

Briefing: How is higher education funded?

Introduction

Scottish higher education institutions had a total combined income of £2.1 billion in 2005/06. Only approximately 51 per cent of this total comes from core public funding. The balance of public/private funding of higher education has changed significantly over the last 20 years as institutions have diversified their sources of income. In the late 1970s institutions relied on core public funding for over 80 per cent of all income with only 20 per cent raised from other sources. Today institutions raise almost half themselves on the strength of their performance and reputation both nationally and internationally in the form of international tuition fees, research contracts, consultancy and other services.

Core public funding sources

Scottish Funding Council

Scotland's higher education institutions are funded directly by the Scottish Funding Council (SFC) which is a non-departmental public body of the Scottish Government. The only exception to this is the Scottish Agricultural College which is currently funded by the Agriculture Department of the Scottish Government. The single biggest allocation of funds from the SFC is the Teaching Grant which totalled £634 million for the sector in 2006/07. The Teaching Grant is the main mechanism for funding universities and it pays for everything from libraries and halls of residence to rates bills and core teaching. It is up to universities how they allocate this money internally. The grant is calculated according to a formula based on the number of students and the cost attached to different subject groups. Subjects are ordered into 13 pricing bands between approximately £4,000 and £15,000 per year.

The SFC also distributes public funding for the research base which helps institutions to develop an internationally competitive research base according to their own research strengths. The largest research grant, the Main Quality Research Grant (QR) was worth £176 million in 2006/07 and is distributed by a formula which is based on the outcomes of the Research Assessment Exercise (RAE). The RAE is a peer group assessment of research performance. Universities with better RAE results get more of this money. There are smaller research grants allocated for more specific initiatives including the support of postgraduate research (£23million), knowledge transfer (£16 million) and strategic research development (£23 million) bringing the total research grants in 2006/07 to £243.6 million.

The Learning and Teaching Infrastructure Fund (LTIF) is a relatively new funding stream introduced in academic year 2005/06 at a value of £28 million to address the back-log in investment in the higher education estate. The funds are allocated for large infrastructure projects such as the maintenance or sustainable redevelopment of the university estate, specialist equipment for learning and teaching purposes, student support and learning facilities and adjustments to the estate to allow greater access for disabled staff or students. The Scottish Government has committed funds for LTIF until 2010/11 but unlike the Teaching and Research Grants LTIF is not considered as recurrent funding stream.

Every year in the spring the SFC receives a 'Letter of Guidance' from the responsible Government Minister which outlines the money it will be given in the following academic year along with a list of strategic priorities. The SFC then distributes this between institutions along with specific targets.

Student Awards Agency Scotland

The Student Awards Agency Scotland (SAAS) is part of the Scottish Government. It handles support for eligible Scottish domiciled students on courses of higher education throughout the UK. In 2000/01 the Scottish Government abolished up-front tuition fees for Scottish and EU domiciled students studying in Scotland so responsibility for paying the fee passed from the student to SAAS. Therefore institutions receive a small proportion of public funding for teaching (the fee element of the cost of tuition) direct from SAAS.

Private and competitively won sources of funding

International tuition fees

Although the Scottish Government pays tuition fees for Scottish and EU domiciled students via SAAS non-EU international students are eligible to pay tuition fees in full. Students from the rest of the UK are also required to pay a subsidised tuition fee. Income from non-UK tuition fees and income from non-credit bearing courses and support grants earned Scottish institutions £189 million in 2005/06.

Research Councils

There are seven UK Research Councils which fund specific research projects in a range of academic fields. Although the UK Government determines the level of funding the UK Research Councils receive it does not determine how much is then allocated to higher education institutions. This is decided on the strength of research bids received by the Councils and universities have to compete with each other and with research institutes and other organisations for this funding. Given the element of competition involved in this funding stream Scotland's level of research income from research Councils can be used as a proxy to measure research quality. Scottish institutions won £134 million in this way in 2005/06 which represents more than 12.5 per cent of all funding available from the Research Councils (a higher proportionate share than would be expected of Scotland based on its 8.5 per cent share of the population).

Research income from other sources

Scotland also wins research funding from other sources including UK based charities, UK industry, commerce and public corporations, European sources and others. Income won in this way is like a commercial transaction and the funding earned relates to the specific research project. As with funding from UK Research Councils, Scottish institutions compete against other UK universities and other research organisations to win these contracts and so Scotland's proportion of income can be seen as a proxy for research quality. Scotland's performs above its weight on these measures winning 12.6 per cent of all income awarded to UK universities from UK charities, 13 per cent from UK industry and 12.3 per cent from EU sources.

Other income

In 2005/06 institutions earned an additional £380 million from services rendered, development activity and other sources. This includes income from knowledge transfer and consultancy activity, residences, catering and conference facilities and some development activity within institutions. The amount of income raised from these sources has increased by nearly 50 per cent in ten years up from £260 million in 1995/06 to £386 million in 2005/06.