Overview
Universities received a good three-year recurrent funding settlement for teaching and research in the spending review, particularly when set against the overall pressures on the Scottish budget which will see an increase in cash-terms by only 1.9% by 2014/15 (a real terms cut).

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.

The Spending Review settlement will bring real-world benefits to Scotland. It creates a stable platform, in contrast to instability south of the border, for universities to plan for a level of success that promotes Scotland as an international beacon of research and development. It sustains universities to ensure that as many learners as possible, from the full diversity of social and economic backgrounds, can realise the opportunities which a university education offers them. It enables universities to invest in ensuring that every learner has the quality of experience which they deserve, and that businesses are fully able to benefit from the competitive advantage offered by access to universities’ expertise and discoveries.

Responding to all three years planned investment, Universities Scotland welcomed the spending review settlement saying:

“This is a very significant investment in Scotland’s universities and one which will put the sector on a competitive footing for the future. The Scottish Government has acted to close the teaching funding gap facing Scotland’s universities. As a sector we will respond to this vote of confidence by delivering the high-level skills, world-leading research and partnerships with business needed to help drive Scotland’s economic growth.

“We will also press ahead with our programme for efficiencies. This will ensure that every pound of this new investment enables us to provide a top-quality education for learners from every background, sustains Scotland as a powerhouse of research and builds our capacity to help businesses to succeed.”
It was well established, prior to the launch of the Scottish Government’s Green Paper on higher education, *Building a Smarter Future*, that the Scottish solution to university funding would be achieved through a combination of means. Universities Scotland was clear about that in October 2010, stating: “There is no single solution to the future funding of universities in Scotland. Several elements will be necessary to achieve a lasting and sustainable solution.” (Towards a Scottish Solution, p3). The teaching funding gap is closed by 2014/15 as a result of three different sources:

- additional public investment of £135.5 million by 2014/15 as announced in the Scottish Government’s 2011 Spending Review
- revenue from rest-of-UK fees, estimated to be approximately £56 million by 2014/15
- cash-releasing efficiency savings to be delivered by universities to the value of £26 million

The additional public funding of £135.5 million relative to a 2011/12 baseline, is shown in table 9.06 of the spending review document. The figures of an estimated £56 million from RUK fee revenue and £26 million of efficiency savings can be found in the expert group report as published jointly by the Scottish Government and Universities Scotland in February 2011.

**Background and context to 2011 spending review settlement for universities**

The good outcome for universities in the 2011 spending review is in sharp contrast to the Budget for 2011/12. When translated into academic year, last year’s budget for 2011/12 meant an 8.9 per cent cut in universities’ recurrent funding from the Scottish Government via the Scottish Funding Council. The Scottish Funding Council’s indicative grant letter, published in December 2010 (after Universities Scotland gave evidence to the Committee as part of the budget scrutiny process), showed the SFC’s teaching grant was worst affected, cut by 10.9 per cent in one year although universities had guaranteed to hold student places steady. This meant a 10.9 per cent cut in the unit of teaching resource across teaching in all institutions and a much increased number of “fees-only” students estimated to be at around 19 per cent of students on undergraduate degree programmes (“fees-only” students refers to the £1,800 “fee” element of tuition which is paid to universities via SAAS and which is a fraction of the full cost of teaching which goes up to £16,000 per year depending on subject). Universities made it clear that this was not a sustainable situation and beyond one year this would have significant implications for the quality of the learning experience for students.

The budget for 2012/13 sees a financial year increase of 8.2 per cent which reverses the cuts of 2011/12 and restores the unit of teaching resource when translated into academic year, protecting quality. It is the funding planned for subsequent years 2013/14 and 2014/15 that takes the spending review settlement beyond a reversal of cuts to delivering for Scotland’s universities in regards to closing the gap with our competitors.
**Capital funding**
The spending review document shows a single aggregate figure for university and college capital combined, as was the case with the budget for 2011/12. Over the period, capital funding for both sectors is cut from £91 million in 2011/12 to half that in 2013/14 before recovering slightly to £56.4 million in 2014/15. This equates to a 38 per cent cut relative to the baseline year of 2011/12 by the end of the period.

This is in line with the overall restrictions in the capital resources available to the Scottish Government. It is, however, a tough element of the settlement, especially when the SFC has identified the university estate as having an investment backlog of £1 billion with only a bare majority in fit-for-purpose condition. This will also inhibit the pursuit of capital projects capable of delivering greater efficiencies through the rationalisation of the estate or combined estates between universities or universities and colleges and the pursuit of more environmentally sustainable buildings/infrastructure which could also deliver greater energy efficiency, thus reducing costs. The restriction of SFC capital funding means that universities will be reliant on recurrent funding to do what is affordable to ensure the maintenance of their estates.

**Related funding**
The Scottish Government’s Spending Review provides a separate grant for universities in table 9.05 of the document to support universities’ international activities. This is set to decrease modestly over the period from £2.2 million to £2.0 million. However, we very much welcome the fact this funding remains.

**Efficiency**
The spending review settlement requires Scotland’s universities to generate £26 million of cash-releasing efficiency savings per year. Universities Scotland recently gave renewed energy to its efficiency programme, establishing a Universities Scotland Efficiencies Taskforce in summer 2011. The group is convened by Professor Seamus McDaid, Convener of Universities Scotland, such is the priority attached to this work, and it benefits from the contribution of Professor Ian Diamond, Principal of the University of Aberdeen who has been leading this work for the sector on a UK-level. The group also draws on senior professionals from across the sector in the fields of finance, estates, HR, ICT and procurement to ensure it can take a comprehensive view of how further efficiencies can be delivered in the sector. The group has been mandated to carry out its work by every Scottish university Principal and it will produce a road-map for further efficiencies by January 2011.

The Taskforce will look to build on universities’ track record for consistently delivering against efficiency savings which includes:

- Universities and colleges’ combined delivery £143.1 million of cash-releasing efficiency savings between 2008-2011 (Universities Scotland’s report Working Smarter reports estimated savings of £123 million over the same three years as this was the estimated figure prior to the Scottish Government’s outturn report was able to confirm actual savings of £143.1 million).
• Universities as stand-out leaders in the public sector when it comes to joint procurement with 99 per cent of all higher education spend rated as “conformant” with good procurement practice compared to only 70 per cent across the rest of the public sector.
• An estimated £17.5 million saved in 2011/12 in price savings and cost avoidance through joint procurement lead by Advanced Procurement for Universities and Colleges (APUC) the HE and FE sector’s own centre of expertise for procurement since 2007.
• Recognition of universities as an example of best practice in McClelland’s Review of ICT Infrastructure in Scotland’s Public Sector.

Ministerial letter of guidance
We welcome the clear steer in the letter of guidance to encourage the SFC to publish an indicative grant letter before the end of 2011, as was the case last year. This is very helpful to universities ability to plan. This would be further assisted if SFC were able to offer universities an early and reasonably stable indication of intended allocation of funding between different funding streams (e.g. the balance of funding between teaching and research) for the remainder of the Spending Review period.
There are a number of other very welcome elements within the Ministerial letter of guidance including:
• guidance that the unit of teaching resource be restored to AY 2010/11 levels and that the number of student places for students ordinarily resident in Scotland and the EU remain constant.
• the instruction that the SFC should act to ensure there is additional support within the new RUK fees regime to cover higher costs for STEM and small specialist institutions.
• A reversal of the funding cuts to research pooling made last year and new funding to incentivise the international reach of research pooling
• Recognition of the sector’s diversity as a distinctive feature and one to be protected.

However, there are aspects of the Letter of Guidance which will require very close working including the suggestion that there are “regional” universities in Scotland. All of Scotland’s universities serve their regional, national and international communities. Similarly, whilst the sector acknowledges it might be necessary to further concentrate the research excellence grant (REG) on research which was judged to be of the highest quality (3* and 4* in the Research Assessment Exercise [RAE]), we believe in the distinctive value of a university sector in Scotland that rewards research excellence wherever it occurs, and which has supported this through our world-leading success in creating research pools across the sector. Given the RAE found every Scottish university to undertake some world-leading research we would want to see the funding of research excellence where it occurs as an important continuing element of the ‘dual support’ system for research funding, precisely so that all of our universities can make their diverse and distinctive contributions to Scotland’s research excellence.
RUK fees
As of 27 September, 11 institutions had publicly announced their fee intentions for students ordinarily resident in the rest of the UK (RUK). Based on the announcements made so far, the average annual RUK fee is currently standing at £7,114 for a standard four-year degree. This figure is a lot lower than the figures talked about in newspaper headlines.

Universities Scotland believes the RUK fees regime as proposed, is a tough but necessary decision and we stand by this policy as the best outcome in a difficult set of circumstances. It offers the best way to achieve important policy objectives for Scottish students and Scottish universities including:

- The availability of places for Scottish domiciled students at Scottish universities would have been under real threat had the rest-of-UK fees level not been increased from the current rate of £1,800 (£2,800 for medicine). There are over 520,000 university applicants in the rest of the UK compared to 43,000 Scottish domiciled applicants. If Scotland had been perceived as the cheap option across the UK this would have placed untenable pressure on Scottish students competing for places at Scottish universities. The Scottish Government, Scottish universities and Scottish student representative bodies could not have let this happen.
- Removing students from the rest of the UK from the system of funded places effectively ring-fences places for Scottish and EU domiciled places and takes this pressure off Scottish-domiciled students.
- A single-flat rate fee across all Scottish universities was not an option this time (unlike in 2006) due to fees of up to £9,000 at English universities. It would have been impossible to determine a single fee figure for all Scottish universities within the range £1,800–9,000 that would have balanced the needs of Scotland’s diverse sector, some of which currently see high demand from students across the rest of the UK and others who do not but who would not wish to lose the rest-of-UK students they do have and who might want to grow these numbers in future years.

Flexible entry into year two is an option for RUK students
- Every Scottish university to announce fees so far has taken steps to ensure that no RUK student need be financially disadvantaged, whatever their household income, by choosing to study in Scotland rather than at universities in England. This has been ensured either by capping fee charges after three years and/or allowing greater opportunities for advanced entry into year two of a four-year degree programme (with the required A-level qualifications).
- There is no necessity for rest-of-UK students to pay four years of fees (up to £36,000) for a standard honours degree in Scotland except on such courses that are four or more years in length in both England and Scotland such as architecture, engineering, medicine etc. A great many courses offered by universities in England are four or more years in length and in such cases, English universities are not capped at £27,000 for a degree; they are able to charge £9,000 for the full duration of the course meaning that degrees offered in Scotland will be no more expensive than the equivalent course on offer in England.
Bursary support
- Every Scottish university to announce their fees so far has voluntarily set out a comprehensive new and additional package of bursary and scholarship support for RUK students. So far, bursaries have been made available on the basis of a student’s household income, academic ability and as the first in the family to go to university. Bursaries are there to lower fees and to help with accommodation costs.
- Although it is too early to do a like for like comparison with institutions in England, in many cases the level of bursary support provided voluntarily by Scottish universities would appear to exceed the maximum amount of bursary support required from universities in England by the Office for Fair Access (OFFA). For England and Wales, OFFA set out three tiers of required bursary and scholarship income which range from 15-30 per cent of fee income over the threshold of £6,000. Several Scottish universities have ring-fenced more than 30 per cent of additional fee income for new and additional bursary support for RUK students.