

Audit of higher education in Scottish universities

AUDITOR GENERAL 

Prepared by Audit Scotland
July 2016

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website:

www.audit-scotland.gov.uk/about/ags 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents



Key facts	4
Summary	5
Part 1. The university higher education system in Scotland	10
Part 2. The role of Scottish Government in higher education	17
Part 3. University sector finances	30
Part 4. Being a student in Scotland	39
Part 5. Looking forward	49
Endnotes	54
Appendix 1. Universities in Scotland, 2014/15	58
Appendix 2. Project advisory group	60
Appendix 3. Audit methodology	61

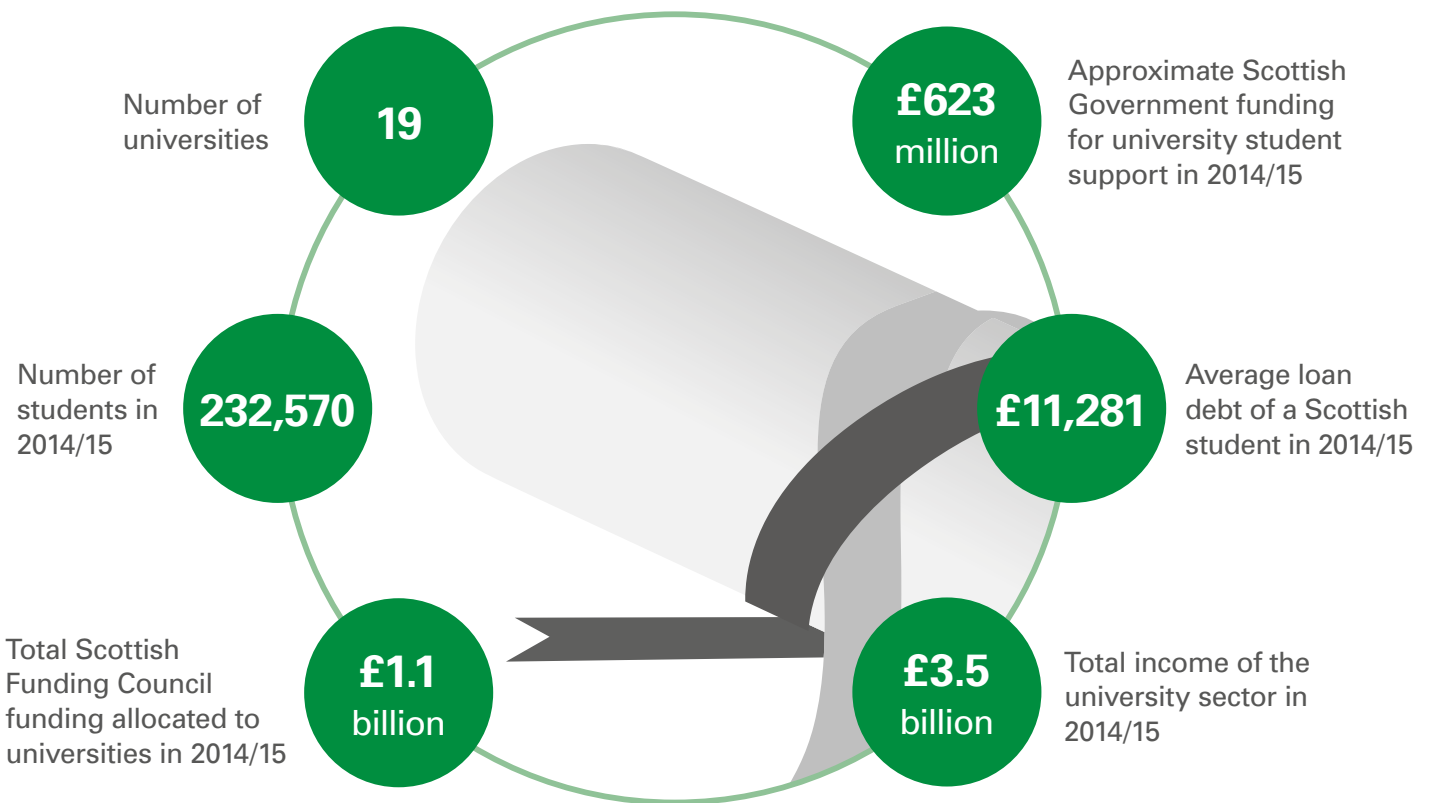
Links

-  PDF download
-  Web link

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key facts



Summary



Key messages

- 1** The Scottish higher education sector is successful and internationally renowned. Universities play an important role in Scotland's development, both economically and socially. The Scottish Government provided over £1.1 billion funding for universities in 2014/15, and approximately £623 million funding for individual university students to help achieve national strategic objectives, such as making Scotland wealthier and fairer, and smarter. Overall Scottish Funding Council funding to universities has reduced by four per cent in real terms since 2010/11. In contrast, Scottish Government funding for university student support increased by approximately 37 per cent in real terms over the same period. The Scottish Government has set out a number of policy ambitions in relation to higher education. These include supporting world-class research and improving innovation, and widening access to university for students from deprived backgrounds.
- 2** The Scottish Funding Council (SFC) needs to do more to ensure that the funding it receives from the Scottish Government makes the maximum contribution to achieving the Scottish Government's higher education policy ambitions. The current funding approaches to research, teaching, and widening access make achieving policy ambitions challenging. The SFC needs to review its strategies for key areas, such as research and innovation, to ensure funding is used to best effect.
- 3** Overall, the Scottish higher education sector was in good financial health in 2014/15. Universities as a whole had income of £3.5 billion, and generated a surplus of £146 million. The strong overall financial position masks underlying risks within the sector. Surpluses and reserves are concentrated in a small number of universities and some are heavily reliant on Scottish Government funding at a time when it is reducing. Universities need to continue generating surpluses and reserves and making efficiency savings to fund capital costs and subsidise some of their activities. They are placing increasing reliance on generating income from fee-paying students from the rest of the UK and outside the European Union (EU).
- 4** In 2014/15, there were 232,570 students studying at Scottish universities, 66 per cent of whom were Scottish. Overall student numbers have increased by five per cent over the last ten years and the student population is becoming increasingly international. It has become more difficult in recent years for Scottish and EU students to gain a place at a Scottish university as applications have increased at a greater rate than increases in the number of places that the SFC funds for Scottish and EU students.

higher education plays an important role in Scotland's development, but there are significant challenges ahead

- 5** The sector faces a number of significant challenges from increasing costs, potential further reductions in Scottish Government funding, and risks to their ability to continue to increase income from other sources, particularly fee-paying students from the rest of the UK and non-EU countries. The Scottish Government, SFC and universities need to work together to plan for, and address, these challenges. Continuing pressure on Scottish Government finances in future years means it needs to ensure its approach to funding higher education is sustainable if its policy priorities are to be delivered.
-

Recommendations

The Scottish Government should:

- ensure future decisions on levels of funding for higher education, and the areas funded, fully support its longer-term higher education policy ambitions. It should ensure that it is clear about its policy priorities where budgets remain under pressure
- progress work on implementing the recommendations of the Commission on Widening Access.

The Scottish Government and SFC should:

- ensure they have a shared understanding of the impact of policy and funding decisions, taken by both the SFC and Scottish Government, on the SFC's ability to maximise its contribution to achieving the Scottish Government's higher education policy ambitions
- undertake and publish research on trends in applications, offer rates and acceptances for Scottish university places to assess what impact the limits on funded places are having on access to the university system for Scottish and EU students. They should consider the implications of this research for existing policy ambitions and funding approaches.

The SFC should:

- ensure it has strategies for research and innovation that:
 - set out clearly:
 - what the SFC's aims and objectives are for these areas
 - how it plans to achieve its aims and objectives
 - how performance will be measured
 - align with the outcomes and activities in the SFC's new strategic plan and *Scotland's Economic Strategy*
- finalise its long-term capital investment strategy

- ensure decisions on funding and activities in key areas, such as research, innovation, and teaching, fully align with, and support, achieving the Scottish Government's policy ambitions
- finalise its performance management framework to enable it to assess and report publicly on its progress in implementing its strategic plan
- regularly assess and clearly report on the performance of the higher education sector, including its financial health
- review the outcome agreement process, with universities and the Scottish Government, to ensure that:
 - it is fully aligned with the SFC's new strategic plan
 - outcome agreements provide sufficient assurance that public funding is contributing effectively to delivering national objectives
 - individual universities' performance against targets is presented in a transparent and consistent way in the outcome agreements.

The Scottish Government, SFC and universities should:

- progress plans to develop a long-term framework, as set out in the Scottish Government's 2015 Draft Budget document, for the Scottish Government and the higher education sector to work together to maximise the benefits of higher education for Scotland
- progress work to develop an agreed approach to achieving the national targets for widening access.

The Scottish Government and Student Awards Agency Scotland (SAAS) should:

- analyse existing student bursary and loan data to identify the impact of current student finance policies on different groups of students, such as those from deprived backgrounds or part-time students.

Universities should:

- work individually, across the sector, and with partners, to:
 - further develop efficient ways of delivering high-quality teaching, research, and innovation. This includes looking at different ways of working, such as increased collaboration, joint provision, and the use of new technologies
 - identify further opportunities to diversify, and maximise, income streams as part of ensuring their longer-term financial sustainability.
-

Background

- 1.** Higher education delivers a wide range of benefits to individuals and society. It contributes to economic growth through higher employment rates, tax revenues and greater productivity and innovation. Wider, non-market benefits include greater social cohesion, higher earnings, longer life expectancy, and improved health and wellbeing for individuals.¹
- 2.** Higher education is the common term that describes study up to undergraduate or postgraduate-degree level. Scottish universities and colleges both provide higher education. A Scottish honours degree is typically a four-year course. In 2014/15, there were 232,570 students studying at 19 universities in Scotland, two-thirds of whom had a home address in Scotland. In 2014/15, there were 46,012 students studying higher education courses in further education colleges in Scotland.
- 3.** A university holds a title granted by the Privy Council that allows the body to award degrees. There are 17 universities in Scotland and two higher education institutions whose degrees are conferred by other universities. In this report, we use the terms 'universities' and 'HE sector' to refer to all 19 institutions. Universities in Scotland are charitable bodies, not public bodies; they receive public funds, but they are autonomous. They are independent of the Scottish Government, although they are subject to a range of regulation and accountable to a number of bodies for specific aspects of their activity.
- 4.** Significant amounts of public money are spent on higher education in Scotland, both in the form of direct funding to universities, and in financial support to individual students. The Scottish Government provided £1.1 billion to universities in 2014/15, and approximately £623 million for university student finance support, ie loans and grants for students and tuition fees.² Higher education plays an important part in Scotland's development, both socially and economically. However, challenges lie ahead if the sector is to continue to grow and remain internationally competitive. These will need to be addressed together by universities, the Scottish Government, and the SFC.

About the audit

- 5.** The Auditor General for Scotland has had powers since 2010 to perform value for money audits in bodies funded by the former 'higher education funding body for Scotland'. We reported on estate management in higher education in 2007, and this is the first time we have audited broader issues.³ Universities are responsible for appointing their own external auditors, unlike Scottish public bodies, whose external auditors are appointed by the Auditor General for Scotland and the Accounts Commission.
- 6.** Our audit assessed how higher education is funded and delivered in Scotland, how it contributes to national strategic objectives, and how well equipped the sector is to deal with future financial challenges. The audit focused on higher education provision in the university sector as a whole. We did not look at the appropriateness or effectiveness of individual universities' overall governance arrangements or the arrangements and funding for delivering higher education in further education colleges. We are currently undertaking a separate audit of the college sector in Scotland and this is due for publication in autumn 2016.

7. We use four groupings in the report when discussing trends within the sector:

- the 'Ancient' universities – Aberdeen, Edinburgh, Glasgow, St Andrews
- the 'Chartered' (1960s) universities – Dundee, Heriot-Watt, Stirling, Strathclyde
- the 'Modern' universities – Abertay, Edinburgh Napier, Glasgow Caledonian, Highlands and Islands, Queen Margaret, Robert Gordon, West of Scotland
- the Small Specialist Institutions (the 'SSIs') and Other – Glasgow School of Art, Royal Conservatoire of Scotland, Scotland's Rural College, the Open University in Scotland.

8. In the report, we use the term Scottish students to refer to Scottish-domiciled students, ie students whose home address is in Scotland and who are ordinarily resident in Scotland; EU students to refer to students whose home address is in the EU but not in the UK; RUK students for students whose home address is in the UK but outside Scotland; and non-EU students for students whose home address is outside the EU.

9. This report has five parts:

- [Part 1](#) The university higher education system in Scotland
- [Part 2](#) The role of Scottish Government in higher education
- [Part 3](#) University sector finances
- [Part 4](#) Being a student in Scotland
- [Part 5](#) Looking forward.

10. [Appendix 1](#) lists all universities in Scotland along with their profile. [Appendix 2](#) lists members of our project advisory group who provided support and advice throughout the audit. [Appendix 3](#) provides details of our audit methodology.

Part 1

The university higher education system in Scotland



Key messages

- 1** Scotland has more world-class universities per head of population than any other country in the world except Luxembourg. The Scottish higher education sector is internationally renowned and Scottish universities deliver education not just in Scotland, but across the world. It is a diverse sector with 19 universities differing widely in size, age, student profile, and the subjects that they specialise in.
- 2** Higher education is a complex sector, with many sources and types of funding and accountability arrangements. Universities are autonomous bodies but they are affected by policy decisions, changes in the economy, and other developments, in Scotland, the rest of the UK and across the world.

Scotland's universities are diverse and internationally renowned

11. In 2014/15, there were 19 universities in Scotland teaching 232,570 students. These universities vary widely in size, age, subjects that they specialise in, and student profile. There are 14 campus-based universities, one distance-learning university, an educational partnership institution based in the Highlands and Islands, one art school, a conservatoire and an agricultural college. Between them, the universities have five medical schools, three dental schools and two veterinary medicine schools. The universities range in age from four to 603 years old, in size from 985 students to 28,880 students, and in annual income from £19.5 million to £841 million ([Appendix 1](#) gives further information on each university).

There were over 230,000 students studying at Scottish universities in 2014/15, two-thirds of whom were Scottish

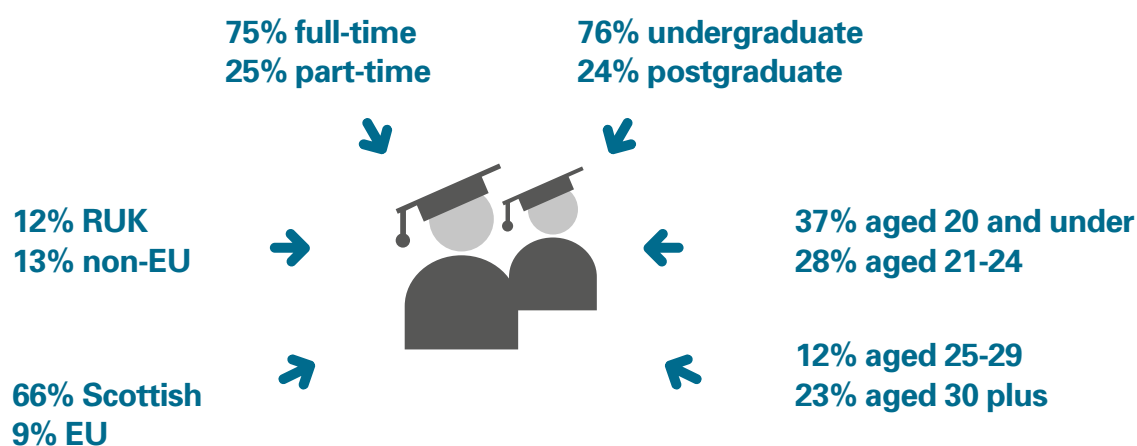
12. In 2014/15, there were 232,570 students studying at Scottish universities.⁴ [Exhibit 1 \(page 11\)](#) shows the make-up of the student population. The profile of university students in Scotland is examined in more detail in [Part 4](#).

Scottish higher education is a global business involving bodies from across the UK and rest of the world

Exhibit 1

The university student body in Scotland, 2014/15

The student body at Scottish universities is diverse.



Source: Audit Scotland using data provided by the SFC, from Higher Education Statistics Agency (HESA) Individual Student records. Data is based on the HESA Standard Higher Education (HE) Registration Population and includes Scottish-domiciled students at the Open University in Scotland

Universities and their activities play an important role socially, economically, and culturally in improving Scotland and the wider world

13. Scottish universities' activities benefit individuals, communities, and economies in Scotland and across the world. There are three core activities common to all universities in Scotland. They:

- educate – by teaching students, universities produce skilled graduates for the economy. They provide opportunities for improving skills, re-training the existing workforce, and for lifelong learning
- perform research – research adds to human knowledge, and research discoveries play a key role in all areas of life, both today and for future generations. Research also enhances the teaching of students
- transfer and exchange knowledge – universities work with public, private, and third sector organisations to transfer and adapt the knowledge gained from research for practical purposes.

The Scottish higher education sector contributed an estimated £7.2 billion to the Scottish economy in 2013/14

14. Universities make a significant contribution to the Scottish economy. They are major employers; they generate investment by spending on their estate and facilities; and students spend money on living costs in their local areas. A report by Biggar Economics in 2015 for Universities Scotland calculated that the Scottish higher education sector supported 144,549 jobs and contributed an estimated £7.2 billion to the Scottish Economy in 2013/14.⁵ The report stated that only the energy, and financial and business services sectors made a greater contribution in 2013/14.⁶

15. Universities also contribute significantly to their local economies. Biggar Economics reported that the sector’s share of jobs in each region ranged from 2.1 per cent in South West Scotland to 12.5 per cent in Dundee City and Region. Universities’ broader economic contribution to their regional economies was estimated in 2013/14 to be between £555 million to the economy of South West Scotland and up to £3.7 billion in Glasgow and Clyde Valley.⁷

Scotland has more world-class universities per head of population than any other country except Luxembourg

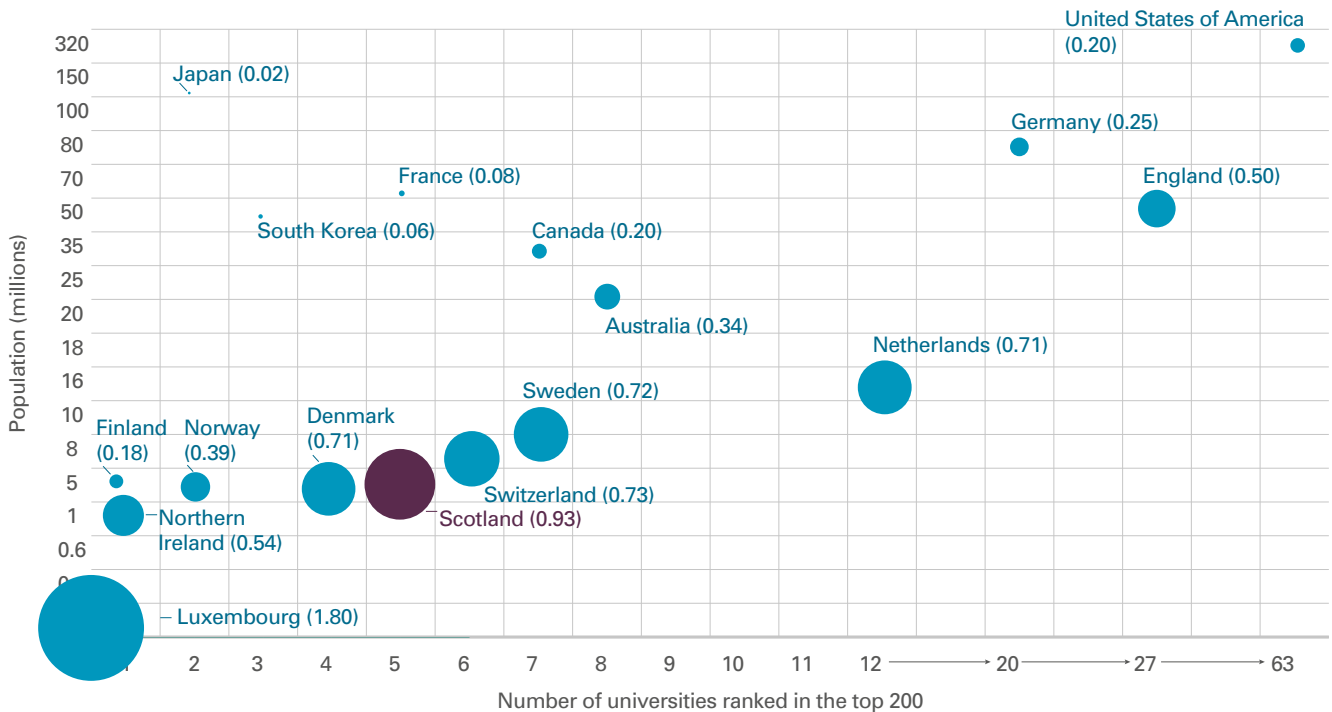
16. In 2015, Scotland had more universities ranked in the top 200 in the world per head of population than any other country except Luxembourg [\(Exhibit 2\)](#).⁸ Global rankings rate universities on criteria such as research excellence, and teaching and learning. In 2015, Scotland had three universities ranked in the world’s top 100 (Edinburgh, Glasgow and St Andrews) and another two in the world’s top 200 (Aberdeen and Dundee). Eight of Scotland’s universities were ranked in the top 500 in the world in 2015.

17. In the most recent UK-wide assessment of research quality, the Research Excellence Framework (REF), 77 per cent of the research submitted by Scottish

Exhibit 2

World-ranked universities per head of population


Scotland has the second highest number of universities ranked in the top 200, per head of population.



Note: Bubble size and number in brackets relates to the number of top 200 ranked universities per million people.


Source: Audit Scotland using data from *The Times Higher Education World University Rankings 2015-2016*, The World Bank 2014 population ranking, and the Office for National Statistics 2014 population data for UK countries



universities was judged to be either world-leading or internationally excellent.⁹ Overall, six Scottish universities were ranked in the top 50 in the UK for the quality of their research. Edinburgh University was the top-ranked Scottish university, rated fourth in the UK. Examples of the impact of research projects by Scottish universities are detailed in [Supplement 1: Examples of the impact of research from Scottish universities](#) .

Higher education is a global business

Scottish higher education is delivered across the world

18. Scottish universities are increasingly delivering higher education in other countries, either through their own overseas campuses, in partnership with overseas organisations, or through distance learning. Connected Scotland, the cross-sector partnership to improve the international reputation of Scottish higher education, identifies the benefits of international education as promoting the quality and scope of teaching and research in the Scottish higher education sector, and encouraging international collaborative research and sharing of resources.¹⁰ In 2015, almost all universities delivered higher education programmes outside Scotland. Two universities have established overseas campuses, Heriot-Watt in Dubai and Malaysia, and Glasgow Caledonian in the USA; while 17 universities delivered higher education courses in partnership with other universities or offered distance learning.¹¹ For examples of the types of education delivered abroad, and the range of educational partnerships, see [Supplement 2: Scottish higher education around the world](#) .

Global events affect Scottish universities

19. Scottish universities attract students and funding from across the world. This means events in the rest of the UK and in other countries can impact on Scottish universities. For example:

- Changes in levels of government investment in higher education in other countries can influence the numbers of students choosing to study in their home country and affect the ability of universities to recruit students and staff.
- Policy decisions on immigration in the UK and in other countries can affect how attractive or otherwise the UK and Scotland, are as places to study for international students. For example, Canada recently changed its visa regulations to actively try to attract international students.
- Changes in global markets, such as oil and gas, affect levels of industry and governmental funding for related areas, such as oil and gas-related courses and research.

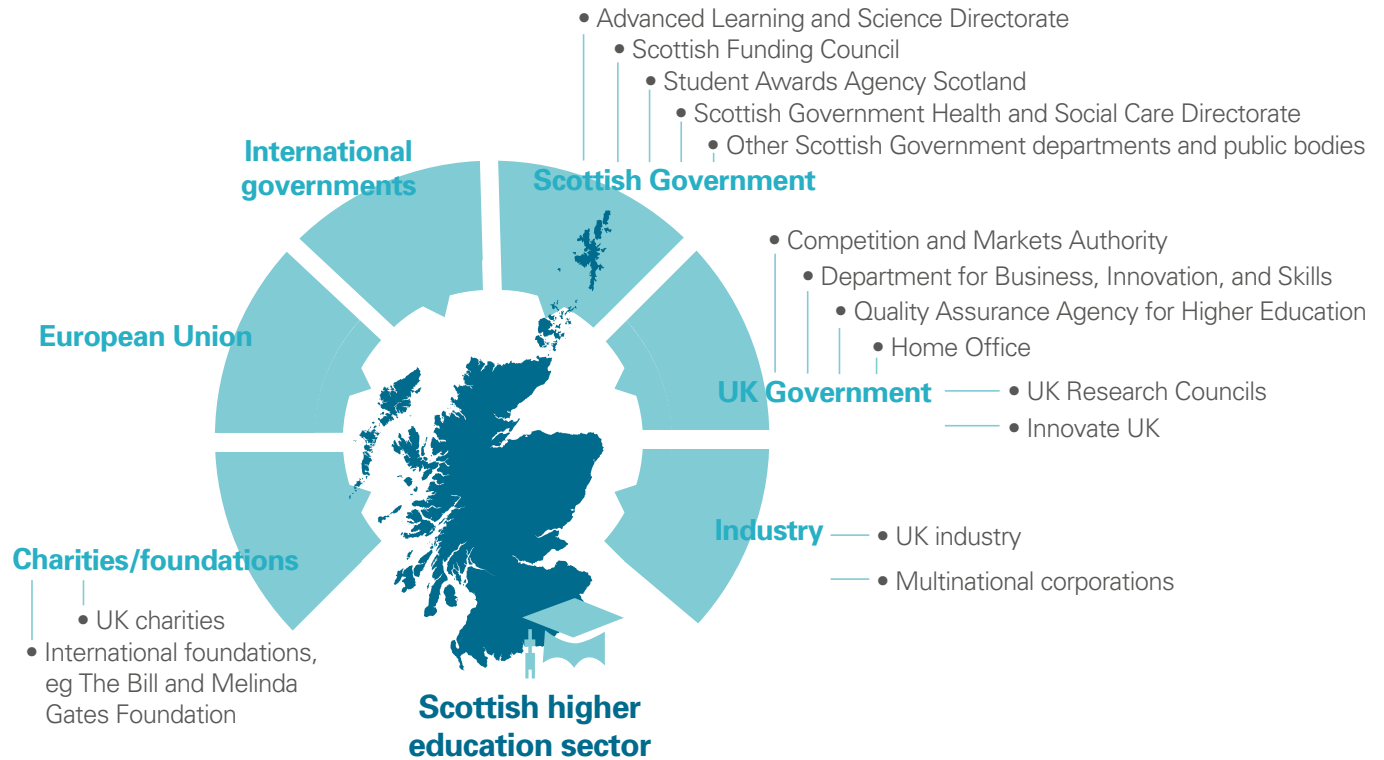
The policy-making, funding, and regulation of Scottish higher education involves multiple bodies from across the UK, EU and rest of the world

20. Multiple bodies are involved in policy-making, funding, and regulating the higher education sector in Scotland. [Exhibit 3 \(page 14\)](#) sets out the main types of bodies and their role. These bodies are national and international, public, private and third sector. We examine the scale and sources of university funding in [Part 2](#) and [Part 3](#) of the report.

Exhibit 3

Bodies that influence the Scottish higher education sector

There is a wide range of bodies that influence Scottish universities.



Source: Audit Scotland, 2016

Universities are independent of the Scottish Government, but they are subject to regulation and accountable for the use of public funds

21. Universities in Scotland are classified as charitable bodies, not public bodies. They are autonomous, so responsible, within legislation, for setting their own strategy and vision, and for managing and governing their own affairs and finances. They have the ability to generate income from multiple sources and to work with a wide range of public, private and third sector partners to achieve their vision. This means universities can be flexible, innovative and entrepreneurial in how they work. In the UK, there are two main principles that underpin how higher education works – academic freedom and the ‘Haldane Principle’. Academic freedom is set out in law across the UK and was most recently redefined in Scotland in the 2016 Higher Education Governance (Scotland) Act.¹² The ‘Haldane Principle’ is the idea, generally adhered to by the UK government since the early 1900s, that decisions on individual research proposals are best taken by researchers themselves through peer review.¹³ Universities consider their autonomy as key to their effectiveness.

22. Although universities are independent organisations, in practice, they operate within a context of multiple stakeholders, regulations, and accountabilities. As charitable bodies, they are regulated by the independent Office of the Scottish Charity Regulator (OSCR). Specific elements of their activities are also regulated by a number of other bodies, including the UK Home Office and the Competition

and Markets Authority. Universities are also accountable to many funding bodies, including the Scottish Funding Council (SFC), charities, the UK Research Councils, and the EU for use of their funding. A 2010 survey found that the sector was required to make over 550 statutory and external reporting returns.¹⁴

The Scottish Government plays a key role in how higher education works in Scotland

23. Responsibility for higher education is devolved to the Scottish Parliament except for policy and funding relating to the UK Research Councils and Innovate UK which remains the responsibility of the UK Government as a reserved area. In relation to universities, Scottish ministers have a legal duty to provide support to universities by means of funding to the SFC, and to support universities to undertake research.¹⁵ The Scottish Government sets the overall strategic direction that the SFC should use its funding for, to help achieve national outcomes. This is done through the annual Ministerial Letter of Guidance to the SFC that identifies areas of focus for the SFC's work with universities. The Scottish Government also decides the overall amount of funding it allocates to higher education.

[Exhibit 4 \(page 18\)](#) shows the funding and accountability lines for Scottish Government funding.

24. The SFC is the national strategic body responsible for the college and university sectors in Scotland. It was created by the Further and Higher Education (Scotland) Act 2005 and is a non-departmental public body, which means it is not a government department and operates at arm's length from ministers. It is, however, accountable to the Scottish Government and to the Scottish Parliament. The SFC sets out its main task as 'to care for and develop the whole system of colleges and universities and their connections and contribution to Scotland's educational, social, cultural and economic life.'¹⁶ The SFC's strategic plan, published in November 2015, sets out the outcomes it wishes to achieve and identifies the need for the SFC to work in partnership with universities, the Scottish Government, and other stakeholders, to achieve these outcomes.

25. The SFC's main responsibilities in relation to universities are to:

- develop strategies in partnership with the sector and other stakeholders that set out how the SFC, working with universities and other stakeholders, will achieve the outcomes set out in its strategic plan
- allocate Scottish Government funding to each university. This includes funding for teaching Scottish and EU students, research, knowledge exchange and innovation, and capital investment and maintenance
- consider and fund strategic developments in the sector, such as Innovation Centres (see [Part 5](#) for further detail)
- develop outcome agreements with universities that set out how they will contribute to SFC and Scottish Government priorities, as set out in the annual Ministerial Letter of Guidance, in exchange for the funding they receive
- monitor the performance of universities against their outcome agreements (see [Part 2](#) for further detail on outcome agreements).

In May 2016, the Scottish Government announced that a review of the role of the SFC will be carried out in summer 2016.

26. In relation to student support, ie tuition fees for Scottish and EU students, living cost loans and bursaries, and tuition fee loans for Scottish students studying in the rest of the UK, the Scottish Government also sets policy and provides funding. Student Awards Agency Scotland (SAAS), an executive agency of the Scottish Government, is responsible for delivering and administering the Scottish Government's approach to financial support for individual students.¹⁷ SAAS's main responsibilities are to:

- assess and process applications from eligible students for support funding and tuition fees
- administer funding to universities for tuition fees for eligible students
- provide grants and bursaries to eligible students
- provide information to the Student Loans Company (SLC) on students who have applied for living cost and tuition fee loans. SLC is responsible for disbursing loans to applicants and collecting repayments.

The UK Government also influences how the higher education sector works in Scotland

27. The UK Government is also responsible for making policy in, and providing funding for, areas that directly and indirectly affect Scottish universities. This includes:

- setting UK immigration policy which affects the types, countries of origin, and numbers of students allowed to study at UK universities from other countries
- deciding the UK's approach to UK research priorities and providing funding for the UK research councils and Innovate UK, the UK's innovation agency
- developing policies for the English higher education sector, which can affect the Scottish sector. For example, the introduction of £9,000 tuition fees in England for new students from 2012/13 led to the Scottish Government allowing universities to set increased tuition fees for students from the rest of the UK in Scotland.

Part 2

The role of Scottish Government in higher education



Key messages

- 1 Universities play an important role in Scotland's development, both economically and socially. The Scottish Government provided £1.1 billion funding in 2014/15 for universities and approximately £623 million in funding for individual students to help achieve national strategic objectives, such as making Scotland wealthier and fairer, and smarter. The SFC determines the number of funded places available for students from Scotland and the EU, based on the amount of funding available from the Scottish Government. Universities set the number of students from other areas that they want to attract. The Scottish Government pays the tuition fees of eligible Scottish and EU students and provides loans and bursary funding to individual Scottish students.
- 2 *Scotland's Economic Strategy* is clear about the important contribution higher education makes in supporting Scotland's development. The strategy sets out the Scottish Government's main policy ambitions in relation to higher education. These include supporting world-class research and improving innovation, and widening access to university for students from deprived backgrounds.
- 3 Since their introduction in 2012, outcome agreements between the SFC and universities have been a positive step forward in setting out how universities contribute to Scottish Government priorities for the funding received. There are areas for improvement, including achieving more consistency and clarity in how outcome agreements are written and presented; and ensuring the national measures used to assess progress appropriately measure how activities contribute to existing key aims.
- 4 The current funding approaches to research, teaching, and widening access make achieving policy ambitions challenging. The current funding approach to improving access to university for students from deprived backgrounds is under pressure due to budget constraints, and the way in which the SFC allocates research funding makes achieving its ambition to maintain and improve Scotland's world-leading position in university research challenging. The SFC needs to review its strategies for research and innovation, and finalise its national capital investment strategy, to ensure funding is used to best effect.

the Scottish Government provided over £1.7 billion funding for universities and individual students in 2014/15

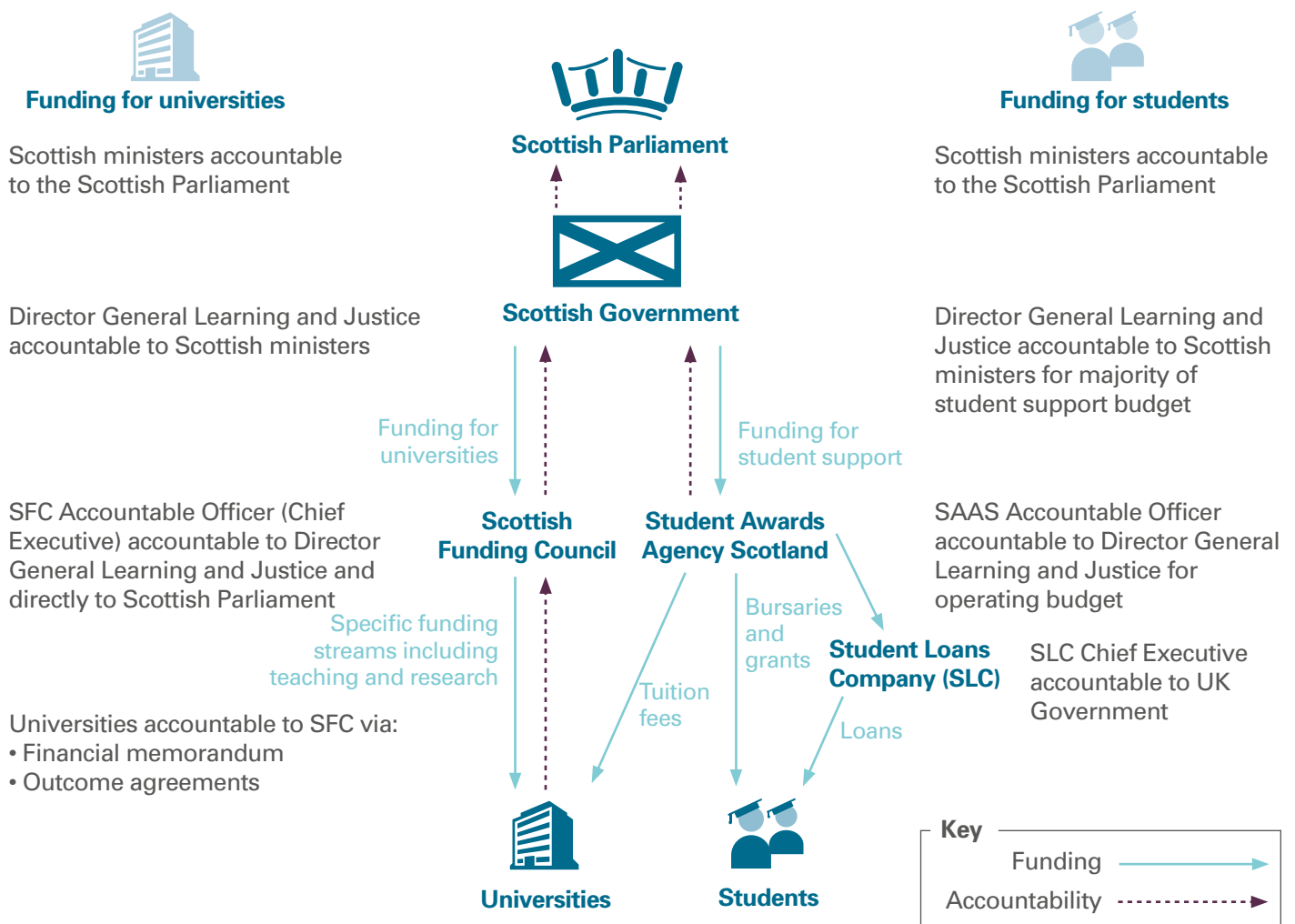
The Scottish Government provided over £1.7 billion funding for universities and individual students in 2014/15

28. The Scottish Government funds higher education in two main ways – by providing funding to the SFC for universities, and by providing funding to SAAS for individual students. [Exhibit 4](#) shows the main funding streams and lines of accountability for Scottish Government funding.

Exhibit 4

Scottish Government higher education funding and accountability

There are two main funding and accountability lines for Scottish Government funding.



Source: Audit Scotland

29. Universities are accountable to the SFC for the funding received, and the SFC is accountable, in turn, to the Scottish Government as follows:

- The SFC has a financial memorandum in place with each university that sets out the conditions of the funding it provides. Each university is responsible for ensuring they comply with this. Universities' internal and external auditors provide assurance that the memorandum has been complied with and that there are effective risk management, internal control, and governance arrangements in place.¹⁸ The SFC places reliance on this assurance.
- The SFC's Chief Executive is the Accountable Officer responsible for the use of the funding provided to the SFC by the Scottish Government. The SFC Chief Executive is accountable directly to the Scottish Parliament, and also to the Director General Learning and Justice within the Scottish Government. The Director General, in turn, is accountable to the Scottish Parliament and to Scottish ministers. Scottish ministers are also accountable to the Scottish Parliament. The SFC Accountable Officer meets regularly with relevant Scottish Government officials in the Advanced Learning and Science department in relation to higher education.

30. Accountability for the Scottish Government's student support budget is split between SAAS and the Scottish Government:

- SAAS is responsible for administering the budget for student loans, bursaries and tuition fees. However, the Chief Executive of SAAS, as the Accountable Officer, is responsible only for the organisation's operating budget, £16.1 million in 2014/15.
- The Director General Learning and Justice within the Scottish Government is accountable for the remainder of the student support budget which is administered by SAAS.

The SAAS Chief Executive meets regularly with the Scottish Government to discuss funding arrangements and performance. The split in accountability for student support is an unusual arrangement. The Scottish Government should take the opportunity to review these arrangements as part of the Scottish Government commitment to review student support.

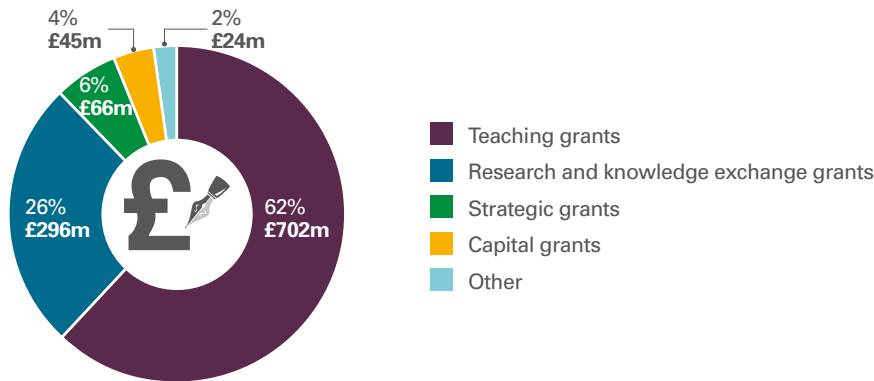
The Scottish Government provided £1.1 billion in funding to the SFC for universities in 2014/15

31. The Scottish Government provided £1.1 billion in direct funding to the SFC for universities in 2014/15. Most of this £1.1 billion, 97 per cent, was to fund day-to-day running costs (resource funding), with the remaining three per cent, £30 million, for capital funding.¹⁹ The SFC is responsible for deciding how to apportion this funding across the different areas it funds and then allocating the funding to universities. The majority of the funding the SFC provided to universities in 2014/15 (62 per cent, £702 million) was for teaching Scottish and EU students. Research and knowledge exchange grants was the second largest area, at £296 million (of which, £279 million was for research) ([Exhibit 5, page 20](#)).²⁰

Exhibit 5

SFC funding to universities, 2014/15

The majority of SFC funding was for teaching.



Note: Capital grants is all capital grants allocated to universities by the SFC. This includes capital funding from the UK Department for Business, Innovation and Skills and capital loan support from the SFC.

Source: Audit Scotland using *Outcome agreements for universities' final funding decisions for Academic Year 2014-15*, SFC 2014

The SFC funds a set number of university places for Scottish and EU students at Scottish universities

32. The number of Scottish and EU students that universities are funded for each year is determined by the SFC. It does this based on its annual budget and the Scottish Government's workforce requirements for areas that are nationally controlled, such as medicine and teaching ('controlled' subjects). These are known as 'funded places'. The SFC places limits on the number of university places it will fund for Scottish and EU students undertaking undergraduate courses and selected taught postgraduate courses. Universities can be penalised financially if they go outside agreed limits.

33. In 2014/15, the SFC funded 124,938 places for Scottish and EU students at Scottish universities. Of these, 110,650 places were for undergraduates (and postgraduate teacher training and nursing and midwifery). Where universities enrol more students than their specific allocation of funded places in certain categories, these places are known as 'fees-only'. Universities receive the tuition fee element from SAAS but they do not receive the accompanying teaching grant from the SFC. In 2014/15, there were 10,091 fees only places at Scottish universities.²¹

34. The SFC does not control the number of students from the rest of the UK or outside the EU. It is up to individual universities to decide how many of these students they wish to aim for and then recruit, in competition with other universities.

Overall funding for universities has reduced in recent years, and will continue to do so through 2016/17

35. The SFC allocated £1.1 billion to universities in 2014/15, a reduction of four per cent in real terms, since 2010/11.²² This reflects reduced funding received by the SFC from the Scottish Government. Across the main funding streams, changes in funding have been more variable between 2010/11 and 2014/15:

- Capital funding reduced from £83.5 million to £28 million in cash terms, a real-terms reduction of 69 per cent.²³
- The teaching grant increased from £679 million to £702 million in cash terms, a reduction of 3.5 per cent in real terms. This was partly due to the removal of funded places for students from the rest of the UK after the Scottish Government allowed universities to charge tuition fees for these students in 2012/13.
- Research funding increased from £243 million to £279 million, an increase of seven per cent in real terms.²⁴ This increase was largely due to temporary additional funding, known as the Global Excellence Initiative, which was provided to universities in 2013/14 and 2014/15.²⁵

36. The SFC teaching grant is based on an annual price per funded place that is set by the SFC. In 2014/15 this was, on average, £5,179.²⁶ Universities also receive £1,820 per eligible student in tuition fees from the Scottish Government via SAAS. This means universities received an average of £6,999 for each Scottish and EU student in 2014/15. The tuition fee paid by the Scottish Government has remained the same since 2009/10 (in 2008/09, it was £1,775 for full-time undergraduates), a real-terms reduction of eight per cent.²⁷

37. Looking forward, the SFC has provided funding allocations to the sector up to 2016/17. Between 2014/15 and 2016/17:

- capital funding is projected to increase from £28 million to £32 million in cash terms, a real-terms increase of 12 per cent
- research funding is projected to reduce from £279 million to £266 million in cash terms, a real-terms reduction of seven per cent
- teaching grant funding is projected to reduce from £702 million to £689 million in cash terms, a real-terms reduction of five per cent.

We examine the implications of these changes for universities' finances in [Part 3](#).

The Scottish Government provided approximately £623 million in support for individual university students in 2014/15

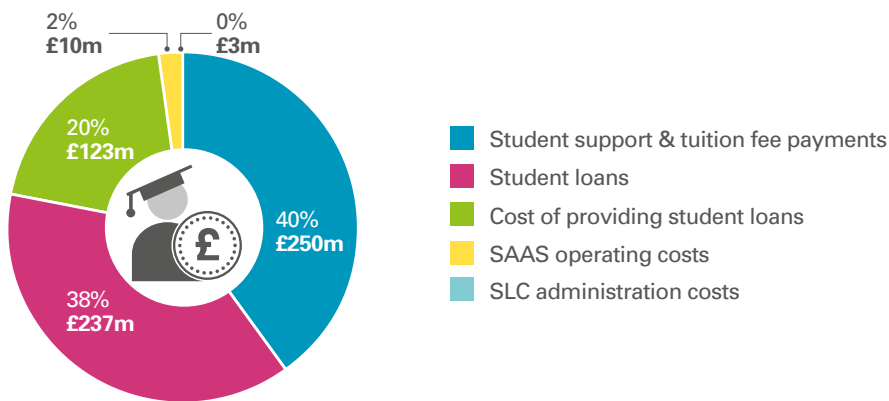
38. The Scottish Government provided £869 million in overall funding for student support and tuition fees for university and college students in 2014/15. This was delivered through SAAS.²⁸ Of this, approximately £623 million related to financial support and tuition fees for university students.²⁹ The single largest amount, approximately £250 million, 40 per cent, was to fund student support and tuition fee payments ([Exhibit 6, page 22](#)). We examine funding for individual students in more detail in [Part 4](#) of the report.

39. Overall Scottish Government funding for university student support increased from approximately £425 million in 2010/11 to approximately £623 million in 2014/15 in cash terms, an increase of 37 per cent in real terms.^{30, 31} This is a result of changes to the student support system in 2012 that increased the amount, and availability of student loans to Scottish students from academic year 2013/14 onwards.

Exhibit 6

Scottish Government funding for university student support, 2014/15 (estimated)

Most financial support was for student support and tuition fee payments.



Note: Funding for student support is not split between university students and students at further education colleges in the Scottish Government budget. See Appendix 3 for a description of how this was calculated.

Source: Audit Scotland using *2014-15 Spring Budget Revision*, Scottish Government, February 2015; *Higher Education Student Support in Scotland 2014-15*, SAAS, October 2015; and bespoke SAAS data, specific for students studying at universities, February 2016

The Scottish Government pays the tuition fees of most full-time Scottish and EU undergraduate students

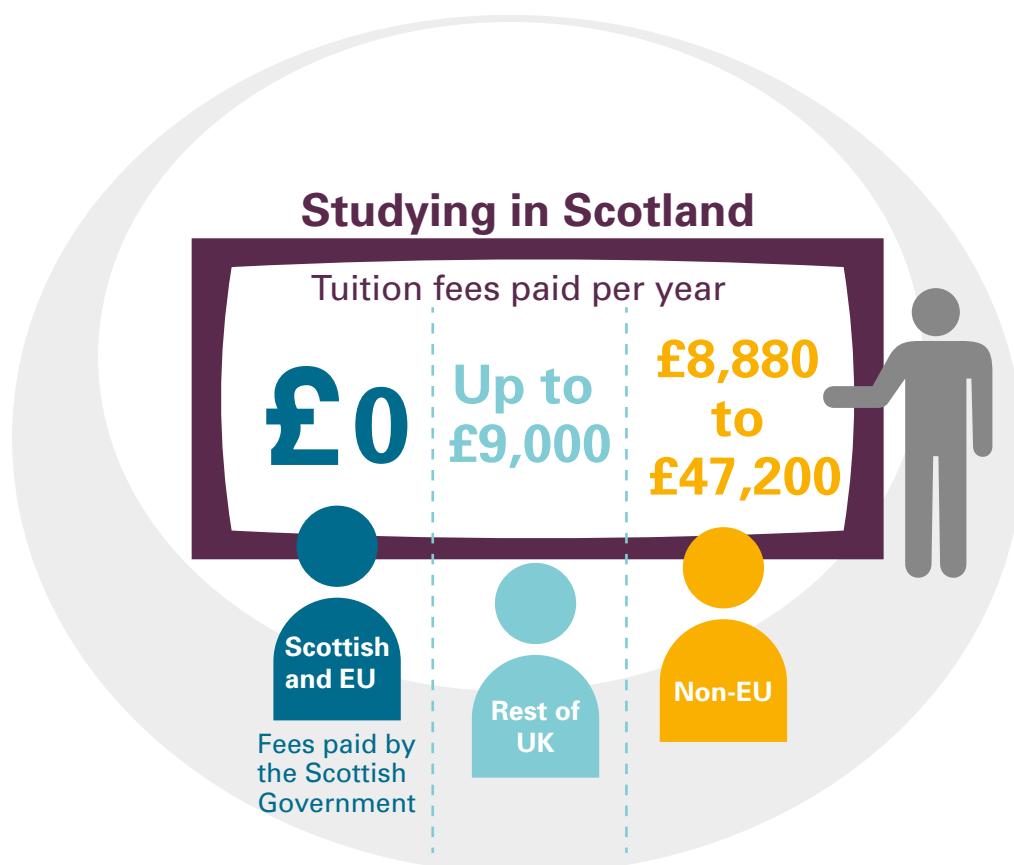
40. The amount paid by students to study at Scottish universities varies depending on where they are from ([Exhibit 7, page 23](#)). Since 2008, the Scottish Government has paid the tuition fees of Scottish and EU students who are undertaking full-time undergraduate courses for the first time and a limited number of postgraduate courses.³² Part-time undergraduate students who earn less than £25,000 can apply for a grant that covers up to the cost of the tuition fee. Those earning over £25,000 pay their own fees. The majority of students undertaking taught postgraduate courses also pay their own tuition fees. Student support funding is examined in [Part 4](#).

41. EU students studying in other EU countries are subject to the same fee regime as home students. This means full-time undergraduate students from other EU countries studying in Scotland are entitled to have their tuition fees paid by the Scottish Government. This entitlement does not apply within countries, meaning students studying in different parts of the UK can pay different fees. Since 2012/13, undergraduate students from England, Wales and Northern Ireland have paid tuition fees of up to £9,000 a year to study in Scotland.³³ Tuition fees for students from outside the EU are decided by individual universities, taking into account competition from across the UK and internationally. In 2015/16, they ranged from £8,880 to £47,200 per year.³⁴

Exhibit 7

Tuition fee arrangements for full-time undergraduate students studying at Scottish universities

While the £1,820 fee is paid by the Scottish Government for Scottish and EU full-time undergraduates, other students pay different amounts.



Note: Part-time Scottish and EU students are not entitled to free tuition unless their income is less than £25,000, when they are entitled to a fee grant which is paid directly by SAAS to the university. The amount of fee grant depends on the number of course credits. Postgraduate students are not entitled to free tuition unless they are undertaking selected courses.

Source: Audit Scotland using information from SAAS and the *Reddin Survey of University Tuition Fees 2015–16*, The complete university guide, 2016

Universities also receive public funding from a range of other sources

42. A wide range of other Scottish public sector funding is associated with delivering higher education or for services that universities provide. This includes funding from NHS Education Scotland to NHS boards to cover the additional costs of teaching undergraduate medical students (£91 million in 2014/15), and funding from public sector bodies to universities for courses relating to professional development of staff. Due to the varied nature of this funding, it is not possible to identify the full amount or sources of associated funding.

The Scottish Government's economic strategy is clear about the important contribution higher education makes in supporting Scotland's development

43. The Scottish Government has five strategic objectives for the country – to make Scotland wealthier and fairer, smarter, healthier, safer and stronger, and greener.³⁵ Higher education contributes to all of these objectives, particularly wealthier and fairer, and smarter.³⁶

44. *Scotland's Economic Strategy* sets the overall strategic direction of current and future Scottish Government policy and is the framework for how the national strategic objectives will be delivered.³⁷ The strategy sets out four priorities:

- Investing in our people and our infrastructure in a sustainable way.
- Fostering a culture of innovation and research and development.
- Promoting inclusive growth and creating opportunity through a fair and inclusive jobs market and regional cohesion.
- Promoting Scotland on the international stage to boost our trade and investment, influence and networks.

45. The strategy identifies the important role that higher education plays in achieving all four of the priorities and sets out the Scottish Government's main policy ambitions in relation to higher education. These include:

- Investing:
 - 'a commitment to free tuition, ensuring that access to university is based on ability to learn, not ability to pay'
 - 'capital funding ... aimed at supporting and enabling institutions to deliver in high-quality learning and research environments which are fit for purpose ... and support world-class research'.
- Innovation – 'continue to support the high impact, world-class research of Scotland's universities and improve levels of commercialisation of academic research'.
- Inclusive growth – 'a clear ambition that a child born today should have, not just a better chance, but an equal chance of attending university such that, in time, 20 per cent of university entrants would come from the most deprived 20 per cent of society.'
- Internationalisation – 'Scotland benefits from the extensive international presence, networks and reputation of our universities, from the collaborative Connected Scotland initiative and from the many international students who choose to study in Scotland.'³⁸

46. To help achieve these policy ambitions, the Scottish Government sets annual priorities for the SFC in a Ministerial Letter of Guidance. The priorities have remained consistent in recent years and for academic year 2015/16, they are:

- high-quality, effective learning

- access to education for people from the widest range of backgrounds
- learning which prepares people well for the world of work and successful long-term careers, and in doing so supports our ambitions for economic growth
- internationally competitive and impactful research
- effective knowledge exchange and innovation including excellent university/industry collaboration
- meet the challenges set out by the *Developing Scotland's Young Workforce* report
- address the underrepresentation of women on the governing bodies of colleges and universities and at senior levels, and gender balance among student intakes for some key subjects.³⁹

The SFC cannot deliver these priorities on its own. It is reliant on partnership working with universities, colleges, the Scottish Government, and other bodies to support achieving the priorities.

47. To support the higher education sector's contribution to *Scotland's Economic Strategy*, the SFC developed a new three-year strategic plan in 2015.⁴⁰ This identifies three outcomes the SFC wishes to achieve in the next decade: high-quality learning and teaching; world-leading research; greater innovation in the economy, along with supporting actions the SFC will undertake.

The SFC needs to do more to ensure that the funding it receives from the Scottish Government makes the maximum contribution to achieving the Scottish Government's ambitions for higher education

The SFC needs to ensure it has appropriate strategies and tools in place to help deliver the Scottish Government's ambitions for higher education
Outcome agreements between the SFC and universities have been a positive step forward. There are elements of the agreements and guidance that need to be improved to ensure they are effective

48. In 2012, the SFC introduced outcome agreements with universities. They are agreements negotiated between individual universities and the SFC that are intended to demonstrate what universities deliver in return for the Scottish Government funding they receive. The SFC negotiates targets with individual universities based on areas it, and universities, wish to improve. Outcome agreements originally covered a one-year period and the SFC now encourages universities to produce a three-year agreement. Universities must publish an update on the agreement each year. The outcome agreement process is designed to recognise the differences between universities in areas such as their organisational aims and objectives and their different student profiles. This means that the specific targets and areas of focus that each university agrees with the SFC in its outcome agreement reflects the strategic priorities of the university as well as the Scottish Government's national priorities for higher education.

49. Outcome agreements marked a significant change in the relationship between the higher education sector and the SFC, introducing a closer relationship between the SFC and universities. It was the first time that individual

universities had to explicitly set out how they would contribute to specific Scottish Government priorities in return for the public funding they received. Outcome agreements, and the process of negotiating and agreeing them, have continued to develop since their introduction. The SFC reviews the outcome agreement process annually.

50. We examined the SFC's outcome agreement guidance along with a sample of outcome agreements and identified areas that could be improved:

- The SFC's new strategic plan includes new outcomes and themes. These now differ from the high-level aims and measures used in outcome agreements meaning outcome agreements are not fully aligned with SFC strategic outcomes.
- The national measures used in the outcome agreements do not always appropriately measure how activities contribute to the existing key aims. For example, only one measure reflects the 'right learning in the right place' aim. It measures the number of Scottish undergraduates entering science, technology and engineering courses. In comparison, five measures relate to the aim of widening access. This means it is not possible to fully assess progress against strategic outcomes.
- There is a lack of consistency and clarity in how outcome agreements are written and presented, making it difficult to identify from the agreements exactly how universities are contributing to achieving national priorities.
- Universities are only required to report their performance against five of the 16 national measures in their outcome agreements. This means it is not possible to identify from the outcome agreements how well they are delivering against all the national measures.

The SFC needs to review its strategies to support key elements of *Scotland's Economic Strategy*

51. The SFC's new strategic plan identifies that using its funding strategically is crucial to achieving the desired outcomes. It is therefore important that the SFC has in place strategies for key areas to ensure it achieves its priorities and strategically invests its funding. The SFC has strategies for research and innovation, but these now need reviewed to ensure they fully align with the SFC's new strategic plan and *Scotland's Economic Strategy*. Until now, the SFC has not had a strategy for capital investment. The SFC is currently developing a strategy on this area. It is important that these strategies are set out in a clear and transparent way that makes it easy for stakeholders to identify the aims and objectives associated with the strategy; the actions the SFC plan to take to achieve the aims and objectives; and how performance will be measured.

The SFC needs to finalise its performance management framework

52. To assess performance against the strategic plan and demonstrate that the money it spends on higher education is contributing effectively to national strategic objectives, it is essential that the SFC has an effective performance management framework. The SFC has recently redeveloped its framework in light of the new strategic plan. The framework sets out seven outcomes the SFC wishes to achieve, along with supporting indicators of success. These outcomes and indicators are a mix of outcomes, themes and actions identified in the strategic plan. It is not always clear how these outcomes and indicators

relate to the strategic plan. In addition, the framework does not yet contain a comprehensive suite of performance measures. This means it is not possible to fully assess progress against the strategic plan. It is important that the SFC progress their plans to review their existing measures to ensure they have in place the appropriate type, and number of, measures to fully assess progress.

53. The framework sets out targets and associated timescales for key areas. The timescales are a mix of targets to be achieved by 2014/15 and those to be achieved in 2016/17. It is important that these targets and timescales are now reviewed to ensure that:

- the new national targets for widening access are incorporated
- interim milestones are clearly identified towards long-term targets
- appropriate targets are in place to support achieving each objective in the strategic plan, and that targets are appropriately challenging in nature
- it is clear how targets agreed with individual universities in outcome agreements contribute to national targets and how these are reported as part of the SFC's performance reporting.

The way that the SFC allocates funding to universities makes achieving the Scottish Government's higher education policy ambitions challenging

The current funding approach to improving access to university for students from college and deprived backgrounds is under pressure

54. The SFC spent £45 million in 2014/15 on efforts to widen access to university for students from college (known as 'articulation') and deprived backgrounds. This included:

- funding additional university places for students from deprived backgrounds
- funding programmes such as the Schools for Higher Education Programme (SHEP) which works to raise aspirations and increase the number of pupils from schools in deprived areas applying for university.

55. The current SFC policy of funding additional places to meet policy priorities depends on the continued availability of funding. The reduction in the SFC's budget for 2016/17 led the SFC to announce that it would not be able to fund any new university places for students from college or deprived backgrounds from 2016/17 onwards. In March 2016, the Cabinet Secretary for Education and Lifelong Learning stated in a letter to the SFC that it would '... be appropriate for SFC to support the fourth and final tranche of the additional places scheme for access and articulation in academic year 2016/17, as previously anticipated'.⁴¹ The SFC is funding these places by overcommitting its 2016/17 budget. The SFC is currently unclear on where savings will be made in future budgets to recoup this overcommitment. Without additional funding, the SFC will need to make savings across other funding streams.

56. In March 2016, the Scottish Government accepted national targets on increasing the number of students from deprived areas as recommended by the Commission on Widening Access in their final report, *A Blueprint for Fairness*.⁴² The challenges of achieving these targets are examined in [Part 5](#).

The way in which the SFC allocates research funding makes achieving its ambition to maintain and improve Scotland's world-leading position in academic research challenging

57. University research in the UK is funded in two main ways. The UK funding bodies (the SFC in Scotland) provide an annual research grant to universities. Universities also compete for research grants for specific projects or programmes of research from the UK Research Councils, charities, EU, industry and other bodies. This is known as the dual support system.

58. In Scotland, the SFC research grant is called the Research Excellence Grant (REG). REG funding is primarily intended to provide universities with a relatively stable, continuous source of research funding to allow them to compete for other research funding. A key element of REG funding is that universities have the freedom to spend it on any research-related activity they choose, consistent with the aim of continuing to develop research excellence. In 2014/15, for every £1 of REG funding, the sector generated, on average an additional £3 of income from other sources.⁴³ The SFC's REG allocation to each university is based on a formula, the main element of which is the results of the Research Excellence Framework (REF). This is a UK-wide exercise conducted approximately every five years which assesses research quality at individual universities. Currently, the SFC's formula weights the distribution of REG funding towards world-leading (4*) and internationally excellent (3*) research on a ratio of 3:1.

59. One of the ambitions in the SFC's strategic plan is 'to maintain – and improve – Scotland's world-leading position in university research.'⁴⁴ To achieve this, the SFC states that it will 'prioritise our investment in research on developing world-leading and internationally excellent research'. However, the current funding approach makes achieving its ambition increasingly challenging:

- Most of the universities with the highest levels of world class (4*) research in Scotland received reduced REG funding after the 2014 REF exercise, despite improving their performance. These included the universities of Aberdeen, Dundee, Edinburgh, Glasgow, St Andrews, and Strathclyde.⁴⁵ Overall performance improved across the sector and Scotland's Rural College (SRUC) became eligible for REG funding for the first time, but this improved performance was not accompanied by an increase in the total amount of REG funding available. This led to the existing research budget being spread more widely across the sector than in previous years.
- These reductions were further exacerbated by the removal in 2015 of additional research funding known as the Global Excellence Initiative. This was additional funding of £14 million per year that the Scottish Government gave to the SFC in 2013/14 and 2014/15 to distribute to universities. This funding was focused towards universities with the most world-leading research.
- The reduction in the SFC's research budget ([paragraph 37](#)) means that universities are under increasing pressure to generate income from other sources to fund their research activities and to continue to make efficiency savings. This is because the majority of research grants won by universities do not cover the full costs of undertaking that research. In 2014/15, grants from the UK Research Councils covered 74.3 per cent of the full economic cost of undertaking the research, while grants from charities and industry covered 65 per cent and 74.5 per cent respectively of the full economic costs of the research.^{46, 47}

- An important element of research success is having the appropriate type, and quality, of facilities for research activities. The UK Government provides additional capital funding for research to each home nation. Scotland's share was £16.7 million in 2016/17.⁴⁸ This funding is provided on the basis that it is matched by the respective higher education funding body. Currently, the SFC plans to match the funding to the level of £15.5 million, leaving £1.2 million that will not be drawn down. At a sector level, this equates to £2.4 million that will not be available for research capital funding in 2016/17.

60. The SFC recognises in its strategic plan that 'Scotland faces a challenge from many other nations which are seeking to gain economic advantage by increasing their investment in research.'⁴⁹ This, along with the above funding approach makes achieving the SFC's aim of maintaining and improving 'Scotland's world-leading position in university research' challenging.

Achieving high-quality learning and teaching is increasingly dependent on universities' ability to make efficiency savings and subsidise the cost of teaching from other sources

61. The SFC assesses the cost of providing teaching for Scottish and EU students and sets a price it will pay for each funded place based, in part, on the budget available. This price was, on average, £5,179 in 2014/15, and £6,999 when the tuition fee element is included. The price paid does not directly reflect the actual cost of the activity in each university. It is not clear to what extent the public funding of Scottish and EU students is intended to cover the costs of their teaching.

62. In 2014/15, universities recovered 94.2 per cent of the full economic cost of publicly funded teaching, a reduction of 1.7 per cent since 2013/14.^{50, 51} This figure includes the teaching of Scottish and EU students but also fee-paying students from the rest of the UK. It is not possible to identify the percentage recovered by universities solely for Scottish and EU students funded by the SFC and SAAS. In contrast, the sector recovered 137.6 per cent of the full cost of non-publicly funded teaching, this is mainly the teaching of non-EU students in 2014/15.

63. In 2016, the SFC reduced the price per funded place for 2016/17 by 2.9 per cent compared to the previous year. This was due to budget pressures, rather than a reduction in the cost of teaching. This means there is increasing pressure on universities to increase income in other areas to subsidise the cost of teaching Scottish and EU students, deliver teaching and learning in different ways, or to make further efficiency savings. If universities are unable to do this, there is a risk that the SFC's long-term outcome of 'high-quality learning and teaching' will not be achieved.

Part 3

University sector finances



Key messages

- 1 Overall, the Scottish higher education sector was in good financial health in 2014/15. Universities as a whole had income of £3.5 billion, and income increased by 38 per cent in real terms over the previous decade. The sector generated a surplus of £146 million in 2014/15 and overall reserves stood at £2.5 billion. Universities reported that they made efficiency savings of £200 million over the past three years.
- 2 The strong overall financial performance in 2014/15 masks underlying risks within the sector, with surpluses and reserves concentrated in a few universities. Universities get their income from a range of sources, and they need a good spread of income to reduce their reliance on particular sources. However, five universities relied on one source, the SFC, for more than 50 per cent of their total income. Universities that continue to rely heavily on SFC funding will be at increasing risk if Scottish Government funding reduces.
- 3 The sector faces significant cost pressures. Twenty-two per cent of the university estate is in poor condition and will require investment, and pension and national insurance contributions are increasing. Overall Scottish Government funding for universities has reduced and is likely to remain under pressure in the future, and universities' financial plans increasingly rely on generating income from fee-paying students from the rest of the UK and non-EU students. The sector faces challenges from developments elsewhere in the UK, EU and worldwide. These will have an impact on the number of non-EU students coming to Scottish universities.
- 4 Universities are increasingly using surpluses and reserves to fund investments in their estate. For this approach to be sustainable, the sector will need to continue generating additional income or making further efficiency savings to create surpluses for investment.

the overall sector was in good financial health in 2014/15 but faces increasing cost pressures

The overall sector was in good financial health in 2014/15, but longer-term trends reveal increasing risks for some institutions

The university sector in Scotland had a total income of £3.5 billion in 2014/15, most of which came from public sources

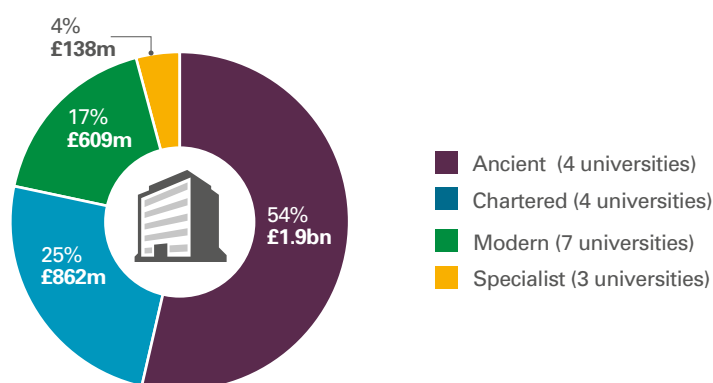
64. Universities in Scotland had a total income of £3.5 billion in 2014/15.^{52, 53} Reflecting the differences in the size of universities, income ranged from

£19.5 million at the Royal Conservatoire of Scotland (RCS) to £841 million at the University of Edinburgh. The Ancient universities accounted for 54 per cent (£1.9 billion) of the sector's total income in 2014/15 ([Exhibit 8](#)). Two of these universities, Edinburgh and Glasgow, accounted for 41 per cent (£1.4 billion) of the sector's total income in 2014/15.

Exhibit 8

Overall income by university grouping, 2014/15

The four Ancient universities accounted for over half of the sector's total income.



Note: Income excludes The Open University in Scotland. Income total includes a one-off £7.6 million insurance claim for The Glasgow School of Art, and a £37 million grant to The University of the Highlands and Islands for provision of further education courses.

Source: Audit Scotland using university financial statements, 2014/15

Overall income grew by 38 per cent in real terms in the past decade but growth varied significantly across the sector

65. Since 2005/06, the sector's overall income has grown by 38 per cent in real terms.⁵⁴ But levels of growth have not been consistent, with overall income reducing in 2010/11 and 2011/12 before increasing again in 2012/13. Income growth was strongest in the first half of the decade, at 23 per cent between 2005/06 and 2009/10. This was due to increases in all major income areas. This compares to 13 per cent growth between 2010/11 and 2014/15.

66. Income growth has varied significantly across the sector over the past decade ([Exhibit 9, page 32](#)):

- By university grouping:
 - the SSIs and Ancient universities had the largest real-terms percentage increases in income between 2005/06 and 2014/15, at 51 per cent and 50 per cent respectively. This compares to 30 per cent among Chartered universities and 16 per cent at the Moderns
 - since 2012/13 and the introduction of tuition fees for RUK students, the Modern grouping experienced the lowest growth in income, at three per cent between 2012/13 and 2014/15, compared to 11 to 12 per cent for the other groupings.

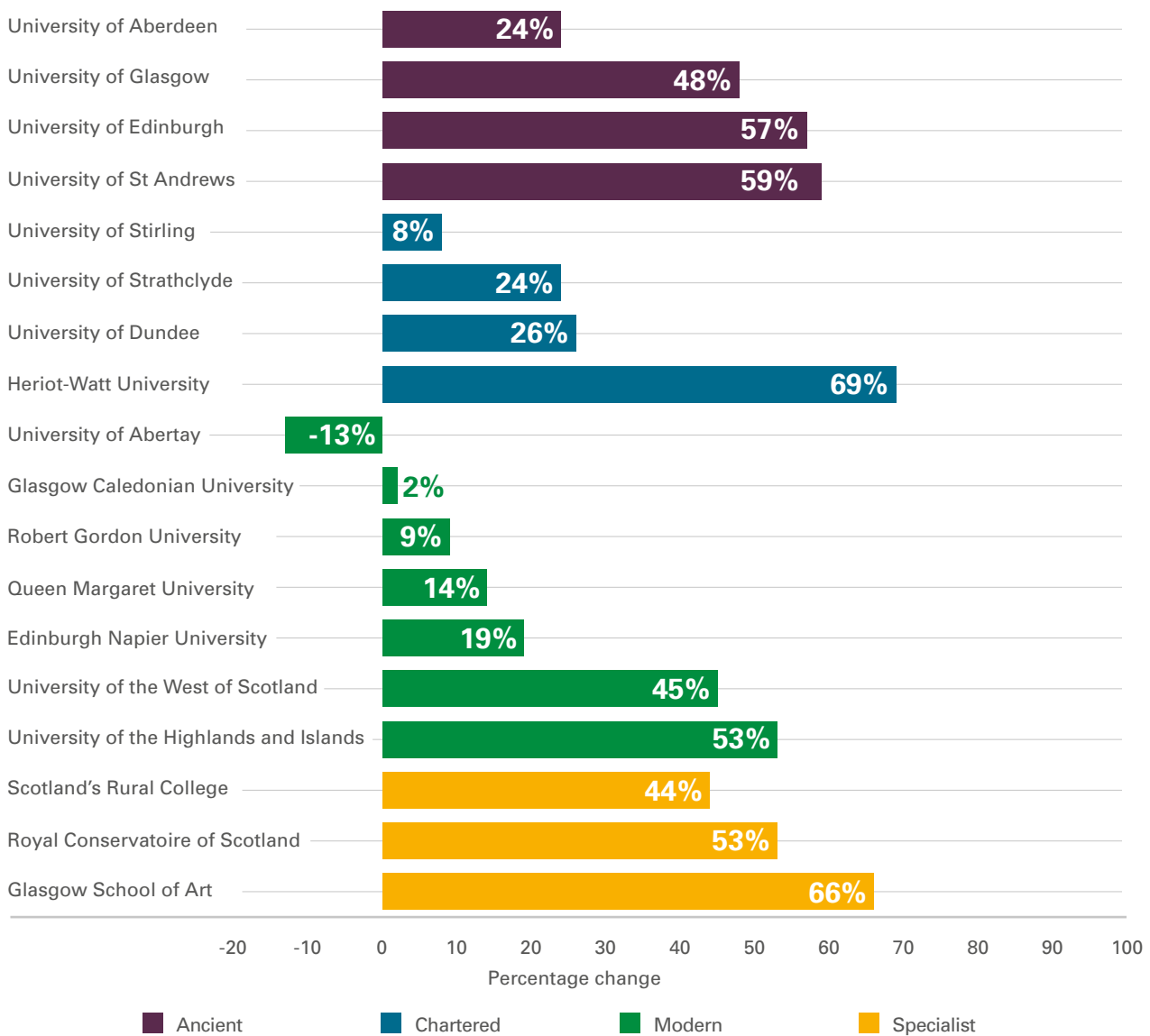
- Across individual institutions, income growth varied widely between 2005/06 and 2014/15, from a reduction in income of 13 per cent at Abertay University between 2005/06 and 2014/15, to an increase of 69 per cent at Heriot-Watt University.

There is an increasing concentration of sector income in the Ancient universities. In 2005/06, the Ancients accounted for 50 per cent of the total sector income. By 2014/15, this had increased to 54 per cent.

Exhibit 9

Percentage change in income in real-terms by institution and grouping, 2005/06 to 2014/15

Growth in income varies widely across the sector.



Note: Percentage change in income was calculated using real-terms figures. Data excludes The Open University in Scotland and excludes the following one-off payments made in 2014/15: a £7.6 million insurance claim for The Glasgow School of Art fire damage, and a £37 million grant to The University of the Highlands and Islands for the provision of further education courses.

Source: Audit Scotland using university financial statements, 2005/06 to 2014/15; and HESA reports (Total Income: group & share of joint venture(s): current year of 2014/15 HESA Institutions-Scotland)

67. The largest percentage increase in income between 2005/06 and 2014/15 was in non-EU tuition fees. These increased from £140 million to £438 million in cash terms in the past decade, a real-terms increase of 154 per cent. The Ancients saw the largest increase in income from this source, at 190 per cent in real terms, almost four times that of the Moderns, at 56 per cent in real terms. Income from research grants and contracts saw the second largest increase in percentage terms. Income from this area increased from £381 million to £748 million in cash terms between 2005/06 and 2014/15, an increase of 60 per cent in real terms.

68. Universities are responsible for developing and implementing their own financial strategies. This means universities can differ in their areas of focus and investment, and the resulting impact of this on their financial position.

Income has diversified across the sector, but some universities rely heavily on SFC funding which presents potential risks to their future financial health

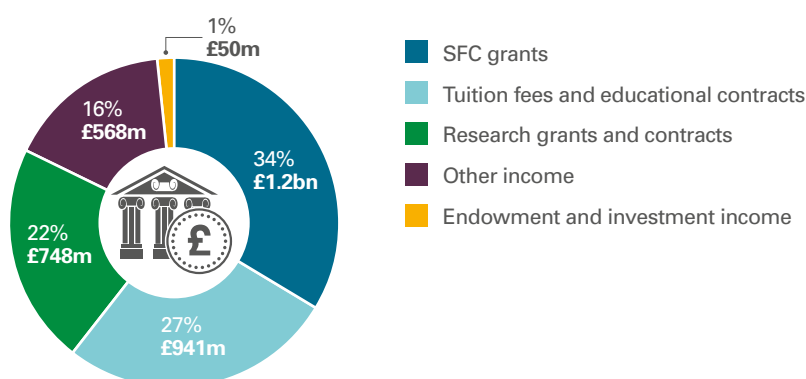
69. The single largest source of income across the whole sector in 2014/15 was the SFC, which accounted for 34 per cent, £1.2 billion, of total income ([Exhibit 10](#)) (see Note 2 in the exhibit for an explanation of why SFC total income is different from the SFC funding allocations to universities). This was followed by tuition fees and educational contracts, which accounted for 27 per cent.

70. The amount of total income accounted for by SFC funding varied widely across the sector in 2014/15, ranging from 26 per cent at the Ancients to 58 per cent in the Modern grouping. Among individual institutions, SFC funding ranged from 20 per cent of total income at St Andrews University to 83 per cent at University of the Highlands and Islands (UHI). Since 2012/13, three universities have increasingly relied on SFC funding for a greater percentage of their total income (Abertay, SRUC, and UHI). [Exhibit 11 \(page 34\)](#) shows the variation in income profiles across the sector.

Exhibit 10

Main income sources for the university sector in 2014/15

SFC funding was the single largest source of income in the sector in 2014/15.



Notes:

1. Data excludes The Open University in Scotland. Educational contracts include all income sources for tuition except tuition fees for individual students. It includes income from courses where the institution charges either a block fee to cover a specified number of students or a fee per individual student.

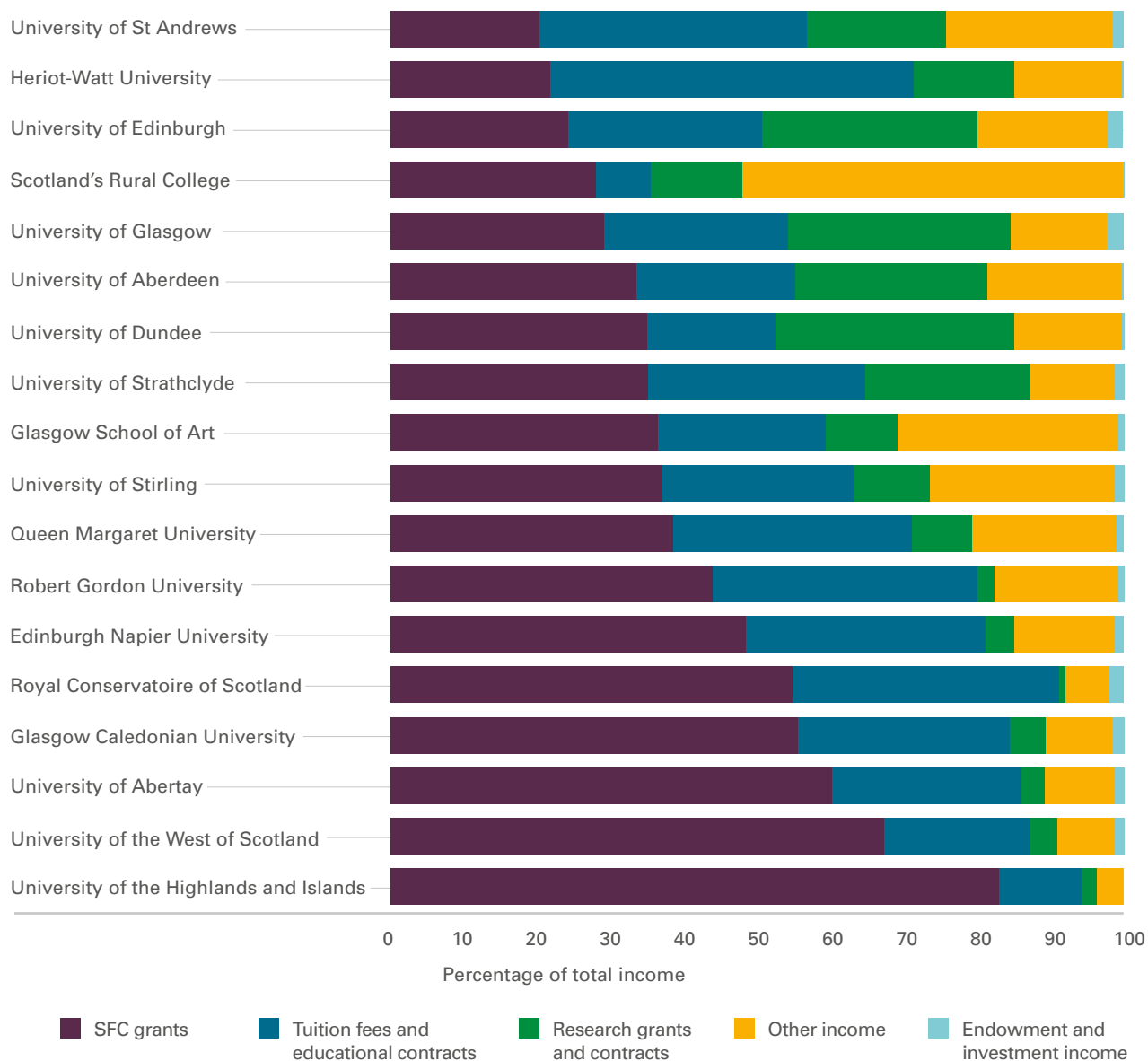
2. Total income from SFC grants does not equal SFC total allocation figures to universities as income is year-end figures from the financial statements and includes in-year funding changes.

Source: Audit Scotland using university financial statements, 2014/15

Exhibit 11

Income profile by university in 2014/15

Some universities are more reliant on particular sources of income than others.



Note: Data excludes The Open University in Scotland.

Source: Audit Scotland using university financial statements, 2014/15



71. The sector's overall income has diversified slightly over the past ten years:

- The percentage of total income accounted for by SFC funding fell from 41 per cent to 34 per cent between 2005/06 and 2014/15.
- Tuition fee income from all sources made up a greater percentage of total income, increasing from 21 per cent of total income to 27 per cent.

72. Having a diverse income profile is important for universities as it means they have greater flexibility and ability to cope with changes in specific income streams. These could include reductions in public funding, or drops in tuition fee income from non-EU students due to unforeseen events in other countries.

Universities reported efficiency savings of £200 million between 2011 and 2014, exceeding the public sector target

73. Alongside the public sector, universities are required by the Scottish Government to make efficiency savings. Over the period of the last spending review (2011/12 to 2014/15) bodies were required to achieve three per cent efficiency savings each year.⁵⁵ The university sector reported savings of £200 million, which exceeded this target.⁵⁶ We did not examine efficiency savings in detail as part of this audit.

74. Universities have worked together in an Efficiencies Taskforce to develop strategies to help them identify and deliver efficiency savings. The current strategy, *Working Smarter 2014: A new phase of university efficiencies* identifies common areas for efficiencies including procurement, finance and business improvement, and estates management.⁵⁷

75. It is essential that universities continue to identify ways to improve efficiency as overall sector spending continues to increase. Overall spending increased by 35 per cent between 2005/06 and 2014/15, and universities spent a total of £3.3 billion in 2014/15. The main area of spending was staffing, accounting for 55 per cent of the total. Across the sector, the percentage of total spending on staffing ranged from 54 per cent at the Charteredds to 57 per cent in the SSIs, with an overall range of 49 per cent at Heriot-Watt University to 73 per cent at RCS.⁵⁸ This in part reflects the different types of learning and teaching, for example RCS has a high proportion of one-to-one teaching which increases staff costs. As organisations with high staff costs, it will become more difficult for universities to make the same scale of efficiency savings in the future, after they have delivered efficiencies in their supporting services. Individual universities and the sector as a whole need to continue to look for opportunities for further efficiencies, including opportunities to further redesign and improve how they work individually and together.

Overall surpluses and reserves have increased in the past decade, but these are concentrated in a few universities

76. Universities are able to generate surpluses and maintain reserves. A surplus is money that is left over when an organisation's spending is lower than its income. Reserves are the value of an organisation's assets, such as buildings, equipment and cash/income if their liabilities, such as debts, loan repayments and pension commitments, were paid off. This can be used to represent the overall value of an organisation. Reserves cannot necessarily be used to fund day-to-day running costs.

77. In 2014/15 the sector made an overall surplus of £146 million.⁵⁹ However, the sector surplus is disproportionately concentrated in just two universities. Edinburgh and Glasgow accounted for 41 per cent of the sector's total income in 2014/15. However, they accounted for more than half of the total sector surplus, 60 per cent, with a combined surplus of £88 million. Most universities have generated a surplus every year in the past decade.

78. The overall sector surplus, as a percentage of total income in 2014/15, was four per cent, an increase of one per cent on the previous year. Across the sector, surpluses were between one per cent and eight per cent of total income. The overall sector increase in 2014/15 was due to one-off income received by universities in 2014/15 from HM Revenue and Customs for Research and Development Credits (RDEC); this was a tax credit that universities were able to reclaim on eligible research expenditure. It is now no longer available to universities. Excluding this income, the overall sector surplus, as a percentage of total income in 2014/15, was 2.6 per cent, a reduction of 0.4 per cent since 2013/14. Universities across the UK undertake an annual exercise to identify the extent to which they recover the full economic costs of their activities. This is known as Transparent Approach to Costing (TRAC). One output from this exercise is a target sustainability surplus figure that identifies the target surplus as a percentage of total income that universities should seek to achieve to cover their long-term costs (this includes amounts for maintaining and investing in their estates). This figure is generated by the returns completed by universities and is published annually by the SFC. In 2014/15, this target was 6.5 per cent. This means there was a gap of 2.5 per cent (or 3.9 per cent excluding RDEC) between the actual surplus generated by Scottish universities and the target.⁶⁰

79. Total sector reserves were £2.5 billion in 2014/15.⁶¹ Reserves at the Ancient universities accounted for 72 per cent (£1.8 billion), with Edinburgh accounting for 40 per cent of the sector's total reserves (£1 billion).

80. Surpluses and reserves are an important part of a university's financial strategy. They are used, for example, to fund investments in a university's estate, repay capital borrowing, allow universities to invest in opportunities that arise at short-notice, and help universities deal with unforeseen or longer-term financial difficulties. As such, they are an integral part of a university's approach to ensuring financial sustainability. The UK Research Councils have defined financial sustainability as 'operating today without damaging the ability to do so tomorrow'.⁶²

Universities are increasingly using internal funds and borrowing to pay for capital projects

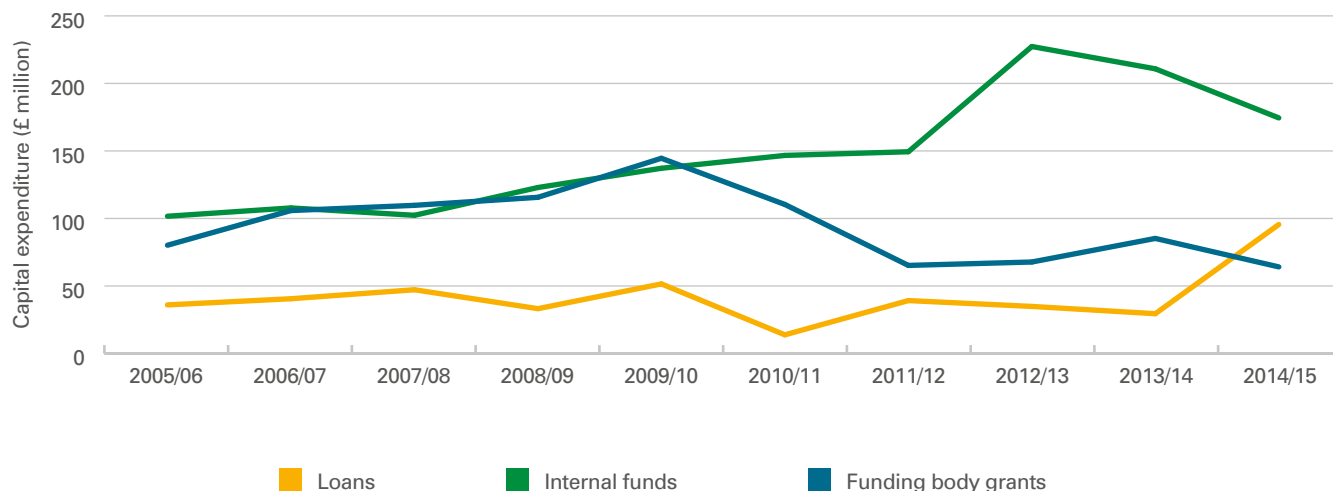
81. It is important for universities to invest in their estate and other infrastructure to continue attracting students, staff, research funding and other investment, such as partnerships with industry. They need a high-quality estate to improve the student and staff experience and remain competitive with other universities across the UK and the world. Universities fund improvements to their estate and other assets mainly through a mix of direct SFC capital funding, their own surpluses and reserves, and commercial borrowing. In 2014/15, the sector spent £397 million on capital projects such as new student residences at Stirling, and a Data Technology building at Edinburgh. The Ancient and Chartered universities accounted for half of all capital expenditure.⁶³

82. Overall SFC capital funding declined from £83.5 million in 2010/11 to £28 million in 2014/15, a decrease of 69 per cent in real terms. As a result, universities have had to generate capital funding from other sources. The main way they have done this is by generating surpluses and using their reserves. In 2014/15, 44 per cent of all capital expenditure was funded using internal sources, compared to 38 per cent in 2005/06 ([Exhibit 12, page 37](#)). Since 2013/14, the use of loan borrowing has also begun to increase.

Exhibit 12

Sources of capital expenditure 2005/6 to 2014/15, in real terms

Universities are increasingly using their own funds to finance capital expenditure.



Notes:

1. Data excludes The Open University in Scotland. Expenditure is expressed in real terms.
2. Funding body grants differ from capital expenditure figures used elsewhere in the report due to differences in the timing of the HESA data collection and differences in the categorisation of funding.

Source: Audit Scotland using HESA reports of the finance returns for capital expenditure at 2014/15 HESA Institutions – Scotland, April 2016



The sector faces increasing cost pressures

Universities' estates will continue to require significant investment over future years

83. The overall condition of the estate indicates that significant expenditure will be required in the future. There are no overall backlog maintenance figures available for the sector. However, 22 per cent of the overall higher education estate in Scotland is in poor or very poor condition and 38 per cent of the sector's estate dates from the 1960s and 1970s.^{64, 65} Over the past decade, half of all universities have decreased the ratio of the amount they spend on repairing and maintaining their premises to their total spending. Some of this will be due to replacing older buildings with newer ones, but some of this may also indicate decreased expenditure on planned maintenance. There are risks that universities with lower surpluses and reserves will not be able to continue to fund capital improvements at the level they require.

Universities need to generate increasing amounts of additional income or cost savings to cover the cost of teaching and research

84. University research funding from all sources covered 84.8 per cent of the full economic cost of undertaking the research in 2014/15.⁶⁶ This means that the funding received was less than the full costs incurred. Funding from the UK Research Councils covered 74.3 per cent of its full economic cost, and UK charity funding covered 65 per cent. This means universities need to subsidise their research activities from surpluses created by other activities or by increasing cost savings.

85. As examined in [Part 2](#), universities recovered 94.2 per cent of the full economic cost of providing teaching to Scottish, EU and RUK students in 2014/15. Recovering less than the full economic cost of teaching creates increased risk for universities that are more reliant on SFC funding than others. There are also risks if income from fee-paying RUK and non-EU students reduces. We discuss this further in [Part 5](#).

Pension and staffing costs are continuing to increase

86. Universities in Scotland operate a number of pension schemes. The most common scheme is the Universities Superannuation Scheme (USS). This is one of the largest multi-employer pension schemes operating in the university sector. The vast majority of UK universities pay contributions to this scheme and share the liabilities.

87. The most recent actuarial valuation for this scheme shows that, at 31 March 2015, the actuarial deficit across the UK stood at £8.2 billion.⁶⁷ Universities have recently had to increase their contributions in an effort to reduce the existing deficit. In addition, although deficits in the USS pension scheme are not new liabilities for universities, the manner in which they will be reported is. From 2015/16, these liabilities will be placed on balance sheets. This means the costs will be reflected in other figures, and this could potentially impair confidence in the financial strength and stability of the sector, which could have an impact on the cost of borrowing. There are similar pressures from other pension schemes in the sector.

88. The sector also faces increasing national insurance costs and continued increases in their existing wage bill.

Part 4

Being a student in Scotland



Key messages

- 1** The number of students studying at Scottish universities has increased by five per cent over the last ten years, to 232,570 students. Scottish students make up 66 per cent of the total, and the student population is becoming increasingly international. The biggest percentage increases have been in students from other parts of the EU (97 per cent increase) and fee-paying students from outside the EU (58 per cent increase).
- 2** It has become more difficult in recent years for Scottish and EU undergraduate students to gain a place at a Scottish university. The main reason for this is that applications have increased at a greater rate than increases in the number of funded places available for Scottish and EU students. Applications have increased by 23 per cent since 2010, yet the number of offers made by universities has increased by only nine per cent.
- 3** The Scottish Government introduced significant changes in how it provides financial support to students in 2013/14, with the overall aim of removing financial barriers to higher education. These changes increased the amount of loan funding available to all Scottish students and reduced the amount of non-repayable bursary and grant funding available. A Scottish student now typically leaves university with debt of £11,281 and this is projected to increase to around £20,000 by 2019. The majority of students have a positive experience of higher education, and 90 per cent progressed from university to employment or further study in 2014.

it is becoming more difficult for Scottish students to get into university and debt levels are rising

The student body in Scotland is increasingly international

89. The overall number of students studying at Scottish universities increased by five per cent between 2005/06 and 2014/15. The profile of the student body has changed over the past ten years:

- The number of students from the EU and outside the EU has grown by 97 per cent and 58 per cent respectively over the past decade. In 2014/15, there were 20,805 EU students and 29,210 non-EU students studying at Scottish universities.

- Students from the rest of the UK increased by ten per cent, although since the introduction of increased tuition fees in 2012/13, their overall number has reduced by 0.2 per cent. In 2014/15, there were 28,605 students from the rest of the UK studying at Scottish universities.
- The total number of Scottish students declined by eight per cent, from 166,925 in 2005/06 to 153,915 in 2014/15.⁶⁸ This decline was largely due to a fall in part-time undergraduate student numbers, from 45,840 in 2005/06 to 31,430 in 2014/15, a reduction of 31 per cent. There was also a 14 per cent decline in both part-time and full-time taught postgraduate students, from 23,310 in 2005/06 to 20,020 in 2014/15. In comparison, over the same period, the number of full-time undergraduate Scottish students increased by four per cent, from 93,720 to 97,375.

90. These changes mean that the student body in Scotland has become increasingly international. In 2005/06, three-quarters (75 per cent) of all students at Scottish universities were Scottish compared to 66 per cent in 2014/15.

China is the largest source of students from outside the UK. Strong growth in previous years has been replaced by a decline in the past year

91. China is the main source of students from outside the UK, for both Scotland and the UK as a whole, with 7,595 students studying at Scottish universities in 2014/15 ([Exhibit 13, page 41](#)). The number of Chinese students has grown significantly over the past five years, by 24 per cent between 2010/11 and 2014/15. However, levels of growth have declined year on year since 2010/11. Between 2013/14 and 2014/15, there was a reduction of three per cent in the number of Chinese students attending Scottish universities. This follows a similar pattern to the UK as a whole although the decline in Scotland has been greater than the UK overall.

92. Behind China, the USA is the second main source of students from outside the UK, with 4,145 students studying in Scotland in 2014/15.⁶⁹ The number of American students has increased by 22 per cent over the past five years. Germany, Ireland, and Nigeria provide the other main sources of students to Scottish universities from outside the UK. Student numbers from outside the EU can be volatile as they are influenced by a wide range of factors, such as those described in [paragraph 19](#). Between 2010/11 and 2014/15, the number of Indian students in Scotland declined by 57 per cent, and the number of Nigerian students reduced by 24 per cent.⁷⁰

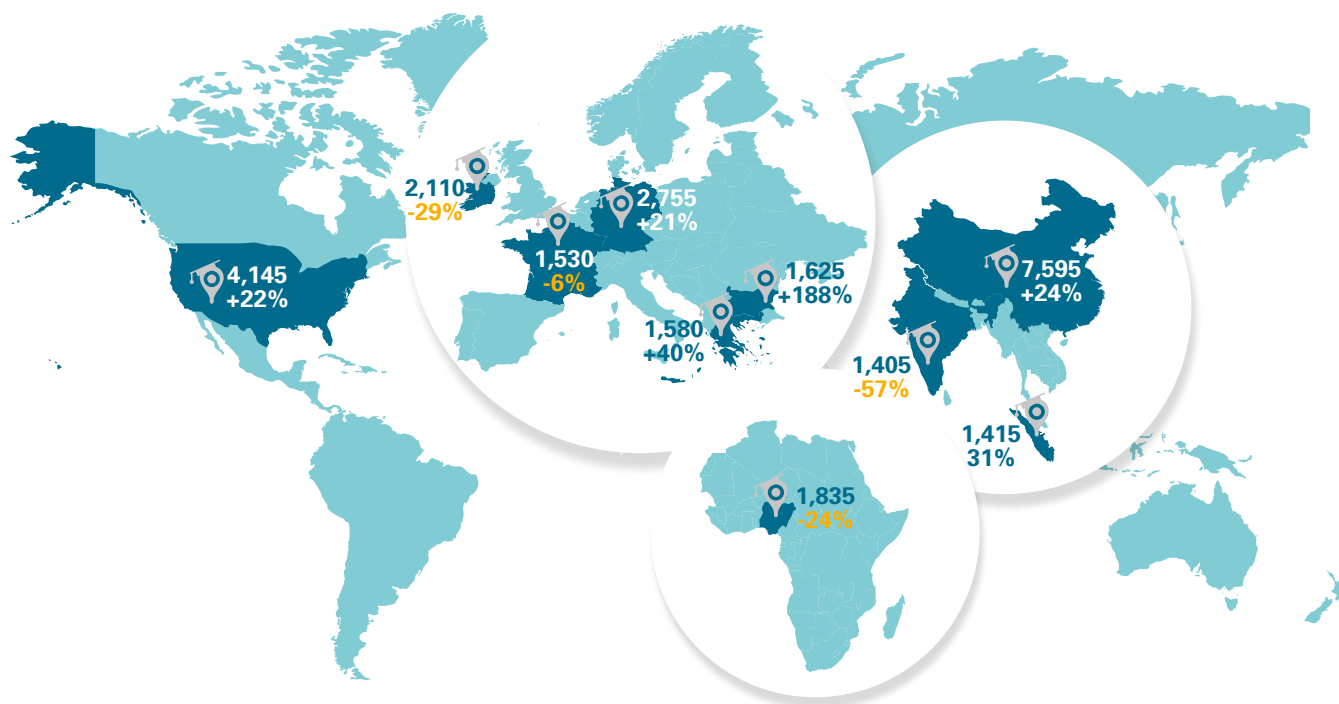
An increasing majority of students from outside Scotland are concentrated in the Ancient universities

93. Scottish students made up the single largest group of students in each university grouping in 2014/15.⁷¹ However, the percentage of the total student population they make up varies significantly across the sector. In the Chartered, Modern, and SSI groupings, most students were Scottish, at 66 per cent, 80 per cent, and 91 per cent respectively. This compares to the Ancients, where Scottish students accounted for 48 per cent of students. The Ancients grouping has the most diverse student body, with 39 per cent coming from either RUK or outside the EU. This compares to 13 per cent in the Moderns. These variations reflect the Ancient universities' ability to attract increasing numbers of RUK and non-EU students, in addition to their funded places for Scottish and EU students.

Exhibit 13

Sources of students

Map showing the top ten countries for student enrolments to Scottish universities, and the percentage change between 2010/11 and 2014/15.



Source: Audit Scotland using HESA Free Online Statistics – Students & qualifiers, Non-UK domicile students, Statistical First Release 224, April 2016

94. The Ancient universities are attracting a greater share of the overall number of students from RUK and outside the EU. Between 2012/13 and 2014/15, their market share increased while the market share of the other university groupings declined or remained the same. As discussed in [Part 3](#), these trends have implications for the financial strategies of individual universities, as tuition fees from these students are an important part of universities' income plans.

It has become more difficult in recent years for Scottish students to gain a place at a Scottish university as applications have increased more than the number of offers made by universities

In 2015, the likelihood of receiving an offer varied widely by university and which country applicants were from

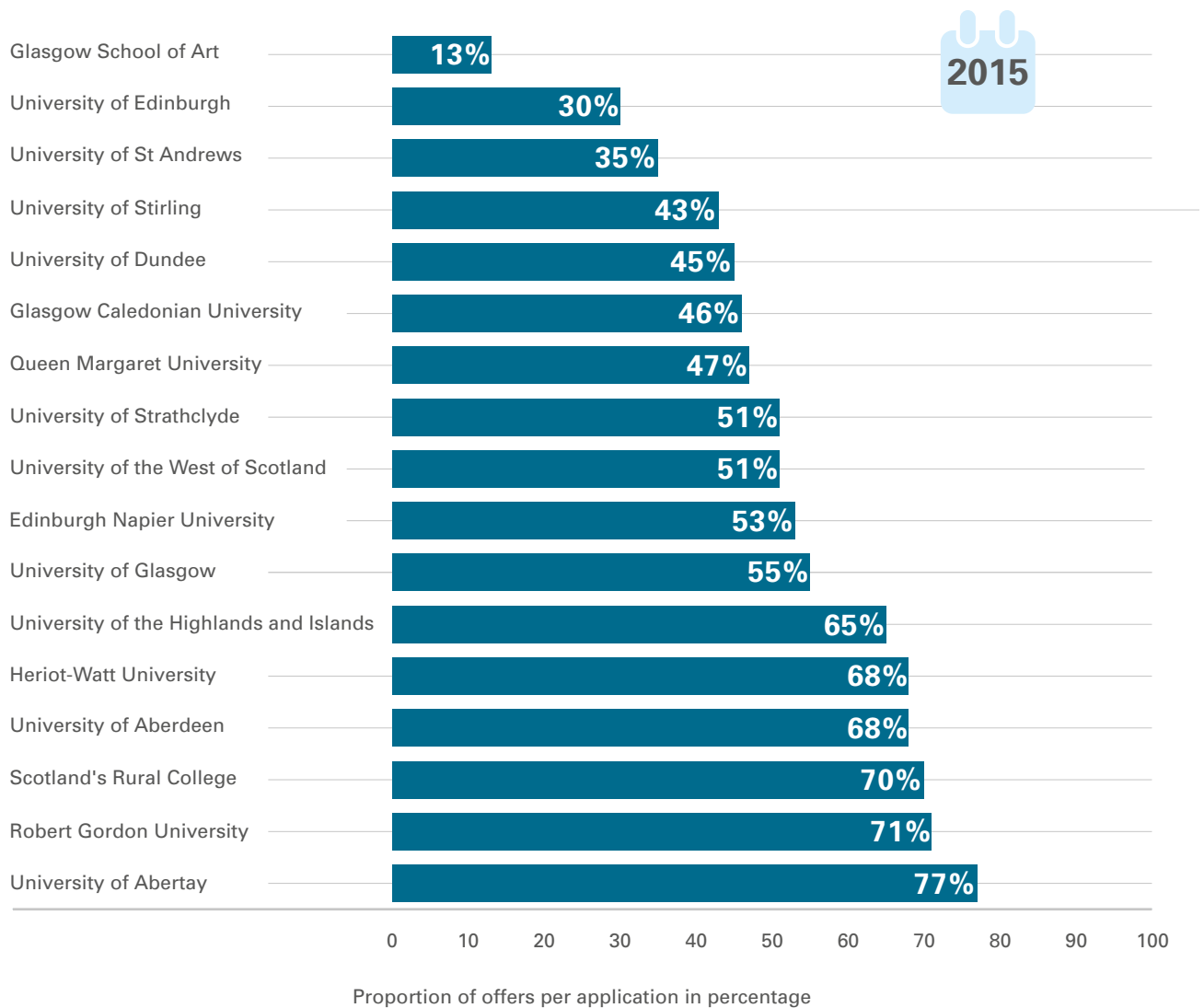
95. In 2015, 47,710 Scottish applicants made 185,580 applications to Scottish universities for undergraduate and teacher training courses (each applicant can make up to five applications).⁷² Universities made 93,690 offers, an offer rate of 50 per cent (the offer rate is the total number of applications divided by the total number of offers). The offer rate is recognised as a measure of how difficult it is to get into university. Of the 47,710 Scottish applicants who applied, 30,665 accepted an offer of a place at a Scottish university and 8,885 applicants did not receive any offers. There is no comprehensive information available to identify the outcomes of the remaining 8,160 who applied but did not accept a place.

96. Offer rates for Scottish applicants varied widely across the sector in 2015, ranging from 13 per cent at Glasgow School of Art to 77 per cent at Abertay University (**Exhibit 14**). Offer rates were more consistent at an overall grouping level in 2015, ranging from a 41 per cent offer rate at the SSIs to 54 per cent at the Moderns.

Exhibit 14

Offer rates for Scottish applicants by university in Scotland, 2015

Offer rates varied widely across the sector.



Note: Offer rate is the percentage of applications that resulted in an offer. See Appendix 3 for detailed notes. The number of applications to the University of the Highlands and Islands through UCAS is comparatively low, because the majority of their student intake is through colleges. Open University in Scotland and RCS are not included due to their different application processes.

Source: Audit Scotland using bespoke exact UCAS data reports, April 2016

97. Offer rates also varied depending on which country applicants were from. In 2015, offer rates from Scottish universities were highest for students from non-EU countries, at 63 per cent, followed by applicants from England, Wales, and Northern Ireland (between 56 per cent and 58 per cent). Offer rates were lowest for Scottish applicants and applicants from other EU countries, at 50 per cent and 34 per cent respectively, reflecting the fixed number of funded places available for these students. Scottish and EU students do not compete with students from the rest of the UK or outside the EU for places. The number of offers made to Scottish and EU students by Scottish universities is mainly influenced by the number of places the SFC has funded at each university for these students. Universities set their own recruitment targets for students from the rest of the UK and outside the EU.

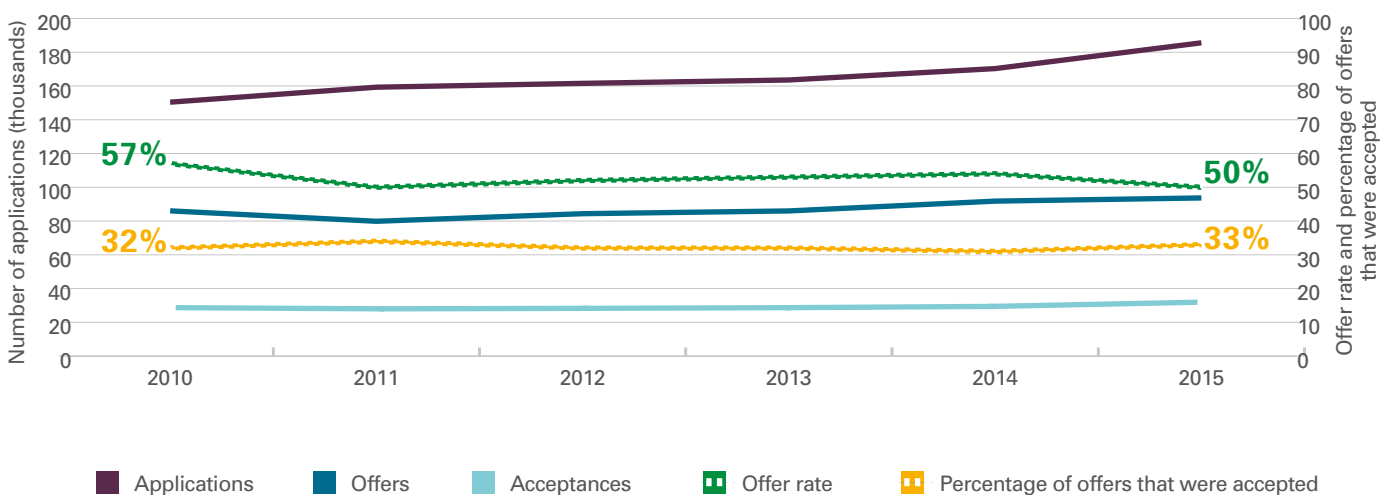
The offer rate for Scottish and EU applicants has fallen over the past five years while offer rates for most other applicant groups have increased

98. Demand for Scottish university places from Scottish applicants has increased since 2010.⁷³ Between 2010 and 2015, applications increased by 23 per cent. However, the number of offers made by Scottish universities only increased by nine per cent over the same period. This led to a decline in the offer rate of seven per cent, from 57 per cent in 2010 to 50 per cent in 2015. This means it has become more difficult for Scottish applicants to be offered a place at a Scottish university (Exhibit 15).⁷⁴ In contrast, offer rates for applicants from the rest of the UK and countries outside the EU increased between 2010 and 2015, by, on average, 11 per cent.

Exhibit 15

Applications, offers and acceptances for Scottish applicants from 2010 to 2015

The offer rate for Scottish students has declined as applications have increased more than offers made by universities.



Note: Offer rate is the percentage of applications that resulted in an offer. See Appendix 3 for detailed notes.

Source: Audit Scotland using bespoke UCAS data reports, April 2016



99. Almost one in five, 19 per cent, Scottish applicants in 2015 did not receive any offers from a Scottish university. This is an increase of four per cent since 2010, when 15 per cent of Scottish applicants did not receive any offers. There is no information available on the destinations of these applicants, for example whether they undertook a college course, entered employment or re-applied to university the following year. The number of Scottish students accepting an offer of a place at a Scottish university has increased slightly over the past five years ([Exhibit 15, page 43](#)).


100. A number of factors affect whether a university makes an offer to an applicant. These include the quality of the application and the level of competition from other applicants for places. A key factor that affects whether a university makes an offer is the number of places available on the relevant courses at each university. If the number of places is limited and demand from applicants is greater than supply, it will become more difficult to be offered a place.

101. Between 2012/13 and 2014/15, the number of full-time undergraduate (including postgraduate teacher training) funded places for Scottish and EU students increased from 103,503 to 110,650, an increase of seven per cent. At the same time, applications for undergraduate places from Scottish applicants increased by 15 per cent. This has made it more difficult for Scottish students to get into university as demand has grown more quickly than the number of funded places available.

102. There is a lack of national research on trends in applications, offer rates and acceptances for Scottish university places among different student groups. Comprehensive data is held by UCAS, the UK-wide University and Colleges Admissions Service; however, UCAS charges all organisations and individuals for access to their data.

Scottish student debt has increased in recent years as financial support has shifted from non-repayable bursaries and grants to loans

The overall amount of funding available to students has increased, with most funding now provided as loans

103. Scottish Government financial support for students is a mix of non-repayable bursaries and grants, and loans. The extent to which students can access this support is based on criteria including household income, personal circumstances, and the subject being studied (see [Supplement 3: Financial support available to Scottish students for the 2016/17 academic year](#)  for more information). In 2013/14, the Scottish Government introduced a number of changes to the student support system with the overall aim of removing financial barriers for students entering higher education:

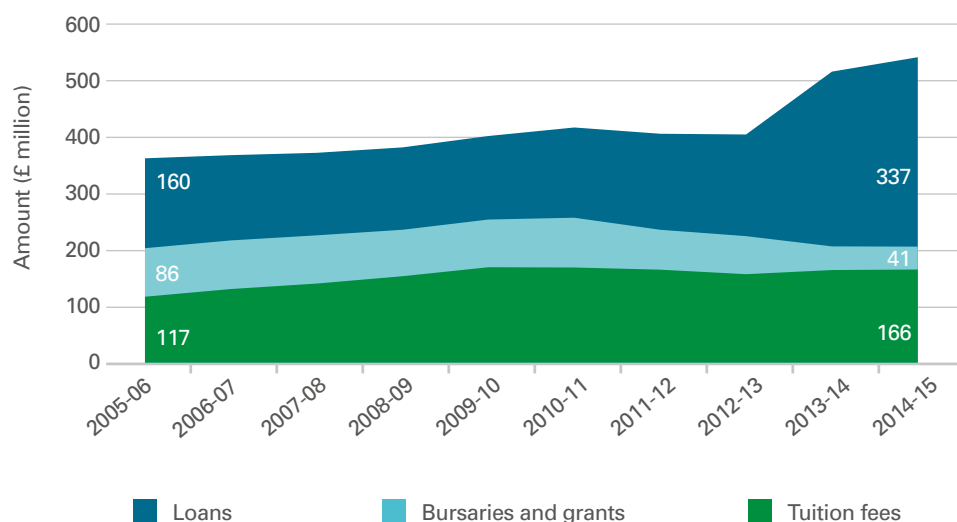
- An annual minimum income of £7,250 (£7,625 in 2016/17) was introduced, through a combination of bursaries and loans, for students with a family income of less than £17,000 (£19,000 in 2016/17).
- An increased annual loan of £5,500 (£6,750 in 2016/17) was made available for some students with a household income of less than £17,000 (£19,000 in 2016/17).
- A non-income assessed loan of £4,500 a year (£4,750 in 2016/17) was introduced, meaning all Scottish undergraduate students can apply for a living cost loan.

104. The changes increased the overall level of financial support available to students, with a shift from bursaries and grants to loans. Previously, bursaries and loans for students were available on a sliding scale. The maximum bursary support available in 2012/13 to students with an income of below £18,000 was £2,640. Bursaries were available up to household income levels of £34,195. The minimum non-income assessed support available to students was £620, depending on where students lived and which year of their course they were studying.⁷⁵

105. Between 2005/06 and 2014/15, there was a 53 per cent reduction in real terms in the amount of bursaries and grants provided by SAAS to Scottish students (from £70.3 million to £40.8 million in cash terms, and from £86.4 million to £40.8 million in real terms), and a 111 per cent increase in real terms in student loans provided (from £130 million to £337 million in cash terms, and from £160 million to £337 million in real terms). The biggest changes have taken place since 2012/13 – bursaries and grants funding reduced from £65.4 million to £40.8 million in cash terms, a 40 per cent reduction in real terms, and student loan funding increased from £174.6 million to £337 million, an 86 per cent increase in real terms ([Exhibit 16](#)).⁷⁶ While Scottish and Northern Irish students start to repay their student loan once their income has reached £17,495 per year, the income threshold for students in the rest of the UK is £21,000.⁷⁷ The Scottish Government has committed to reviewing student support funding.

Exhibit 16

Type and amounts of Scottish Government financial support provided to Scottish students by SAAS and SLC, 2005/06–2014/15, in real terms
Student loans make up the majority of financial support now provided to students.



Note: Student support totals as reported by SAAS (these are higher than Scottish Government budget figures as they are actual amounts provided to students). Tuition fees include fees that were paid directly to universities for full-time Scottish-domiciled students and part-time students who were eligible for fee grant payments. Bursaries and grants include bursary and grant payments to full-time students. Loans include maintenance loans and fee loans for full-time Scottish-domiciled students. Data excludes nursing and midwifery student support (£64 million in 2014/15), for which data is only available from 2009/10.

Source: Audit Scotland using bespoke SAAS data, specific for Scottish students studying at universities, February 2016. Values have been adjusted to real terms figures using UK Treasury GDP deflators at December 2015

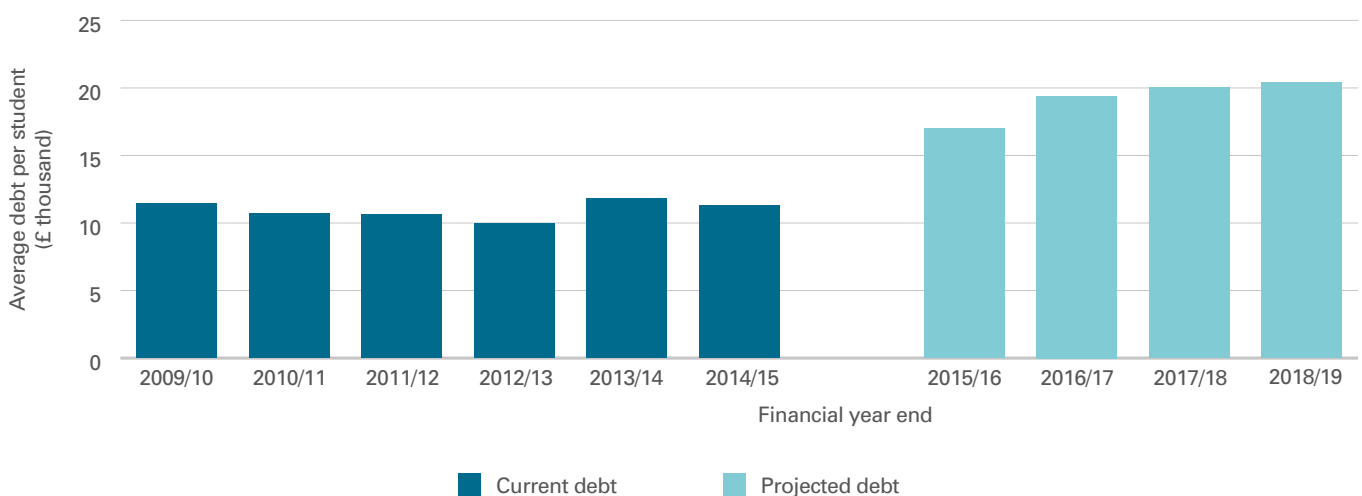


Overall student debt levels rose by 14 per cent between 2013 and 2015 and are projected to average around £20,000 by 2019

106. The average level of student debt at the point of repayment for Scottish students in 2014/15 was £11,281.⁷⁸ Average student loan debt has increased by 14 per cent in real terms since 2012/13. This was due to the move from bursaries and grants to student loans in 2013/14. Given current levels of borrowing, average student loan debt is projected to be around £20,000 by 2018/19 ([Exhibit 17](#)).⁷⁹

Exhibit 17

Average debt per Scottish student at point of eligibility to repay, 2009/10 to 2014/15, and predicted debt levels per student, 2015/16 to 2018/19, in real terms



Note: Average debt levels per cohort of university students who are entitled to any loan from SAAS, and who became eligible to start repaying their loan at that financial year end (data excludes all other students who have started repayment). Data include a small number of EU students, and Scottish students studying outside Scotland (who are entitled to fee loans), but exclude students who attended The Open University in Scotland. Average debt levels have been adjusted to real terms figures. See methodology in Appendix 3 for a description of the debt projection calculation.

Source: Audit Scotland using bespoke SLC data for students who attended universities only, SLC, March 2016; and bespoke SAAS data, specific for students studying at universities only, February 2016



107. Scottish students have lower loan debt than students in the rest of the UK. In 2015, English domiciled students had the highest level of debt on entry to repayment, at £23,777. This was followed by Northern Irish and Welsh students who had debts of £17,482 and £17,025 respectively. Scottish students had the lowest level of debt, at £11,281.⁸⁰

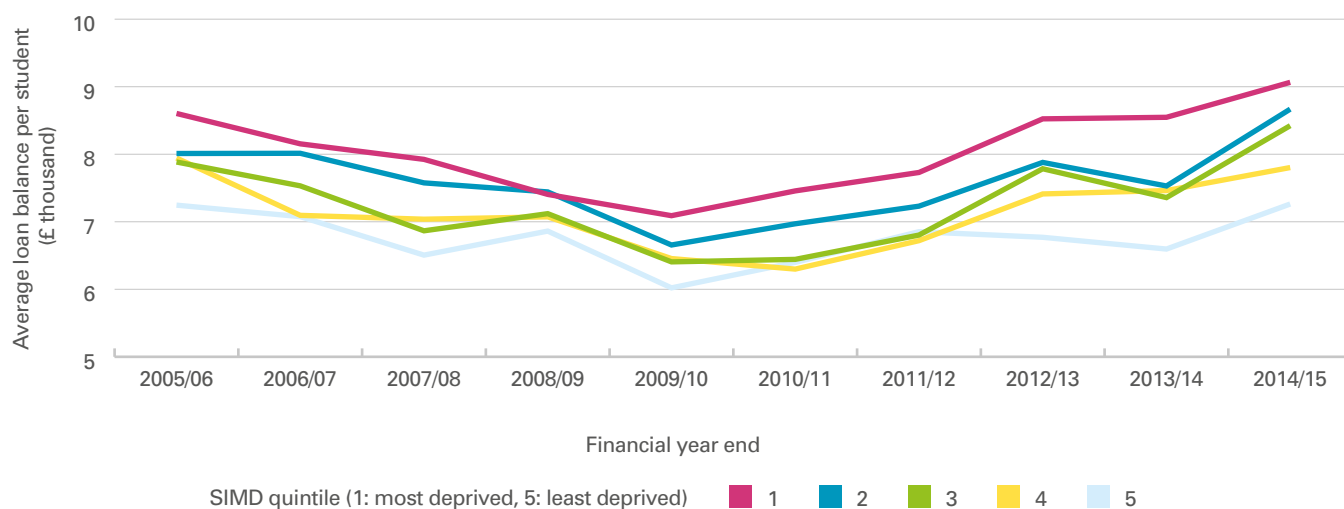
Scottish students from deprived areas have higher levels of student loan debt than students from less deprived areas

108. Scottish students from deprived areas continue to have higher levels of student loan debt than students from less deprived areas. In 2005/06, the average student loan debt for students from the most deprived areas (Scottish Index of Multiple Deprivation quintiles 1 to 3) was £6,650 (£8,167 in real terms).⁸¹ This compared to £6,184 (£7,545 in real terms) for students from the least deprived areas (SIMD quintiles 4 and 5). By 2014/15, the average loan balance for students from the most deprived areas had increased by seven per cent in real terms, to £8,719. In comparison, the average loan balance for students from the

Exhibit 18

Average student loan debt by deprivation quintile from 2006 to 2015, in real terms

Students from the most deprived areas continue to have higher levels of debt than students from less deprived areas.



Note: The Scottish Index of Multiple Deprivation (SIMD) quintile (2012) is based on the home postcode for the first year of study. A lower number indicates a higher degree of deprivation. Average loan balance is the sum of all loan balances at the financial year end divided by the total number of students with a loan balance (at any stage of repayment). Values have been adjusted to real terms figures. Data includes Scottish domiciled students who were funded by SAAS and attended Scottish universities, except The Open University in Scotland.

Source: Audit Scotland using bespoke SLC data for average debt levels of Scottish students who attended Scottish universities, SLC, March 2016



least deprived areas reduced by one per cent in real terms, to £7,534 ([Exhibit 18](#)) (see [Appendix 3](#) for an explanation of how these figures are calculated).

109. In 2005/06, the difference in the average amount of student loan debt between students from the least deprived areas and most deprived areas was £466 (based on cash terms). By 2014/15, this had increased to £1,185.

There is a lack of information on the impact of changes to student support on students from deprived backgrounds and the overall costs of going to university

110. The level of information required by SAAS from students applying for bursaries and loans changed in 2012/13. Students are no longer required to state their household income, unless they are applying for means-tested bursaries and grants. This means it is not possible to identify the extent to which students that are potentially eligible for non-repayable bursaries and grants are applying for the support available.

111. The Commission on Widening Access reported that there is a lack of understanding among students from deprived backgrounds, and their parents, about the student finance available.⁸² It is therefore important for the Scottish Government to fully understand what impact current student support policies and arrangements are having on different groups of students. This is to ensure that current policies are achieving their intended aims.

112. There is also currently no up-to-date national data available on how much students pay in accommodation costs or living expenses in Scotland. The last national survey, *Higher Education and Further Education Students' Income, Expenditure, and Debt in Scotland*, was carried out by the Scottish Government in 2007/08.

The majority of university students have a positive experience of higher education

The vast majority of students are satisfied with their university experience

113. Eighty-six per cent of students studying at Scottish universities in 2015 were satisfied with their university experience.⁸³ Students were most positive about the quality of teaching and the learning resources available, with 88 per cent of students satisfied. Students were least positive about aspects of assessment and feedback, at 68 per cent. Overall student satisfaction has remained constant over the past decade.

114. In recent years there has been an increasing focus in Scotland, and across the rest of the UK, on the student experience, that is a student's entire experience of university. Scottish universities are increasingly working in partnership with students to identify areas for improvement and have undertaken a wide range of work to improve the student experience. Examples include improving IT facilities, personalising pastoral support services, and providing greater flexibility in how and where students learn.⁸⁴

The vast majority of graduates enter positive destinations

115. In 2013/14, 90 per cent of university graduates entered a positive destination, that is, employment or further study.⁸⁵ The majority of these students, 63 per cent, gained work in the UK. Fifty-nine per cent of students who were employed stated that their qualification was either a formal requirement or gave them an advantage in securing the job. Seventeen per cent undertook further study. The percentage of graduates entering work or further study has increased slightly over the past few years, by two per cent since 2011/12.

Part 5

Looking forward



Key messages

- 1 The higher education sector faces a number of significant challenges from increasing costs, potential further reductions in Scottish Government funding, and risks to their ability to continue to increase their income from other sources, particularly fee-paying students from the rest of the UK and non-EU countries. It will also be difficult to achieve the national targets for widening access to higher education for students from deprived backgrounds. The Scottish Government, SFC and universities need to work together to understand, plan for, and address, these challenges.
- 2 The pressure on Scottish Government finances is likely to continue in the future. It is important that the Scottish Government ensures its approach to funding higher education is sustainable in the longer term if it is to deliver its policy ambitions.
- 3 There are increasing opportunities for the Scottish Government, universities, the public sector and industry to work together constructively to increase their contribution to national strategic objectives. This is happening through initiatives such as City Deals and innovation centres. It is crucial that all key stakeholders work together to maximise investment, and the benefits created.

there are challenges ahead that will require coordinated action and there are likely to be tough choices

The sector faces a number of challenges that it will need to address by taking a coordinated approach

116. The report has highlighted a number of financial risks and challenges facing the higher education sector. There are also developments, both actual and potential, that are likely to create further challenges. These will require a coordinated approach by all stakeholders to address.

117. As examined in [paragraph 78](#), the gap between the target sustainability surplus to cover long-term costs for the sector and the actual surplus made in 2014/15 was 2.5 per cent, or 3.9 per cent excluding RDEC.⁸⁶ This means the sector, as a whole, is not generating enough surplus to enable universities to invest in, and maintain their estates, in the medium to longer term.

118. This is combined with increasing pressures from rising costs, possible reductions in public sector funding and less potential for the same level of efficiency savings in support services. Universities are increasingly relying

on income from non-EU students as part of their financial planning, but growing competition from the rest of the UK and other countries will make this increasingly challenging. The sector also needs to look at making further efficiency savings by reviewing how they provide services. If universities are not able to continue growing their existing income sources, and if costs remain the same or increase but they do not make further efficiency savings at the level required, then they will need to make difficult decisions about how to reduce their costs. Some universities are currently better placed to meet these challenges than others.

119. Scottish universities also face risks from changing international demand as tuition fee income from non-EU students is an increasingly key part of universities' income. A number of factors will affect how many overseas students the Scottish sector can attract. These include:

- Any further restrictions to UK immigration policy will make it harder for students to gain a visa and then stay in the country post-graduation; this will make the UK less attractive as a destination.
- Policy changes in other countries, such as changing visa regulations, that are designed to attract students will make it more difficult for Scottish universities to attract students from outside the UK.
- Investment by other governments in domestic higher education sectors.

120. Policy changes in the English higher education sector will also affect Scottish universities. Competition for students and sources of funding from English universities is likely to increase significantly over the next few years. Since 2012/13, English universities have charged all students tuition fees of up to £9,000 a year. In 2015, the cap on the number of students that universities can recruit was fully removed. This gives English universities the ability to generate increased income and surpluses; however, it also creates greater volatility and risk across the English higher education sector. The potential introduction of a Teaching Excellence Framework, the easing of restrictions on new providers entering the higher education market, and the creation of a new body Research UK, with responsibility for UK research council funding, will affect the Scottish sector.⁸⁷ The Scottish Government, SFC and universities need to work together to consider the implications of these changes, how to make best use of the opportunities they present, and how to manage the risks these changes present.

121. The Scottish Government stated its desire in *Scotland's spending plans and draft budget 2016/17*, to 'work with the sector to develop a Compact that will provide a longer-term framework for a productive partnership focused on working together to maximise the benefits of higher education for Scotland's success'.⁸⁸

The SFC needs to do more to assess, and report on, the medium- to long-term financial sustainability of the sector

122. The SFC requires universities to provide a three-year financial forecast annually. The SFC examines these along with universities' financial statements and identifies universities with financial risks. It then discusses these with the specific institution and monitors improvement. However, the SFC does not comprehensively analyse longer-term sector trends to identify wider risks facing the sector. Examples might include sector trends in non-EU student numbers and fee income, or financial trends and policy changes in competitor countries.

This means it cannot assess the sector's medium- to longer-term financial sustainability and any threats to its continued viability. The SFC has the ability to take a sector-wide overview. It has access to a wide range of information, not just about the Scottish higher education sector but also the rest of the UK. The SFC has not undertaken this work to date. Universities are autonomous, but it is important that it fully uses its position to ensure that it can identify the medium- to longer-term challenges the sector faces. It needs to use this information as the basis for working with universities, the Scottish Government, and other stakeholders to identify ways of addressing the risks and to ensure that the higher education sector is able to deliver Scottish Government policy ambitions in the longer term.

123. It is also important that the SFC reports this analysis in a clear way with an appropriate level of detail. This is important for transparency and to keep stakeholders informed. Currently, the SFC publishes limited information on financial performance and trends in the sector.

Implementing the Scottish Government's ambitious policy on widening access within the current number of funded places will have consequences for other groups of students

124. In March 2016, the Scottish Government accepted a national target for widening access recommended by the Commission on Widening Access. This is, that by 2030, students from the 20 per cent most deprived backgrounds should represent 20 per cent of entrants to higher education. The following interim targets were also agreed:

- By 2021, students from the 20 per cent most deprived backgrounds should represent at least 16 per cent of full-time first degree entrants to Scottish universities as a whole.
- By 2021, students from the 20 per cent most deprived backgrounds should represent at least ten per cent of full-time first degree entrants to individual universities.
- By 2026, students from the 20 per cent most deprived backgrounds should represent at least 18 per cent of full-time first degree entrants to Scottish universities as a whole.⁸⁹

125. In 2005/06, 9.1 per cent of Scottish young entrants to full-time undergraduate courses were from the 20 per cent most deprived areas in Scotland. In 2014/15, this figure was 10.8 per cent.⁹⁰ Given current rates of progress, there will need to be a considerable increase in the number of students entering higher education from more deprived backgrounds if the targets are to be met.

126. The Commission on Widening Access identified the following options for increasing the number of students from deprived backgrounds:

- increasing the number of funded places to support the entry of a greater number of students from disadvantaged backgrounds
- the current number of places available could be used more equitably, eg through use of minimum entry thresholds for students from deprived backgrounds

- provision could be restructured to make best use of the places that are available, for example by removing unnecessary duplication of study years where this is not required for a student to succeed (for example, where a student gains an HND (Higher National Diploma) but starts university in Year 1).⁹¹

127. Expanding the number of funded places has financial implications for the Scottish Government, SFC and universities. Increasing the number of funded places will require one or more of the following:

- additional funding on the part of the Scottish Government
- changes in the way the SFC prioritises funding across its budget areas or the level of funding attached to each place
- more efficient use of funded places by universities, including working with colleges to consider the whole learner journey.

128. Achieving the targets without increasing the existing number of funded places will likely mean fewer students from less deprived backgrounds being offered a university place.

129. If the national targets are to be achieved, it is essential that a strategic approach is developed, and agreed by the Scottish Government, SFC and universities. In developing this, it is important that the implications, both financial and on different groups of students, of the potential approaches to meeting the targets are fully considered. The Scottish Government, SFC and universities will need to focus funding on what works to recruit and retain students. This will have implications for areas such as universities' admissions policies, and student support arrangements.

The Scottish Government needs to ensure its approach to funding higher education is sustainable in the medium to longer term if policy priorities are to be delivered

130. The Scottish Government has substantial higher education financial commitments:

- Scottish Government funding for the SFC continues to be a key part of the higher education sector's overall income. SFC research funding plays a crucial role in ensuring universities can undertake research. Funding for teaching, including paying the tuition fees of eligible Scottish and EU students, supports key Scottish Government policy aims.
- Achieving the new national widening access targets has potentially significant funding implications for the Scottish Government depending on the approach the Scottish Government takes, along with the SFC and universities. It is important for the Scottish Government to consider the financial implications on all parts of the higher education system of the potential approaches to achieving the targets.

131. As discussed in [Part 2](#), the SFC faces challenges in ensuring that the level of funding it receives from the Scottish Government and the way it allocates it to universities fully supports universities to help achieve all of the SFC's longer-

term outcomes. It will be challenging to achieve the Scottish Government's ambitions within the finances available. The Scottish Government and SFC should ensure they have a common understanding of the priorities to be delivered. Continuing pressure on Scottish Government finances in future years means the Scottish Government is likely to have to make difficult choices about higher education policy priorities and funding approaches. It will be important for the Scottish Government to ensure that all elements of the education and lifelong learning system work together effectively to support achieving national strategic objectives.

There are increasing opportunities for the university sector, SFC and the Scottish Government to work together to contribute to national strategic objectives

132. By working together, and with other partners, the Scottish Government, SFC, and universities play a key role in delivering *Scotland's Economic Strategy*. Cross-sector initiatives can bring significant social and economic benefits to local communities and economies and Scotland as a whole. These include:


- City Deals – These involve local authorities and their partners, including universities, working together to deliver a range of infrastructure projects. Six City Deals have been, or are being, drawn up covering 22 councils.
- Innovation Centres – In 2012, the SFC established the Innovation Centre Programme in collaboration with Scottish Enterprise and Highlands and Islands Enterprise. There are eight innovation centres across Scotland.^{92, 93} Universities work with businesses and the public sector through these centres.
- Shared facilities used by universities and local communities – examples include universities and partners investing funding and working together to develop shared facilities such as sports and cultural facilities.

133. By coordinating investment, universities can attract additional income from sources such as charities and industry. An example is the Discovery Centre for Translational and Interdisciplinary Research at the University of Dundee. The centre brings together researchers from a range of areas to work together on research into life sciences and biomedicine. It received a £5 million award from the Wellcome-Wolfson Foundation which was then matched by the university. The university secured further funding of over £38 million from a range of organisations such as the SFC, Scottish Enterprise, local charitable trusts, the UK Research Partnership Fund, the Bill and Melinda Gates Foundation, GlaxoSmithKline, and The Wellcome Trust. This approach enables maximum benefits to be created from initial university and public funding.

134. There are increasing opportunities for the sector, SFC, and Scottish Government to work together to compete for funding from the UK Government and elsewhere. This includes a £5.9 billion investment in the UK's research infrastructure between 2016/17 and 2020/21 and investment in Catapult Centres through Innovate UK. Catapult Centres are a network of centres designed to promote research and development and improve innovation across the UK by connecting businesses with academic researchers. For Scotland to secure a share of this investment, it will be crucial for all key stakeholders to work together to maximise the opportunities.

Endnotes



- ◀ 1 *The Benefits of Higher Education Participation for Individuals and Society: key findings and reports 'The Quadrants'*, UK Department for Business Innovation and Skills, 2013.
- ◀ 2 Audit Scotland using *2014-15 Spring Budget Revision*, Scottish Government, 2015. See [Appendix 3. Audit methodology](#) for an explanation of how we have calculated the expenditure figure for university student support.
- ◀ 3 [Estate management in higher education](#) , Audit Scotland, September 2007.
- ◀ 4 Audit Scotland using data provided by the SFC from HESA Individual Student Records. Data is based on the HESA standard HE Registration Population and includes Scottish-domiciled students at the Open University in Scotland.
- ◀ 5 This figure is Gross Value Added (GVA). GVA measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom.
- ◀ 6 *Contribution of universities to the Scottish economy*, Biggar Economics, 2015.
- ◀ 7 Ibid.
- ◀ 8 *Times Higher Education World University Rankings 2015/16*, Times Higher Education, 2015.
- ◀ 9 *2014 REF Results and Submissions*, Research Excellence Framework, 2014.
- ◀ 10 <http://connectedscotland.org/about-connected-scotland/> Connected Scotland, May 2015.
- ◀ 11 *Scottish Trans-National Education and Overseas Programme Delivery*, Universities Scotland, 2015, and Audit Scotland using HESA data reports – aggregate offshore student numbers, 2014/15.
- ◀ 12 Academic freedom is defined in the Higher Education Governance (Scotland) Act (2016) as ‘freedom within law to hold and express opinions; question and test ideas and received wisdom; develop and advance new ideas or innovative proposals; and present controversial or unpopular points of view’.
- ◀ 13 Science and Research Funding (2011-12 to 2014-15), Written Ministerial Statement, Department of Business, Innovation and Skills, UK Government, Monday 20 December 2010.
- ◀ 14 *Universities Scotland’s submission to the Scottish Government’s Review of Higher Education Governance*, Universities Scotland, 2015.
- ◀ 15 Further and Higher Education (Scotland) Act 2005.
- ◀ 16 *Scottish Funding Council Strategic Plan 2015-18*, Scottish Funding Council, 2015.
- ◀ 17 Executive Agencies are parts of Scottish Government with a stronger focus on operational management and direct delivery of public services. They are headed by a chief executive who, together with the agency staff, are civil servants.
- ◀ 18 *Financial Memorandum with Higher Education Institutions*, Scottish Funding Council, December 2014.
- ◀ 19 *Budget lines – HE Capital and HE Resource, The 2014-15 Spring Budget Revision*, Scottish Government, February 2015.
- ◀ 20 SFC funding allocations to universities are based on academic financial years. The academic financial year runs from August to July. Audit Scotland using *Outcome agreements for universities final funding decisions for AY 2014-15*, SFC, 2014.
- ◀ 21 Scottish Funding Council data supplied to Audit Scotland, March 2016.
- ◀ 22 Audit Scotland using *Outcome agreements for universities final funding decisions for academic year 2014/15*, SFC, 2014 and *General Fund for universities in support of teaching and research for academic year 2010/11*, SFC, 2010.
- ◀ 23 Audit Scotland using *Revised formula capital funding for higher education institutions 2008-11*, and *University Outcome Agreements 2014-15 Sector Summary Information*, SFC. Figures exclude capital loan support and matched capital funding from the UK Government’s Department for Business, Innovation and Skills.

- ◀ 24 Research funding includes the Research Excellence Grant and Research Postgraduate Grant. Figures for research and teaching funding streams only include grants announced in the main funding letters to universities.
- ◀ 25 Global Excellence Initiative, Scottish Government, May 2013. This was a two-year initiative funded by the Scottish Funding Council to help further boost Scottish output of world-leading research and the international reputation and standing of Scotland's universities.
- ◀ 26 This was the average price for full-time undergraduate degrees. Audit Scotland using *Outcome agreements for universities final funding decisions for AY 2014-15*, SFC, 2014.
- ◀ 27 It is not possible to accurately identify the change over time in price per funded place due to changes in the types of courses funded.
- ◀ 28 *2014/15 Spring Budget Revision*, Scottish Government, 2015.
- ◀ 29 Funding for student support is not split out between university students and students at further education colleges in the Scottish Government budget. See [Appendix 3. Audit methodology](#) for details of how we have calculated the university student support figures.
- ◀ 30 This includes all budget lines related to student support including bursaries, loans and the associated cost of financing loans.
- ◀ 31 See [Appendix 3. Audit methodology](#) for an explanation of how we have calculated this figure.
- ◀ 32 Full-time students who have been funded previously, but who take a break from study and then re-start, receive tuition fee funding for the remaining years. For example, a student who started a full-time undergraduate course and dropped out after two years is eligible to have their tuition fees paid for two years of their subsequent course.
- ◀ 33 The Education (Fees) (Scotland) Regulations 2011, Scottish Government, November 2011. The Act came into force in August 2012.
- ◀ 34 *Reddin Survey of University Tuition Fees 2015–16*, The complete university guide, 2016.
- ◀ 35 *Scotland Performs*, Scottish Government, 2016.
- ◀ 36 Ibid.
- ◀ 37 *Scotland's Economic Strategy*, Scottish Government, 2015.
- ◀ 38 *Scotland's Economic Strategy*, Scottish Government, 2015; *National Infrastructure Plan 2015*, Scottish Government, 2015.
- ◀ 39 *Letter of Guidance to the Scottish Funding Council: Academic Year 2016-17*, Scottish Government, September 2015.
- ◀ 40 *Scottish Funding Council Strategic Plan 2015-18*, SFC, November 2015.
- ◀ 41 *Letter of Guidance*, Scottish Government to SFC, 23 March 2016.
- ◀ 42 *A Blueprint for Fairness*, Commission on Widening Access, March 2016.
- ◀ 43 Audit Scotland, 2016, calculated using university financial statements, 2014/15.
- ◀ 44 *Scottish Funding Council Strategic Plan 2015-18*, SFC, November 2015.
- ◀ 45 *Outcome agreements for universities final funding decisions for academic year 2015/16*, SFC, 2016.
- ◀ 46 *TRAC Summary 2014/15 – Scottish Institutions*, SFC, 2016.
- ◀ 47 The level of funding for competitive research grants varies by funding body, for example, the UK Research Councils fund 80 per cent of the full economic cost of undertaking the research. In higher education, the full economic cost of an activity is defined as the actual cost of the activity plus an additional amount to enable universities to invest in, and maintain their infrastructure.
- ◀ 48 Information supplied by SFC, 2016.
- ◀ 49 *Scottish Funding Council Strategic Plan 2015-18*, SFC, November 2015.
- ◀ 50 In higher education, the full economic cost of an activity is defined as the actual cost of the activity plus an additional amount to enable universities to invest in, and maintain, their infrastructure.
- ◀ 51 *TRAC Summary 2014/15 – Scottish Institutions*, SFC, 2016.
- ◀ 52 Total sector income in 2014/15 includes a one-off income of £49.9 million for Research and Development Credits (RDEC) from HM Revenue and Customs. This relates to tax credits which can be reclaimed on eligible research expenditure (now no longer available to universities). See [Appendix 3. Audit methodology](#).
- ◀ 53 All financial data in [Part 3](#) excludes the Open University in Scotland.

- ◀ 54 This excludes The Open University in Scotland and, for comparability, excludes the following one off payments made in 2014/15: a £7.6 million insurance claim for The Glasgow School of Art fire damage, and a £37 million grant to The University of the Highlands and Islands for the provision of further education courses.
- ◀ 55 The Efficient Government Initiative was set up by the Scottish Government in 2005, and since 2008 has been called the Efficient Government Programme. Since 2011/12, bodies are no longer required to submit details of their efficiency savings to the Scottish Government but are required to publicly report savings.
- ◀ 56 *Working Smarter 2015: An update*, Universities Scotland, 2015.
- ◀ 57 *Working Smarter 2014: A new phase of universities efficiencies*, Universities Scotland, 2014.
- ◀ 58 This excludes UHI where the majority of staffing is accounted for within its associated colleges.
- ◀ 59 This is the surplus on continuing operations after depreciation of assets and taxation.
- ◀ 60 *TRAC Summary 2014/15 – Scottish Institutions*, SFC, 2016 and TRAC data excluding RDEC, supplied by SLC, May 2016.
- ◀ 61 Reserves are Total Reserves. University financial statements, 2014/15.
- ◀ 62 *Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions*, Report of RCUK/UUK Task Group, 2010.
- ◀ 63 Capital expenditure, HESA, 2016.
- ◀ 64 Estate Condition data, HESA, 2016.
- ◀ 65 Estate age data supplied by Universities Scotland, 2016.
- ◀ 66 *TRAC Summary 2014/15 – Scottish Institutions*, SFC, 2016.
- ◀ 67 Actuarial Report as at 31 March 2015, USS, 2015.
- ◀ 68 Audit Scotland data provided by SFC from HESA Individual Student Records. Data is based on the HESA Standard Registration Population and includes Scottish-domiciled students at the Open University in Scotland.
- ◀ 69 Audit Scotland using HESA Free Online Statistics – Students and Qualifiers, Non-UK domicile students, Statistical First Release 224, Table 9 – Top ten non-EU countries of domicile in 2014/15 for HE student enrolments by location of HE provider and country of domicile 2010/11 to 2014/15, April 2016.
- ◀ 70 Ibid.
- ◀ 71 Audit Scotland using data provided by SFC from HESA Individual Student Records, Data is based on the HESA Standard Registration Population and includes Scottish-domiciled students at the Open University in Scotland.
- ◀ 72 Audit Scotland using bespoke UCAS data reports, April 2016. See [Appendix 3. Audit methodology](#) for detailed notes.
- ◀ 73 Data prior to 2010 is not comparable with later years due to changes in the types of courses UCAS include in their Main Scheme application process.
- ◀ 74 Audit Scotland using bespoke UCAS data reports, April 2016. See methodology in Appendix 3 for details on UCAS data.
- ◀ 75 Information provided to Audit Scotland by SAAS, June 2016.
- ◀ 76 Audit Scotland using bespoke SAAS data, for students studying at higher education institutions, February 2016. Values have been adjusted to real terms.
- ◀ 77 Thresholds as at April, 2016, for those who started their course on or after September 2012.
- ◀ 78 Audit Scotland using bespoke SLC data for the average debt levels of all Scottish and EU students who are entitled to any loan from SAAS and became eligible to start loan repayment in 2013 and 2015 (financial year end). Figures have been adjusted to real terms.
- ◀ 79 See [Appendix 3. Audit methodology](#) for description of debt projection calculations.
- ◀ 80 Audit Scotland using bespoke SLC data for the average debt of students who attended universities only and became eligible to start loan repayment in 2015, by the government administration that funded the loan, SLC, March 2016.
- ◀ 81 Data supplied to Audit Scotland by SLC, February 2016.
- ◀ 82 *A Blueprint for Fairness*, Commission on Widening Access, March 2016.
- ◀ 83 Results are for full-time students. *2015 National Student Survey Summary Data – Scotland*, HEFCE, 2015.
- ◀ 84 *Enhancement Themes*, Quality Assurance Agency for Higher Education, 2016.
- ◀ 85 *Destinations of leavers from higher education in the UK for academic year 2013/14*, HESA Statistical Release 217, June 2015.
- ◀ 86 *TRAC Summary 2014/15 – Scottish Institutions*, SFC, 2016.

- ◀ 87 The Teaching Excellence Framework will involve English universities being rated on the quality of their teaching. This has the potential to influence students' choice of university.
- ◀ 88 *Scotland's spending plans and draft budget 2016/17*, Scottish Government, December 2015.
- ◀ 89 *A Blueprint for Fairness*, Commission for Widening Access, March 2016.
- ◀ 90 *Participation indicators for Scottish HEIs*, Scottish Funding Council, March 2016.
- ◀ 91 *A Blueprint for Fairness*, Commission for Widening Access, March 2016.
- ◀ 92 *Scotland's Innovation Centres – Driving Demand Led Innovation*; SFC, November 2015.
- ◀ 93 The eight centres are: Centre for Sensors and Imaging Systems; Construction Scotland Innovation Centre; Digital Health and Care Institute; Industrial Biotechnology Innovation Centre; Oil and Gas Innovation Centre; Scottish Aquaculture Innovation Centre; Stratified Scotland Innovation Centre; The Data Lab.

Appendix 1

Universities in Scotland, 2014/15



University	Grouping	Income £000	Total student numbers	Percentage of students by domicile				Percentage of students by age	
				Scotland %	RUK %	EU %	Non EU %	Under 25 %	25 + %
University of Aberdeen	Ancient	239,824	14,040	59	13	17	11	73	27
University of Abertay	Modern	34,484	4,225	80	8	9	3	79	21
University of Dundee	Chartered	253,812	15,180	61	22	8	9	58	42
Edinburgh Napier University	Modern	118,773	13,125	69	10	12	9	66	34
University of Edinburgh	Ancient	840,748	28,880	38	27	12	23	78	22
Glasgow Caledonian University	Modern	122,423	16,930	82	5	4	9	65	35
Glasgow School of Art	Small, Specialist and Other	40,972	1,840	49	24	13	14	76	24
University of Glasgow	Ancient	569,319	26,815	60	13	12	15	72	28

University	Grouping	2014/15 Income £000	Total student numbers	Percentage of students by domicile				Percentage of students by age	
				Scotland %	RUK %	EU %	Non EU %	Under 25 %	25 + %
Heriot-Watt University	Chartered	206,311	10,705	46	19	10	25	72	28
Open University Scotland	Small, Specialist and Other	35,942	14,170	100	0	0	0	19	81
Queen Margaret University	Modern	38,633	5,270	65	14	14	7	57	43
Robert Gordon University	Modern	100,519	13,240	71	8	9	12	60	40
Royal Conservatoire of Scotland	Small, Specialist and Other	19,475	985	53	21	11	15	86	14
University of St Andrews	Ancient	212,406	10,660	27	26	14	33	83	17
Scotlands Rural College	Small, Specialist and Other	77,460	1,615	86	6	7	2	71	29
University of Stirling	Chartered	111,383	11,100	69	11	7	13	68	32
University of Strathclyde	Chartered	290,263	21,210	78	4	8	10	64	36
University of the Highlands and Islands	Modern	90,349	7,850	95	2	2	1	54	46
University of the West of Scotland	Modern	104,251	14,730	92	2	4	3	60	40

Source: Audit Scotland using university financial statements 2014/15, and data provided by the SFC from HESA Individual Student Records, 2016

Appendix 2

Project advisory group



Audit Scotland would like to thank the members of the project advisory group for their input and advice throughout the audit.

Dee Bird	Scottish Funding Council
Sir Ian Diamond	University of Aberdeen
Jan Hulme	Glasgow Caledonian University
Phil McNaull	University of Edinburgh
Emma Philips	Unison
Rebecca Robinson/Craig Robertson	Scottish Government
Mary Senior	University and College Union
Audrey Shimmons	Student Awards Agency Scotland
Philip Whyte	National Union of Students

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Appendix 3

Audit methodology



We used a range of approaches to address the main aim and objectives of the audit, including document reviews, data analysis and interviews. The audit had three main components:

1. Desk research:

We reviewed a range of relevant information on higher education, including: the Scottish Funding Council's (SFC) strategic plan, outcome agreements with universities, and other SFC reports, university strategic plans, and *Scotland's Economic Strategy*.

2. Interviews:

- We conducted interviews with the Scottish Government, Student Awards Agency for Scotland (SAAS), Scottish Funding Council (SFC), and the Student Loans Company (SLC). We also met with a wide range of relevant stakeholders, including universities, Research Councils UK, Unison, the University and College Union (UCU), EIS, the National Union of Students Scotland (NUS), and the Centre for Research in Education Inclusion and Diversity (CREID) at the University of Edinburgh.
- We carried out in-depth interviews at three universities – the University of Edinburgh, the University of Dundee, and the University of The West of Scotland, with a range of staff including:
 - Principals
 - Vice Principals
 - University Secretaries
 - Directors of Finance
 - Heads of internal audit and risk management
 - Heads of teaching, research, knowledge exchange, widening access, strategic planning, student support
 - Court members.

3. Data analysis:

We analysed a range of published and bespoke data from: the Scottish Government, the SFC, Higher Education Statistics Agency (HESA), the University and Colleges Admissions Service (UCAS), SAAS, SLC, and University financial statements. This included trend data on: the Scottish Government budget; funding allocations to universities; allocations of SFC funded places to universities; applications, offer and rejection rates; student numbers and demographics; student support; student loan debt; and university income and expenditure. A number of the published statistics on students do not provide a breakdown between university and college students. To accurately analyse trends in university students, we obtained bespoke data from SAAS, SLC, and UCAS.

Detailed methodology for specific sections in the report:

Real terms: Where real terms figures are used, the source for adjustment was GDP deflators at market prices, *GDP: December 2015 (Quarterly National Accounts)*, National Statistics, January 2016.

Methodology for calculating Scottish Government funding for student support for students at universities (Exhibit 6): The Scottish Government budget for student support includes support for both college and university students. To identify the amount spent on university students only, we undertook the following calculation to adjust each relevant Scottish Government budget line in the Spring Budget Revisions:

- SAAS data shows that 68 per cent of loans were taken out by students studying at universities. Therefore, 68 per cent of the total budget for student loans; the cost of providing student loans; and student loan company administration costs was used. Similarly, SAAS data shows that 79 per cent of student support (bursaries and grants) and tuition fee payments (including the part-time fee grant) were for students at universities. Therefore, 79 per cent of the total budget for student support and tuition fee payments was used. Finally, SAAS data shows that 72 per cent of total student support was provided to students at universities, and so 72 per cent of the budget for SAAS operating costs was used.

Details of Scottish Government funding for student support in 2014/15 (Exhibit 6): 'Student loans' includes: net student loans advanced; the student loan sale subsidy impairment adjustment (relating to old, mortgage style loans); student loan interest subsidy to bank (the cost of holding the loan for a long period of time); capitalised interest (the interest charged by SLC on the opening balance of outstanding loans at the beginning of the year); and student loan fair value adjustment (based on a yearly review of whether it is more or less likely that students will default on the debt that they owe). The total value for Scottish Government funding for student support shown does not include £64 million nursing and midwifery student support, which is administered by SAAS on behalf of the Scottish Government Health and Social Care Directorate.

Detailed notes on university financial statements: Total income in 2014/15 (£3.5 billion) was calculated using the 'Total Income' line in the financial statements of eighteen universities (all except The Open University in Scotland). 2014/15 figures include one-off payments for 'Research Development Credits'. For all figures quoted from the financial statements the figures include a £7.6 million insurance claim for The Glasgow School of Art fire; and a £37 million grant to The University of the Highlands and Islands for the provision of further education courses (except for [Exhibit 9](#) and [paragraphs 66–70](#), where these two amounts have been removed to allow fair comparison with income in previous years).

UCAS data: Data includes main scheme applications for all undergraduate courses at Scottish universities, and, for the first time in 2015 it includes applications to postgraduate teacher training courses. Due to fewer very late acceptances in 2014 compared to other cycles, the number of applicants and acceptances to Scottish UCAS providers in 2014 could be understated by up to 2,000, compared to how applicants and acceptances have been reported in recent cycles. Data excludes applications made to The Open University in Scotland and The Royal Conservatoire, due to the different application processes for these institutions. National data includes a small number of applications (for example, a total of 125 in 2015) to Barony College, City of Glasgow College and Glasgow Kelvin College in some of the years covered. This is because these colleges offer at least one undergraduate higher education course through UCAS.

Student debt ([Exhibit 17](#) and [paragraph 106](#)): Audit Scotland using bespoke SLC data for the average debt levels of all Scottish and EU university students who are entitled to any loan from SAAS, and became eligible to start loan repayment at the financial year end, from 2009/10 to 2014/15. Debt projections for 2015/16-2018/19 are based on an estimate of the average debt for a full-time undergraduate student who has taken out a loan every year for four years, given the current (2014/15) average annual level of borrowing from SAAS and SLC. These projections were adjusted using the historical error for this estimate, which was calculated using SAAS estimates as a percentage of the SLC values for the average debt at point of eligibility to repay (108 per cent), and then adjusted to real terms values.

Student debt by deprivation quintile ([Exhibit 18](#)): Audit Scotland using bespoke SLC data. Average loan debt is the sum of all loan balances at financial year end divided by the total number of students with a loan balance at any stage of repayment. This is different to the figures in [Exhibit 17](#) which are based on students at the point of eligibility to repay.

Audit of higher education in Scottish universities

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

If you require this publication in an alternative
format and/or language, please contact us to
discuss your needs: 0131 625 1500

or info@audit-scotland.gov.uk 

For the latest news, reports
and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

ISBN 978 1 911494 00 3 AGS/2016/4

This publication is printed on 100% recycled, uncoated paper

