RUK fees will not be subject to a legislative cap but are not expected to exceed £9,000.

In Wales, fees of up to £9,000 can be charged from 2012-13. Students who are ordinarily resident in Wales studying anywhere in the UK, and EU students studying in Wales, will receive from the Welsh Government a non-repayable fee grant for the cost of their fees above £3,645.

These changes in tuition fees have raised issues such as;

- The extent to which Scotland will see a market-driven higher education system develop
- Whether higher education will remain accessible to those from less well off backgrounds in the rest of the UK
- How the number of applicants from EU countries to Scottish HEIs will change and how places for Scottish students at Scottish HEIs can be protected.

INTRODUCTION

Following the Browne review of higher education funding and student support (Lord Browne 2011) the UK Government announced it would raise the cap on variable tuition fees at English HEIs from £3,375 to £9,000, in academic year (AY) 2012-13. This decision was made in the context of public sector cuts, including a £600m real terms budget reduction affecting three quarters of English universities, their first period of reduced funding since 1997 (BBC news online 2010). The Browne Report stated that there was broad agreement among consultation respondents that those who benefit directly from higher education as graduates ought to make a contribution to the costs of their studies.

The decision to increase tuition fees at English HEIs, has led each devolved administration to consider the likely impact of these changes on their own students, and on the funding of their higher education systems. The main focus of this paper is on how the Scottish Government has responded to this change in England, although reference is also made to actions taken by the Welsh Assembly and Northern Ireland Assembly.

Following the 2011 Scottish elections, the new Scottish Government confirmed its opposition to tuition fees in Scotland. Mike Russell MSP, the Cabinet Secretary for Education and Lifelong Learning, said, 'In this country, higher education is, and will continue to be, based on the ability to learn, not the ability to pay' (Scottish Parliament 2011a). However, concerns arose that a 'funding gap' would open between English and Scottish HEIs' income, which in 2010-11 were considered broadly comparable. In efforts to close the funding gap and maintain Scotland's competitive position in the UK, the Scottish Government has decided to allow Scottish HEIs to charge higher variable tuition fees to rest of UK (RUK) domiciled students from the AY 2012-13. The aim is to maintain current levels of cross border student flows within the UK and to protect places for Scotland domiciled students.

The paper presents the background to, and current arrangements for charging higher education tuition fees across the UK. It outlines the proposed changes to fee arrangements from AY 2012-13, summarises the rationale behind such changes and the response to them.

TUITION FEES

BACKGROUND

Between 1962 and 1990, UK-based students studying first degrees on a full-time basis paid no tuition fees and received 100 per cent grants for maintenance, means tested according to parental income. Student loans were introduced in AY 1990-91 and these progressively replaced grants for living costs. A means tested tuition fee of £1,000, representing about a quarter of the total cost of tuition, was introduced in the UK in September 1998. The student grant was abolished and replaced by income-contingent student loans on the grounds that student living costs should be met out of future graduate earnings, and in part by their parents where they could afford to so (Wilson et al 1998).

Devolution brought changes to the funding and support arrangements in higher education across the UK. From AY 2000-01, tuition fees for eligible full-time Scottish and EU students were abolished in Scotland. RUK students had to pay tuition fees for the first three years of their degree, with the final year paid by the Scottish Executive from AY 2001-02 (Scottish Executive 2000).

In place of tuition fees, a system of graduate endowment to pay for tuition was introduced by the Education (Graduate Endowment and Student Support) (Scotland) Act 2001. The level was initially set at £2,000 and was to be repaid in the same way as income-contingent student loans. Various groups including lone parents, mature/independent students, disabled students and students studying HNC and HNDs were exempt from the Graduate Endowment.

However, plans to abolish the endowment were [announced](#) in June 2007 (Scottish Government 2007a) with the new Scottish Government, now under SNP administration, stating that the endowment had failed to deliver the aims of removing barriers and widening access and that the income raised from it had been lower than anticipated. It considered that the endowment had burdened many graduates and families with additional debt and had acted as a disincentive to accessing higher education (Scottish Government 2007b). The Graduate Endowment Abolition (Scotland) Act 2008 meant that no current or future students would pay the endowment and neither would those who graduated on, or after, 1 April 2007.

With the introduction of variable tuition fees in England from 2006-07, the previous Scottish Executive took the decision to increase fees in Scotland to guard against 'fee refugees' from England and other parts of the UK potentially displacing Scotland domiciled students (Scottish Executive 2005). The [Student Fees \(Specification\) \(Scotland\) Order 2006/401](#) (the '2006 Order'), which was made under the Further and Higher Education (Scotland) Act 2005, sets out fee level and allows Ministers to increase fees specified in the Order without the need for further legislation, as long as fee levels rises are not greater than inflation. The fee levels specified in the Order have been uprated since 2006, although fee levels have not changed in the last two years.

The section below summarises arrangements since devolution regarding tuition fees in each administration.

CURRENT FEE ARRANGEMENTS ACROSS THE UK

Scotland

As noted above, in Scotland, tuition fees for HE are fixed by the Scottish Government. Full-time first degree students studying at a Scottish HEI in AY 2011/12 are currently charged fixed tuition fees of £1,820 a year or £2,895 per year for those studying medicine, with eligible Scotland domiciled students having their fees paid by the Scottish Students Awards Agency for Scotland (SAAS). Similarly, full-time first degree EU domiciled students get their tuition fees paid by SAAS. This is because, under EU rules, all EU nationals are entitled to use a host country's education system on the same terms as its own nationals. These EU rules, however, do not apply between regions of a Member State, but only between Member States. This means that different arrangements can be made in Scotland for students from the rest of the UK. Therefore, RUK students studying at Scottish HEIs are not eligible to have their fees paid by SAAS and must meet these costs themselves. HEIs can set their own fee levels for all other courses (i.e. part time and postgraduate) and for international students.

England

Variable tuition fees were introduced in England in AY 2006-07. The Higher Education Act 2004 made it possible for English HEIs to charge variable deferred fees, providing they had an access plan agreed by the Office for Fair Access (OFFA). The fee is met through a government loan which is paid back by the student once a certain level of income is attained. As a

consequence, the requirement to pay an upfront fee was effectively abolished. The maximum annual tuition fee for students studying at English universities for AY 2011-12 is £3,375.

Wales

In AY 2007-08, Welsh HEIs were able to charge variable tuition fees of up to £3,070. However, Welsh and EU domiciled students studying in Wales were eligible to receive the non means-tested Tuition Fee Grant of up to £1,845 towards their tuition fee. This effectively limited the fee charged to this group of students to a maximum of £1,225 with the grant meeting 60% of the tuition fee (National Assembly for Wales Members' Research Service 2009). Tuition fee loans were available to meet the difference. The rules changed in AY 2010-11 when the tuition fee grant was abolished and replaced with an increased tuition fee loan. There is, however, a tuition fee grant of £2,030 for AY 2011-12 available to continuing students who started their course on or after 1 September 2006, but before 1 September 2010 (Welsh Government online).

The maximum annual tuition fee for students studying at Welsh universities for AY 2011-12 is £3,375 (Welsh Government online).

Northern Ireland

The maximum annual tuition fee for students studying at Northern Irish universities for AY 2011-12 is £3,375. A student loan is available to cover the cost of fees. These fee arrangements are in place until AY 2011-12. However, tuition fees will change across the UK from AY 2012-13, as a result of plans to reform the HE funding system in England. These reforms are examined in the section below.

PROPOSED CHANGES TO HE FUNDING IN ENGLAND FROM AY 2012-13

In 2009, calls for more funding to be made available to universities resulted in the commissioning of a report from the former chairman of BP, John Browne, to look into the future of higher education funding. The [Browne Review](#) (Lord Browne 2011) was published on 12 October 2010 and contained proposals to remove the cap on tuition fees. The UK Government accepted most of the recommendations and, on 3 November 2010, [announced](#) plans to reform higher education and student finance, to take effect from the AY 2012-13. These proposals take place within the context of widespread cuts in government funding. In summary:

- From September 2012, universities and others providing higher education will be able to charge up to £6,000 a year for their courses. Some will be able to charge up to £9,000 a year – to do so they will need to meet strict criteria to make sure that all eligible students, regardless of background, can access those courses. Access arrangements need to be approved by the Office for Fair Access.
- Government loans will be available to pay tuition fees so students do not have to pay fees upfront. Loans will need to be paid back when the student starts earning over £21,000 a year (previously the repayment threshold was £15,000). Each month graduates will pay back 9% of their income above that threshold. So, for example, for someone with a salary of £25,000 per year, the 9% pay back would only apply to £4,000. Fee loans will also be made available to part-time students.

- The interest rate which the fee loan accrues will be raised. For graduates earning between £21,000 and £41,000 interest will be applied between RPI and RPI plus 3% on a gradual scale depending on income.
- All outstanding debt will be written off after 30 years (from the current 25 years).
- Loans for living costs will be available and non-repayable grants, depending on household income, will also be available.

Source: BIS (2011) and Bolton (2011).

The proposals are expected to result in a more progressive distribution of repayments than under the current system (i.e. students from poorer backgrounds should benefit). The highest earning graduates will repay considerably more than at present, the lowest, somewhat less depending on the assumptions used. On average, graduates will repay more (Bolton 2011).

Fees from 2012-13 in England

On 12 July 2012, OFFA [announced](#) details of the access agreements approved and the tuition fees being charged from AY 2012-13 (OFFA 2011a). The estimated average fee for HEIs was £8,509 and £8,267 after fee waivers are included.

After these indicative fees were announced, 24 universities and 3 further education colleges (around a fifth of English HEIs) submitted revised access agreements to OFFA to reduce their fees to £7,500 or below (OFFA 2011b). This was in response to plans to change student control numbers outlined in the higher education white paper, *Students at the Heart of the System* (BIS 2011b). Under these plans, up to 20,000 places will be cut from 'core' student numbers and reallocated into a 'margin'. HEIs and Further Education colleges (FECs) that commit to charging an average fee of £7,500 or less (net of fee waivers), and who can demonstrate demand and the quality of their provision, will be able to bid for an allocation of places available in the 'margin'.

On 2 December 2011, OFFA (2011c) announced that revised access agreements had been approved for 24 HEIs and 1 FEC to bring them within the criteria to bid for student number places from the 'margin'. In order to meet the criteria, institutions could reduce their fees, introduce fee waivers or a combination of the two. Eleven institutions reduced their fees for some or all of their courses and OFFA published revised average fee levels. The average fee for HEIs is now £8,470 or £8,176 after fee waivers are taken into account (see Table 1 below). This means that for an average 3 year degree the fee would be £25,410 or £24,582 after fee waivers are taken into account (note, however, that there will be some students in England who undertake four year degree courses).

Table 1: Estimated average fees for new entrants in 2012 (£)

HEIs and Further Education Colleges (FECs), including those without access agreements	Average fee	Average fee after fee waivers	Average cost per student after allowance for institutional financial support¹
HEIs	8,470	8,176	7,815
FECs with access agreements	6,956	6,757	6,569
All FECs	6,384	6,304	6,228
Total	8,354	8,071	7,727

Source: Office for Fair Access (2011d) Notes, 1) includes fee waivers, bursaries, scholarships and other in-kind support offered under access agreements and the National Scholarship Programme.

THE FUNDING GAP

Following the announcements of reforms to HE funding and student support systems in England, concerns were raised by Scottish HEIs that a ‘funding gap’ would arise between the Scottish and English HE sectors. The funding gap relates to differences in teaching income (in terms of government funding for teaching and tuition fees paid by undergraduate students) between Scottish and English HEIs. It does not take account of other funding available to HEIs, for example, through research income, funding from other sources or capital funding.

Overall, teaching income in Scotland and England has been shown, at 2010-11 levels, to be broadly comparable on a proportionate basis. However, it has been argued that if English HEIs teaching income was to rise in the future, as a result of higher tuition fees, a funding gap would emerge between Scotland and England with Scottish HEIs suffering as students and staff are attracted to better funded HEIs in England.

A joint Scottish Government and Universities Scotland technical working group report (2011) estimated the resulting annual funding gap could be between £97 and 263m by 2014-15. The report also put forward options for potential sources of income for Scottish HEIs, to fill this funding gap. Following that joint report, the Scottish Government [estimated](#) that the net funding gap that would have to be filled would be around £93m, after potential income from higher fees to RUK students was taken into account (Scottish Government 2011a).

Identifying an exact figure for the funding gap is difficult as it will depend on how many students actually take up courses from AY 2012-13, what courses they take up (some HEIs have varied fees by type of course) and the potential for changes to fee levels by English HEIs in the future. A detailed explanation of funding gap estimates, and potential additional sources of income for Scottish HEIs, is available at Appendix 2.

¹ 'Institutional financial support' includes fee waivers, bursaries, scholarships and other in-kind support offered under access agreements and the National Scholarship Programme.

RESPONSE FROM DEVOLVED ADMINISTRATIONS

The devolved administrations in Scotland, Wales and Northern Ireland have each had to consider carefully how the UK Government's decision to increase tuition fees at English HEIs is likely to impact on their own students and, more generally, on how their higher education systems are funded. The main focus of this section is on the Scottish Government's response to this change, but the actions taken by the Welsh Assembly and Northern Ireland Assembly are also considered.

SCOTLAND

The Scottish Government has confirmed its opposition to making Scotland domiciled students studying at Scottish HEIs pay tuition fees. It has instead focussed on two key additional sources of income for Scottish HEIs to fill the funding gap and to maintain cross-border student flows.

First, it has decided to allow Scottish HEIs to charge RUK domiciled students an increased tuition fee from 2012-13. Secondly, it has increased public funding of HEIs, through the SFC, by £135.5 million. The Scottish Government is also investigating the possibility of a charge for EU students. This is discussed in more detail below.

Increasing income from RUK students

Currently, around 15 per cent of all full-time first degree students at Scottish HEIs are from the RUK, as Table 2 illustrates.

Table 2: First degree, full-time undergraduate students at Scottish higher education institutions by domicile, 2007-08 to 2009-10

	Scotland		RUK		Other EU		Non-EU		Total
	Number	%	Number	%	Number	%	Number	%	
2009-10	89,701	70	19,312	15	10,086	8	8,218	6	127,317
2008-09	84,957	71	18,812	16	8,541	7	7,005	6	119,315
2007-08	81,767	72	18,272	16	7,476	7	6,001	5	113,516

Source: data supplied by the Scottish Funding Council 23 June 2011 (note does not include the OU students studying in Scotland)

Most of these RUK students will pay the tuition fees set out in the 2006 Order i.e. £1,820 or £2,895 for those studying medicine. In order to increase the income from this cohort of students, the Scottish Government has introduced secondary legislation which allows Scottish HEIs to set their own fees for RUK students from AY 2012-13, with a voluntary arrangement in place to cap maximum variable fees for RUK students at £9,000 per annum. It is the Government's intention, in the longer term, to introduce primary legislation to restrict the fees that HEIs can charge to RUK students to this cap from AY 2013-14 onwards.

On 29 June 2011, the Cabinet Secretary for Education made a statement on higher education funding to the Parliament and also launched a consultation (Scottish Government 2011b) on the legislative proposals. He said:

“I say at the outset that this is not a measure that I take any joy in having to implement. Scotland welcomes students from all over the world. We want them to continue to come here because of the quality of what we offer and the quality of where we offer it, but we must be the best option, not the cheapest option, and we need to move quickly...”(Scottish Parliament 2011a)

In summary, the relevant secondary legislation comprises the ‘Student Fees (Specification) (Scotland) Order 2011’ and the ‘Education (Fees) (Scotland) Regulations 2011’. The Order sets out tuition fees for higher level courses of education for full-time students and the regulations have the effect of limiting the fees set by the 2011 Order to students who can demonstrate a ‘relevant connection’ with Scotland or who are excepted students within the meaning of Schedule 1 of the Education (Fees) (Scotland) Regulations 2011.

A student must meet a number of criteria in order to establish a ‘relevant connection with Scotland’ including that he or she must have been ordinarily resident in Scotland on the relevant date (1st August, 1st January, 1st April or 1st July closest to the beginning of the first term of the student’s course) and have been ordinarily resident in the United Kingdom and Islands for a period of three years immediately preceding the relevant date. The student must also be settled in the United Kingdom within the meaning of section 33(2A) of the Immigration Act 1971. Schedule 2 of the 2011 Regulations makes provision for assessing what ‘ordinarily resident’ means for the purposes of establishing a relevant connection with Scotland.

If a student cannot demonstrate a relevant connection with Scotland then the fee levels in the 2011 Order do not apply to them and they must pay the fee level set by the relevant institution which they are attending. Students who have a relevant connection with Scotland will still have the fees set out in the Order paid by SAAS.

Responses to the Consultation

A summary of consultation responses was published in November 2011 (Scottish Government 2011c). The majority of responses agreed that the Scottish Government needed to respond to changes in tuition fee policy taking place elsewhere in the UK. The majority were supportive of the approach to deregulating fees although many comments were made on the proposal, particularly from those who were not supportive. Some respondents were concerned about Scottish higher education becoming too expensive, leading to a reduction in demand from RUK domiciled students. Some were opposed in principle to tuition fees and/or to the marketisation of higher education, with a number of respondents suggesting that fees for RUK domiciled students should be set by the Scottish Government rather than by individual universities.

The Education and Culture Committee considered, and passed, the relevant secondary legislation at their meeting on 29 November 2011 (Scottish Parliament Education and Culture Committee 2011a).

Fees for RUK Students

Appendix 3 provides a summary of the provisional fees for RUK students announced by Scottish HEIs. The average fee, worked out over a four year course, would be approximately £6,841 per year dropping to an estimated £6,270 when fee waivers, bursaries and other student support are taken into account (Universities Scotland 2011a). This would mean the average total cost of a four year degree would be £27,388 or £26,880 when bursaries are taken into account. The highest fee level announced is £9,000 per year by the University of Edinburgh and St Andrews University. This fee will be charged in each year of a four year course which means total tuition fees of £36,000.

However, many HEIs have capped their fees at three years. Some HEIs have indicated that they will be encouraging suitably qualified individuals to start their degree course by direct entry to the second year. Dundee University, for example, will be developing three-year degrees specifically for RUK students (Dundee University 2011). While entering a degree course at second year is already an option for many suitably qualified RUK students, it is currently not common practice. In 2009-10, 361 RUK students entered a full-time first- degree course in the second year (SFC 2011). This equated to about 1.9% of all RUK full-time first-degree students.

Bursaries

A number of HEIs will be offering bursary packages to support students from less affluent backgrounds to study at their institutions, despite there being no government requirement for them to do so as there is in England. Some respondents to the consultation considered that the Scottish Government should have required HEIs to put in place measures to widen access for low income households. However, the Scottish Government said:

“...in the context of the post-16 reform programme, the Scottish Government has already announced its intention to legislate to set achievable but ambitious goals for access to higher education for the poorest students. This will apply to all students studying at Scottish universities, not just those from other parts of the UK” (Scottish Government Summary statement the student specification (Scotland) Order 2011 – add in sources).

The issue of bursaries was raised during the Education and Culture Committee’s consideration of the relevant secondary legislation on 29 November 2011. Universities Scotland estimated, in their submission to the Committee, that:

“... the average fee RUK students will pay, after means-tested bursaries, is likely to be £6,270. The average fee paid by students in receipt of means-tested bursaries (estimated as some 4,281 students based on current populations) would be £4,262.” (Universities Scotland 2011a).

During the meeting a representative from Universities Scotland claimed that:

“The evidence on which we have been working with NUS Scotland shows that there is a good offer through bursaries and other forms of support. I do not want the myth to take root that degrees here are the most expensive in the UK. Many universities are ensuring that, even though students study for four years, they will pay a fee that is commensurate with that for three years study in England. When you look at the pattern of study in England, you will see that 31 per cent of students are studying for degrees of more than three years. (Scottish Parliament Education and Culture Committee 2011a)

While the NUS (Scotland) agreed with Universities Scotland that the net annual fee would be £6,270 they claimed that Scotland would have the most expensive degrees in the UK and that, “any comparison with England regarding how generous bursaries are is not possible at this stage”. They argued that there was a need for greater transparency around access arrangements for RUK students at the individual institution level and further safeguards to protect access (NUS Scotland 2011).

Impact of Fees for RUK Students.

Currently, the SFC determines a teaching resource allocation based on funded student places for Scottish, EU and RUK students. HEIs can recruit over and above these funded places to a

specified level. Some of the resources are allocated to ‘controlled subjects’ such as medicine, where target numbers of students are set out. Through the funding allocations from the SFC, and associated conditions of grant, the Scottish Government controls the total number of funded places – it can fine HEIs that over or under recruit in controlled subjects and where HEIs over or under recruit in other subjects across the institution as a whole.

With the introduction of the Student Fees (Specification)(Scotland) Order 2011 and the ‘Education (Fees)(Scotland) Regulations 2011’, RUK students will be removed from the SFC funded places calculation. The calculation will then apply only to Scotland and EU domiciled students. Therefore, some degree of protection will remain for funded places for students domiciled in Scotland or the EU, but not specifically for students domiciled in Scotland. One issue that could potentially arise as a result of higher fees in the RUK is an increase in the numbers of applications to Scottish HEIs from EU students. The issue of EU students is discussed more fully later on.

It is unclear what the exact financial impact of increasing RUK fees will be, as this will depend on the number of students from the RUK taking up places at Scottish HEIs. The Technical Working Group’s report estimated that between £41m and £74m additional income could be raised from RUK fees in the year 2014/15, compared to a figure of around £62m previously used by the Scottish Government.

Withdrawing teaching grant that previously supported RUK students in the funded places calculation, has the effect of increasing the funding the SFC has available to allocate across the new, lower number of funded places for Scotland and EU domiciled students. These resources, and the additional resources from the draft Budget, will be used to restore the unit of resource for teaching to the level equivalent to AY 2010-11, and to protect subjects where changes to RUK fees do not adequately reflect the cost of provision. The Ministerial letter of guidance to the SFC asks the SFC to:

“...allocate additional resources to ensure that we protect (i) science and (ii) our small specialist institutions, particularly those which play a key role in Scotland's creative industries. You should also consider what adjustments may be needed for subjects that have a clinical component” (Scottish Government 2011d).

Increased Scottish Government Funding

As outlined above, the Scottish Government had estimated the size of the funding gap to be around £93m, after taking into account estimated increased income from RUK students. The *Scottish Spending Review 2011 and Draft Budget 2012-13* indicated that, through the SFC, current funding for HEIs will increase by £135.5m over the next three years. This is shown in Table 3 below.

Table 3: SFC Budget 2011-12 to 2014-15, Level 3 Cash Terms, £m

	2011-12 Budget	2012-13 Draft Budget	2013-14 Plans	2014-15 Plans
Current Funding for HEIs (Cash Terms)	926.2	1002.2	1041.5	1061.7

Source: Scottish Spending Review 2011 and Draft Budget 2012-13 (Scottish Government 2011e)

In his statement on the Strategic Spending Review 2011, John Swinney MSP, the Cabinet Secretary for Finance, Employment and Sustainable Growth, announced:

“This spending review settlement guarantees that the university sector in Scotland will remain internationally competitive and closes the funding gap with England in full”.
(Scottish Parliament 2011b, col 1918)

The Education and Culture Committee considered higher education funding as part of its budget scrutiny process. The key stakeholders giving evidence to the Committee, including Universities Scotland, NUS Scotland, University and College Union Scotland, and the EIS, welcomed the budget settlement for universities. In relation to whether the settlement would fill the funding gap and allow Scottish HEIs to retain their competitiveness, a range of views was expressed, for example, Universities Scotland, in written evidence, said:

“Universities regard the settlement as the Scottish Government prioritising investment to deliver on its promise to fill the funding gap that would otherwise have emerged between universities in England and Scotland and acting to fulfil its manifesto commitment to ensure Scotland’s universities remain: *“internationally competitive and truly excellent in world terms.”* This is achieved cumulatively over the period, due to the level of investment planned for financial years 2013/14 and 2014/15. The spending review must be delivered, as planned, in all three years to ensure fulfilment of this commitment”. (Universities Scotland 2011b) written evidence to committee:

A representative of the NUS said to the Committee, “My take is that the settlement is towards the upper end of the predictions with regard to the funding gap” (Col 195), and a representative of EIS said:

“The EIS welcomes the HE budget and the funding for HE. Does it fill the HE gap? We do not know, but we believe that it is going in the right direction. Will it keep Scottish universities as competitive as rest-of-UK or international institutions? Again, we do not know.” (Col 197). (Scottish Parliament Education and Culture Committee 2011b).

Increasing Income from Other EU students

The Scottish Government contributes to the cost of EU students studying in Scotland through the funding provided to HEIs by the SFC and through the payment of tuition fees, via SAAS, for eligible EU students. As discussed earlier, under EU law all EU nationals have the same rights and/or obligations as local students². This applies whether local students have to pay tuition fees or are eligible to receive a tuition fee loan or grant from the Member State. However, these EU rules do not apply between regions of a Member State, i.e. between England and Scotland, so different arrangements can be made for students across the UK (European Commission 2010).

The rules on tuition fee loans/grants are different from those on maintenance loans/grants. Member States are not obliged to extend maintenance grants/loans to other EU nationals³.

The number of EU students studying at Scottish HEIs has risen over the last few years as Figure 1 below illustrates. In 2005-06, there were 10,565 EU students studying at Scottish HEIs. By 2009-10, EU student numbers increased to around 15,900 - a rise of 50 per cent. English HEIs have also had increasing numbers of EU students attending over the years but, in proportionate terms, numbers have risen at a slower rate than in Scotland, as Fig 2 indicates.

² Treaty of the Functioning of the European Union. Articles 18, 20, 21. 165 and 166.

³ Directive 2004/38/EC.

Fig 1: Number of EU students at Scottish and English HEIs 2005-06 to 2009-10

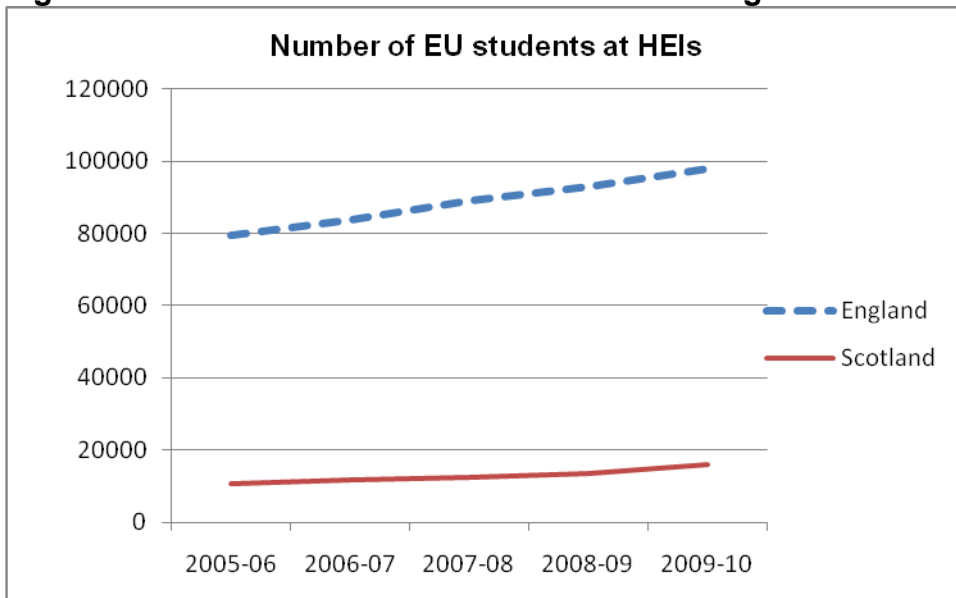
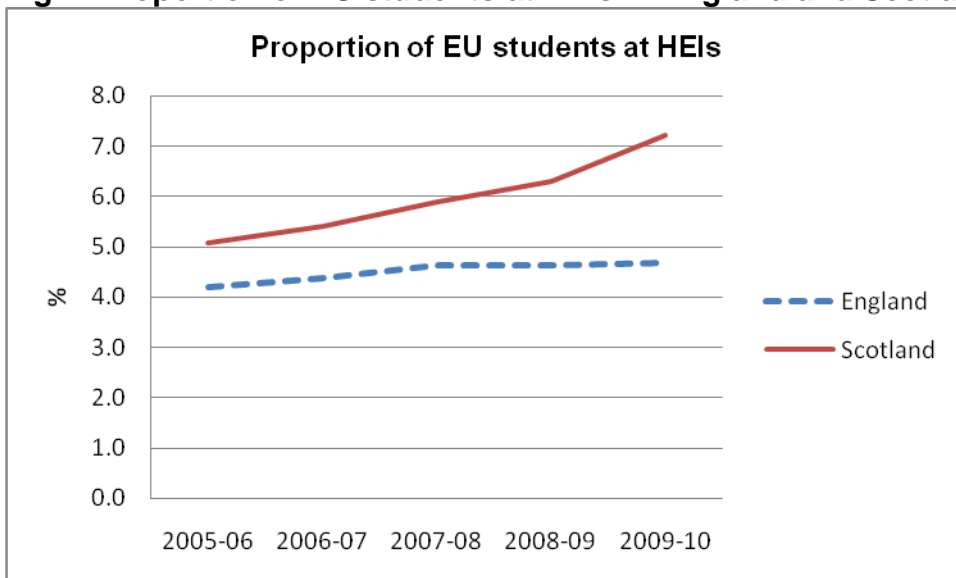


Fig 2: Proportion of EU students at HEIs in England and Scotland 2005-06 to 2009-10



Source: HESA (2011)

The Cabinet Secretary for Education and Lifelong Learning has indicated that he intends to explore, within the boundaries of EU law, a management fee for EU students (Scottish Parliament 2011a). Previously the Cabinet Secretary had referred to the management fee charged in the Republic of Ireland (Scottish Parliament 2011c).

REPUBLIC OF IRELAND

The 'student service contribution' in the Republic of Ireland, of €2,000 (which will increase to €2,250 next AY), is levied on all full time undergraduate students. However, students who are eligible for maintenance grants do not have to pay the charge, as that is covered by the grant and is paid to the HEI. There are eligibility criteria set for maintenance grant schemes, part of which relates to residency criteria. Candidates who are EU, EEA or Swiss nationals who do not satisfy the residency requirement (i.e. they have lived in the State for at least 3 of the past 5

years immediately preceding the date in which the study starts) are not eligible for a maintenance grant (although they may still receive a fees grant). This means that they still will be liable to pay the service charge.

This charge has raised some debate in Ireland. Some have portrayed the student contribution as the re-introduction of fees by the back door. The fee was low when it was introduced, €1,500 in the mid-1990s, but has increased, apparently, to compensate for the reduction in Exchequer funding for higher education. There has also been debate about what exactly constitutes the charge and an apparent re-categorisation of what it constitutes in order to justify increasing the fee level. This debate has taken place within the wider context of overall funding of higher education and the extent to which students should contribute. The Minister for Education, Minister Quinn, has commissioned a report on funding for the higher education sector, which is expected to report by the end of 2011. Decisions about fees and the level of service charge would be made in time for AY 2012-13 (Oireachtas Library & Research Service 2011).

WALES

From 2012-13, HEIs in Wales (and further education colleges which offer eligible HE courses) can charge fees of up to £9,000 for full-time undergraduate students. Any institution wishing to charge above the basic rate of £4,000 is required to submit an acceptable Fee Plan to the Higher Education Funding Council for Wales (HEFCW) detailing its new fees.

While the fee charged for a course will be the same for full-time undergraduate students from any UK or EU country, students ordinarily resident in Wales studying anywhere in the UK, and EU students studying in Wales, will receive a non-repayable fee grant for the cost of their fee above £3,465, from the Welsh Government. This means that the subsidy will vary dependent on what the institution charges, e.g. if an institution charges £7k, the fee grant will be £3,535.

An [announcement](#) of fee plans from ten universities and three further education colleges was made by HEFCW on 11 July 2011 (one FE college missed the deadline so can only charge the basic level of £4,000). Eight out of 10 universities in Wales will charge maximum tuition fees of £9,000 per year for some or all their courses. The average fee level for all courses is around £8,800:

- **£9,000:** Cardiff, Bangor, Aberystwyth, Swansea, Glamorgan, Newport (some £8,250), Uwic, Trinity Saint David (for undergraduate teacher training in Welsh and English)
- **£8,500:** Swansea Metropolitan (exc art & design courses, which are £8,750)
- **£5,850-£7,750:** Glyndwr University (£6,643 average)

Source: HEFCW (2011)

NORTHERN IRELAND

On 12 September 2011, the Northern Ireland Executive [announced](#) that the tuition fee rate from AY 2012-13 for Northern Ireland domiciled students, and EU students, studying in Northern Ireland would be £3,465, an inflationary rise from the current fee of £3,375. Legislation will be brought forward to enable the HEIs in Northern Ireland to set higher fees for students from England, Scotland and Wales. These will not be subject to a legislative cap but are not expected to exceed £9,000 per AY. This is a similar approach to that being taken in Scotland.

Northern Irish students who attend university in the RUK from AY 2012-13 will continue to be able to access a tuition fee loan to cover the full cost of their tuition fees (up to a maximum of £9,000). The £40m needed to freeze fees for Northern Ireland domiciled students has been found by top slicing money from several other departments. In the event of significantly increased cost pressures from unanticipated change in student flows, the Executive may have to review this decision for students entering higher education in future years (Northern Ireland Executive 2011).

SUMMARY OF TUITION FEES ACROSS UK FROM 2012-13

Table 4 provides a summary of tuition fees that will be charged from AY 2012-13 in different UK countries

Table 4: Summary of Tuition Fees from AY 2012-13

	Location of institution			
Domicile of student	England	Scotland	Wales	Northern Ireland
England	Up to £9k	Up to £9k Voluntary cap	Up to £9k	No cap – expected to be up to £9k
Scotland	Up to £9k	No fee	Up to £9k	No cap – expected to be up to £9k
Wales*	Up to £9k	Up to £9k Voluntary cap	Up to £9k	No cap – expected to be up to £9k
Northern Ireland	Up to £9k	Up to £9k Voluntary cap	Up to £9k	£3,465
EU	Up to £9k	No fee	Up to £9k	£3,465
Other international	Variable	Variable	Variable	Variable

* The Welsh Government will pay a non-repayable fee grant for the cost of the tuition fee above £3,465 to Welsh domiciled students.

APPENDIX 1: HIGHER EDUCATION INCOME

Table 5: Income of HE institutions by source and region of institution 2009/10 (£ thousands)

	England	Scotland
Funding body grants		
Grants for HE provision (SFC grants for all provision)		
Recurrent (Teaching)	4,695,906	681,353
Recurrent (Research)	1,588,342	259,018
Recurrent - Other (including special funding)	575,257	122,949
Release of deferred capital grants	328,873	36,230
Grants for FE provision (not applicable to SFC)	91,750	0
Funding body grants total	7,280,128	1,099,550
Tuition fees and education contracts		
HE course fees		
Home and EU domicile		
Full-time undergraduate	3,302,905	215,302
Full-time postgraduate	559,239	54,005
Part-time undergraduate	290,362	11,992
Part-time postgraduate	278,765	24,356
Non-EU domicile	2,220,204	261,142
Non-credit-bearing course fees	326,206	30,478
FE course fees	45,179	37
Research training support grants	119,215	30,496
Tuition fees and education contracts total	7,142,075	627,808
Research grants and contracts		
BIS Research Councils, The Royal Society, British Academy and The Royal Society of Edinburgh	1,274,456	234,044
UK-based charities (open competitive process)	670,612	123,115
UK-based charities (other)	86,150	7,445
UK central government/local authorities, health and hospital authorities	602,118	100,386
UK industry, commerce and public corporations	217,961	47,474
EU government bodies	303,201	49,661
EU-based charities (open competitive process)	6,415	816
EU industry, commerce and public corporations	37,183	5,333
EU other	18,151	1,888
Non-EU-based charities (open competitive process)	91,702	3,776
Non-EU industry, commerce and public corporations	80,475	11,727
Non-EU other	82,054	7,624
Other sources	28,610	8,025
Research grants and contracts total	3,499,088	601,314
Other income - other services rendered		
UK central government/local authorities, health and hospital	387,028	34,387

authorities, EU government bodies		
Other	1,017,926	76,714
Other income - other services rendered total	1,404,954	111,101
Other income - other		
Residences and catering operations (including conferences)	1,239,096	162,692
Grants from local authorities	9,022	0
Income from health and hospital authorities (excluding teaching contracts for student provision)	308,072	28,539
Release of deferred capital grants	97,004	17,815
Income from intellectual property rights	33,219	5,281
Other operating income	1,043,010	123,030
Other income - other total	2,729,423	337,357
Endowment and investment income	179,531	26,808
Total income	22,235,199	2,803,938

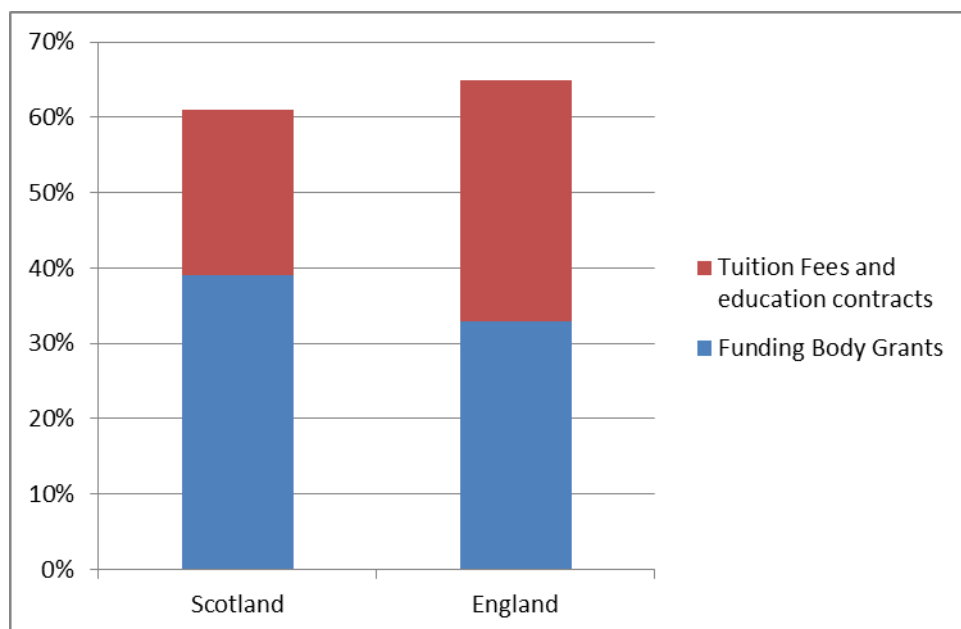
Source: HESA Finance Table 2

APPENDIX 2: THE FUNDING GAP

Government funding for teaching is channelled through the Scottish Funding Council in Scotland and the Higher Education Funding Council for England (HEFCE) in England, and each funding council has a methodology in place for allocating funding to each HEI. SPICe Briefing *Higher Education Institutions: Finance* (Mullen 2010) provides more detail on HEI funding in Scotland.

In Scotland, a greater proportion of HEI income comes from funding body grants compared to England – 39% compared to 33% (see Figure 1). This reflects the respective government's policy positions around who should pay for higher education.

Fig 1: % of HEI income from tuition fees and funding body grants 2009-10.



Source: HESA 2011

Despite these differences in the sources of teaching income, overall teaching income in Scotland and England has been shown, at 2010-11 levels, to be broadly comparable on a proportionate basis. In 2011-12, Government funding for teaching in both Scotland and England was cut by 10.9% and 8.2% respectively (Scottish Funding Council 2010 and HEFCE 2011). As explained above, English HEIs have been allowed to increase the tuition fees charged to undergraduate students from a maximum of £3,375 in AY 2011-12 to a maximum of £9,000 from AY 2012-13. It was therefore argued that if English HEIs teaching income was to rise in the future, through the introduction of higher tuition fees, a “funding gap” would arise and Scottish HEIs would suffer as students and staff would be attracted to HEIs that were better funded.

THE SIZE OF THE FUNDING GAP

A joint Scottish Government and Universities Scotland technical working group was set up to:

“consider the size and nature of any gap in funding between north and south of the border which may be opening up, and comment on the possible effect of some of the funding solutions in this paper in terms of helping to close that gap”.

The Technical Working Group's report (Scottish Government and Universities Scotland 2011) was published in February 2011 prior to the announcement of fees in England in July 2011. The report presented a table (see Table 6 below) illustrating the potential funding differences by 2014-15. This illustrates the additional money it would take for Scottish HEIs to 'maintain comparability in funding with England'. The calculation assumed static student numbers and used assumptions about projected government income to the sector, average fee levels in England and whether these were linked to inflation. These calculations resulted in a range of estimates of the annual funding differences of between £97 and 263m by 2014-15.

Table 6: Potential Funding Differences by 2014-15

Average English Fee	Annual funding gap by 2014/15	Comments
£7,000 (not indexed)	£97m	Assumes that the average English fee is set at the lower end of the £6,000 to £9,000 range and is not indexed in line with inflation.
£7,500 (not indexed)	£155m	Assumes that the average English fee is set at the level adopted by the Treasury and is not indexed in line with inflation.
£7,500 (indexed)	£202m	Assumes that the average English fee is set at the level adopted by the Treasury in 2012/13 and is increased with inflation.
£8,000 (indexed)	£263m	Assumes that the average English fee is marginally above the Treasury's assumptions and is increased with inflation.

Note: The figures take into account both the reductions in higher education funding in England announced by HEFCE on 2nd February 2011 as well as the 10% increase in teaching income by the end of Spending Review period which English universities have been promised.

Following that report, the Scottish Government [estimated](#) that the net funding gap that would have to be filled would be around £93m (Scottish Government 2011a). This figure was achieved by using the initial gap figure of £155m in the above table, based on average fees in England being around £7,500 with no inflationary element, and taking into account potential additional income from charging higher fees to RUK students (the figure of around £62m by 2014/15 was used).

While Universities Scotland was involved in the Technical Working Group, and agreed to the methodology being used, it had claimed the overall size of the funding gap that would need to be filled would be at least £202m, as outlined in the Table above, rather than the £155m that the Scottish Government had used (Universities Scotland 2011c). Assuming that the same estimated additional £62m could be achieved from RUK fees then the net funding gap that would need to be filled would be around £140m, higher than the Scottish Government's estimated figure of £93m.

The Technical Working Group's report was prepared before final fee levels were set in England. Since then, the average annual fees for HEIs in England have been confirmed as £8,470 which reduces to £8,176 when fee waivers are taken into account and £7,815 after allowance for institutional financial support. It is also likely that fees will be able to rise with inflation.

Identifying an exact figure for the funding gap is difficult as it will depend on how many students actually take up courses from AY 2012-13, what courses they take up (some HEIs have varied fees by type of course) and the potential for changes to fees by English HEIs in the future.

FILLING THE FUNDING GAP

The Scottish Government is committed to maintaining free higher education for students domiciled and studying in Scotland and to funding the Scottish HEI sector to retain its competitive position (Scottish Parliament 2011c). The consultation paper, *Building a Smarter Future* (Scottish Government 2010), identified a number of possible ways to increase income into the sector and the Technical Working Group's report commented on the possible effect of some of the funding solutions and the extent to which they could contribute to fill the funding gap. These solutions included:

- **State retains the prime responsibility:** The consultation paper outlined the government's belief that the core principle of any funding system should be that the state is the main beneficiary and has the prime responsibility, but that the sustainability of support for the sector can be shared more fairly with individuals and other sectors, including business, sharing some of the burden.
- **State retains the prime responsibility but requires some form of graduate contribution:** the consultation paper set out various options and the technical working group modelled a one-off contribution payable on graduation. In order to raise £100m per year, each Scotland and EU domiciled student would have to pay a one off fixed contribution of between £5,400 and £6,500 depending on the discount rate used.
- **Increasing income from cross border flows of students:** higher charges to RUK students was estimated by the Technical Working Group to contribute to closing the funding gap by between £41m and £74m depending on the assumptions about fees and demand used.
- **Increasing donations and philanthropic giving, Increasing support from business, Increasing efficiency.** Although the Technical Working Group estimated the potential contribution of each of these measures they concluded that they would not make a material contribution to closing any funding gap as English HEIs would also be aiming to increase funding from these sources.

APPENDIX 3: PROVISIONAL FEES TO BE CHARGED TO RUK STUDENTS BY SCOTTISH HEIS

HEI	Fees	Total Maximum for 4 year degree
University of Aberdeen	£9,000 for three years capped at £27k	£27k
University of Abertay Dundee	£7,000 capped at £21,000	£21k
University of Dundee	£9,000 per year, capped at £27,000 (cap will not apply to courses which are the same length as elsewhere in the UK such as medicine)	£27k
Edinburgh Napier University	£6,500 a year	£26k
University of Edinburgh	£9,000 a year	£36k
Glasgow Caledonian University	£7,000 capped at £21k	£21k
Glasgow School of Art	£6,750 per year for a 4 year art and design course. Students studying a degree in architecture and art and design who enter second year will pay £9,000 a year.	£27k
University of Glasgow	£6,750 RUK students entering first year will be awarded with a bursary or fee waiver of £1,000. Those studying medicine, dentistry and veterinary medicine will be charged £9,000	£27k £44k for 5 yrs
Heriot-Watt University	£9,000 a year capped at £27,000	£27k
Queen Margaret University	£6,750 per year	£27k
Robert Gordon University	Three bands of fees: Band 1 - All business, management and social science courses - £5,000 a year Band 2 - All art and design, architecture and built environment, computing, engineering, health and science courses - £6,750 a year	£20k or £17,500 with placement year, £27k or £23,625 with a placement year Up to £34k

	<p>Many of the courses include a paid work placement which will be charged at 50% of the headline fee</p> <p>Band 3 - Master of pharmacy - £8,500 a year</p>	depending on course
The Royal Conservatoire of Scotland	£9,000 per year	£36k
Scottish Agricultural College	£6,750 per year	£27k
University of St Andrews	£9,000 per year	£36k
University of Stirling	£6,750 a year	£27k
University of Strathclyde	£9,000 per year capped at £27k	£27k
University of the Highlands and Islands	£7,500 per year for three years – fourth year free. Cap of £22.5k	£22.5k
University of the West of Scotland	£7,250 a year	£29k

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