



Scottish Funding Council
Promoting further and higher education



Comhairle Maoinachaidh na h-Alba
A' brosnachadh foghlam adhartach agus àrd ìre

Our ref: 247159848

1 February 2017

Jenny Marra MSP
Convener of the Public Audit and Post Legislative Scrutiny Committee
Room T 3.60
The Scottish Parliament
Edinburgh EH99 1SP

Dear Ms Marra

University funding

I refer to the request received yesterday from Terry Shevlin on behalf of yourself for a response from the Scottish Funding Council to the article in The Herald dated 23 January 2017.

First of all, in order to explain how the reprofiling reserve arose, I think it would be helpful if I describe how we manage our programme funds across the fiscal and academic years. Contrary to the assertion in the article, we were aware that the reserve existed and how it came about. We are funded by the Scottish Government on a fiscal year basis (April to March) but distribute funds to institutions on an academic year basis (August to July). The governmental budget cycle means we have to decide academic year budgets before we know our funding for the second of the two fiscal years that cover each academic year. Normally we assume a flat cash settlement for the second fiscal year, which covers the final 4 months of the academic year. If the funding for that second fiscal year is higher or lower than anticipated, SFC has to manage the resulting surplus or deficit. Any such movements relate to the academic year and not the fiscal year (which runs from April to March). The period in which this reserve arose (2012-13) was atypical. The way that our internal auditor (Scott Moncrieff) described this captures the main reason: 'Substantial budgetary increases were announced in the 2011 spending review, effective from April 2012. However these were announced after the 2011/12 academic year budgets had been set, meaning that the April to July 2012 funding

Scottish Funding Council
Apex 2
97 Haymarket Terrace
Edinburgh
EH12 5HD
T 0131 313 6500
F 0131 313 6501
www.sfc.ac.uk

allocations had already been issued to universities. To compound the situation, after changes to tuition fees, SFC was no longer required to fund places for rest of UK students. This immediately resulted in an excess of available funds against allocated distributions.' In accordance with normal government requirements, we only draw down sufficient grant from the Scottish Government over the fiscal year to cover our actual expenditure, and therefore our income and expenditure remains in balance at each 31 March.

The article claimed that there were plans to allocate sums to specific projects from the amount in question and that plans for these projects had to be changed as a result of it being returned to the Scottish Government. This is not the case. It is part of our normal business that institutions discuss with us their plans for future development. Often these discussions will take place before specific funding is in place – indeed part of the purpose of the discussion is to inform future funding decisions. At no point did we or government make commitments on the possible deployment of the £50M sum for specific projects, including the two projects mentioned in the report. No institution has had to change its plans as a result of the £50M being returned to the Scottish Government. And neither have there been any other consequential changes to planned academic year allocations of funding to universities or colleges.

The Scott Moncrieff report was commissioned by SFC in order to ensure that we were clear on any lessons than needed to be learned. With regard to our internal operations, we identified aspects of communications between different parts of the organisation and in how we communicated with Scottish Government and other matters where we needed to make improvements. We have taken steps to address these issues, including revised procedures, the creation of a new Finance Committee, staff restructuring and strengthened communication arrangements between relevant teams. We have implemented all of the recommendations from our internal auditors. (There is one where we are continuing discussion on whether we have dealt with the issue better by other means.) You will also want to be aware that our external auditors issued a clean audit opinion on our 2015-16, and preceding years', accounts.

I hope the foregoing will be helpful to the Committee and, as always, I would be very happy to provide any further information or meet with the Committee.

Yours sincerely

John Kemp
Interim Chief Executive