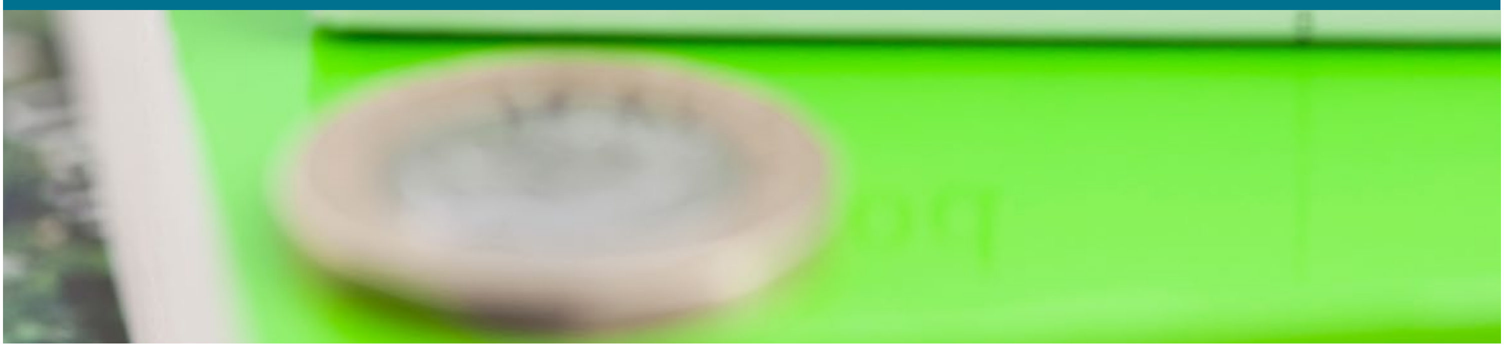
Finances of Scottish universities

AUDITOR GENERAL

Prepared by Audit Scotland
September 2019



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-us/auditor-general

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

Links

PDF download

Web link

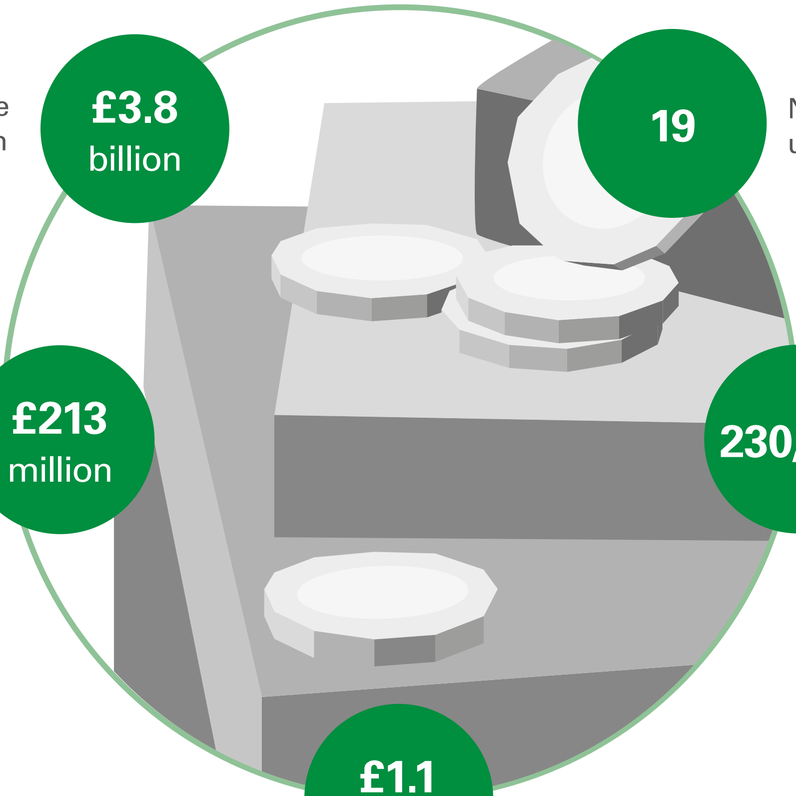
Exhibit data

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.

Audit team

The core audit team consisted of:
Mark MacPherson, Adam Bullough, Lucy Carter and Marianna Markantoni, with support from other colleagues and under the direction of Antony Clark.

Key facts



£3.8 billion

Total income of the university sector in 2017-18

19

Number of universities

£213 million

Total Scottish Government funding to universities, via the Student Awards Agency Scotland, for Scottish and EU student tuition fees in 2017-18

230,940

Number of students in 2017-18 (headcount)

£1.1 billion

Total Scottish Funding Council funding allocated to universities in 2017-18

Summary

Key messages

1 The Scottish university sector is diverse. While the aggregated underlying financial position in 2017-18 shows the sector overall to be in good financial health, it masks significant variation. Surpluses are concentrated in three of the four ancient universities.

2 Scottish Funding Council (SFC) funding to the sector reduced by seven per cent, in real terms, between 2014-15 and 2017-18. Tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18. Despite reductions in SFC funding, ancient and chartered universities have generally increased their income, mainly from non-EU tuition fees. Increases in income from non-government sources have generally been smaller at modern universities.

3 In addition to the reduction in SFC funding, the sector faces several other financial pressures and uncertainties, including pension costs, estates costs and EU withdrawal. Generally, the ancient universities are better placed to respond to these pressures, because of their ability to generate income from other sources and the balances in their reserves, but they face strong competition from other universities in the UK and the rest of the world.

4 The Scottish Government's priorities for the sector are reflected in outcome agreements between the SFC and universities. The outcome agreements also contain measures to assess progress towards delivery of Scottish Government priorities. But, in 2017-18, many universities did not have agreed targets for some measures relating to teaching and research and, in some cases, as few as two universities met their targets.

5 The SFC has recovered funding where universities have delivered less than the agreed volume of teaching activity. But there is no evidence of a direct link between funding and university performance against other agreed targets, such as those for student retention and for recruitment to courses in Science, Technology, Engineering and Mathematics (STEM).

6 The Scottish Government and the SFC have a good understanding of the issues affecting both the sector and individual universities, though there is scope for the SFC to improve its monitoring and reporting on universities' finances. The SFC has not set out specific actions to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.

Recommendations

The SFC should:

- specify targets for all outcome agreement measures for each university, where possible and appropriate (paragraphs 65–70)
- further develop its annual progress and ambitions report to include individual university performance against outcome agreement measures, together with the action taken where a target was not achieved (paragraphs 73–75)
- improve its approach to analysing universities' financial health and sustainability by:
  - reviewing universities' long-term financial strategies (paragraph 80)
  - specifying the criteria and examples in its internal guidance that would lead to increased engagement with individual universities (paragraph 81)
- publish a more detailed summary of its financial analysis, similar to that published by the Office for Students in England (paragraphs 83–84)
- build on the commitments in its recent Strategic Framework and set out more specific proposals on mitigating risks to the delivery of Scottish Government priorities (paragraph 88).

The Scottish Government should:

- agree with the SFC the National Performance Framework (NPF) outcomes to which it expects universities to contribute. Where appropriate, it should also specify the contribution universities should make. The SFC should reflect any changes in its outcome agreement process (paragraphs 60–62).
- routinely monitor and publish details of its total investment in the sector, beyond the funding that it provides to the SFC, and review funding streams to see if there is scope for these to be streamlined (paragraph 25).

Background

1. Universities make an important contribution to both the Scottish economy and wider society. Universities are major employers and students spend money on living costs in the surrounding areas. A report published by Universities Scotland in August 2017 stated that, in 2016-17, universities added an estimated £7.1 billion to the Scottish economy and employed over 43,700 people.[1]

2. The Scottish Government, in its five-year financial strategy, published in May 2018, highlighted higher education as one of its six key priorities.[2] However, the Scottish Government's medium-term financial strategy, published in May

2019, contains no specific reference to higher education, research or knowledge exchange.[3] Instead, the strategy highlights education more generally as a key priority.

3. This report focuses on higher education institutions, which we refer to collectively as universities throughout the report.[4] The Appendix (page 39) outlines the four university groupings we use (ie ancient, chartered, modern and small and specialist institutions (SSIs)), and the abbreviations we use for each university.

4. The Scottish university sector is diverse. Universities deliver teaching and research, and support knowledge exchange activities. Universities differ in size, student profile, location, and the research and subjects in which they specialise. Ancient and chartered universities tend to undertake more research activity than other universities in Scotland. They also tend to attract more fee-paying students from the rest of the UK (RUK) and outside of the EU (non-EU). Modern universities are generally more teaching intensive, and have a greater proportion of Scottish students. In the 2017-18 academic year, there were 230,940 students studying in Scottish universities.[5] Scottish universities are competing with institutions in the UK and the rest of the world for students, staff and research funding.

5. Universities are autonomous bodies and generate income from a variety of sources. In 2017-18, the total income for the Scottish university sector was £3.8 billion, of which £1.1 billion was provided by the Scottish Government, via the SFC, to support teaching, research and innovation activities. The Scottish Government, via the Student Awards Agency Scotland (SAAS), also provided over £213 million in tuition fees for eligible Scottish and EU students. The SFC determines the number of funded places available for these students, based on the amount of funding available from the Scottish Government. Since 2008, the Scottish Government has paid the tuition fees of eligible Scottish and EU students.[6]

6. The Scottish Government's high-level strategic priorities for higher education are:

- high-quality learning in a system which is seamlessly connected for the learner
- access to further and higher education for people from the widest range of backgrounds
- quality learning and good governance in universities
- internationally competitive and impactful research
- effective knowledge exchange and innovation between universities and colleges and industry.[7]

7. Alongside delivering core activities such as teaching and research, universities are expected to contribute to other Scottish Government initiatives, such as the Enterprise and Skills Strategic Board's strategic plan, and policy priorities, such as widening access.[8]

8. Universities also contribute to the 11 long-term outcomes in the new NPF, launched jointly by the Scottish Government and The Convention of Scottish Local Authorities (COSLA) in June 2018.[9] Each of the 11 long-term outcomes has a set of NPF indicators which are used to track progress.

9. The SFC is the national strategic body with responsibility for allocating Scottish Government funding for further and higher education, research and other activities in Scotland's colleges and universities, in a way that effectively supports delivery of the Scottish Government's priorities. The SFC is responsible for holding universities to account for the funding it provides. It is also responsible for providing advice to Scottish ministers relating to the provision of higher education and research activities at Scottish universities.[10] The SFC's funding decisions support the Scottish Government's strategic priorities.

About the audit

10. Scottish universities are autonomous, charitable bodies. As such, they are responsible for appointing their own external auditors.

11. The Auditor General for Scotland has had powers since 2010 to perform value for money audits in bodies funded by the SFC.[11] In July 2016, Audit Scotland published an *Audit of higher education in Scottish universities* The audit assessed how higher education was funded and delivered, how well it contributed to the national strategic priorities and how well equipped the sector was to deal with future financial challenges.

12. This audit builds on some of the key financial aspects of the 2016 audit. It assesses the financial position of the university sector in Scotland between 2014-15 and 2017-18; the financial opportunities and challenges facing the sector; and how the Scottish Government, the SFC and universities are working together to develop sustainable plans for the sector. The report does not look at Scottish Government funding for Scottish and EU student tuition fees, or student loans. The Appendix provides more background information and details of our audit methodology.

13. All financial data is reported in real terms, adjusted using gross domestic product deflators at market prices in March 2019.[12] To differentiate between the different financial year ends for the Scottish Government (March) and universities (July): [13]

- data from university financial statements is reported using the format 2017-18
- data from the Scottish Government's budget is reported using the format 2017/18.

The SFC's revenue grants are allocated on an academic year basis. The SFC's capital grants are allocated on a financial year basis. The format we use for all SFC grants is 2017-18.

14. This report has three parts:

- Part 1 - University finances.
- Part 2 - Financial pressures affecting universities.
- Part 3 - The roles of the Scottish Government, the Scottish Funding Council and universities.

Part 1

University finances

Key messages

1 SFC funding to the sector reduced by seven per cent (£91 million) in real terms, from £1.2 billion in 2014-15 to £1.1 billion in 2017-18. Despite this, total income for the sector increased by three per cent, from £3.7 billion in 2014-15 to £3.8 billion in 2017-18. Income reduced at nine universities, including five modern universities. Tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18.

2 While the sector overall is in good financial health, this masks significant variation across universities, and many sector-level indicators are disproportionately affected by the financial results of three of the four ancient universities. At an aggregate sector level, the operating position has remained broadly stable over the past four years, but six universities reported deficits every year. Between 2014-15 and 2017-18, the underlying position for the sector improved, but the position was worse for six universities.

3 Modern universities are the most reliant on Scottish Government funding (SFC grants account for 56 per cent of their total income). Increases in income from other sources have generally been smaller at modern universities compared to other groupings.

4 Ancient universities generally reported the strongest financial positions and three of the four routinely generate surpluses. In total, in 2017-18, 32 per cent of their income was derived from tuition fees. However, they face strong competition from universities in the UK and the rest of the world.

The operating position for the sector remained broadly unchanged over the last four years, but six universities reported deficits every year

More than half of all universities were in deficit in 2017-18 and the position was worse than in 2014-15 for most modern and chartered universities

15. The operating position of a university is its income minus its expenditure – a positive figure is a 'surplus' and a negative figure a 'deficit'. The operating position can be volatile (Appendix), but large and/or recurring deficits can be indicators of concern. At July 2018, the sector had a small deficit of £1 million

(0.02 per cent of income), compared with a surplus of £28.5 million (0.8 per cent of income) in 2014-15. Excluding £30 million of damage and reconstruction costs relating to fires at Glasgow School of Art (GSA), the sector had a surplus of £29.1 million (0.8 per cent of income) in 2017-18.

16. Ten universities were in deficit compared with eight in 2014-15 (Exhibit 1, page 11). Over the past four years:

- five (Edinburgh, Glasgow, Scotland's Rural College (SRUC)) St Andrews and Strathclyde reported a surplus each year. Edinburgh, Glasgow and St Andrews had a combined surplus of £68 million in 2017-18
- six (Aberdeen, Dundee, Queen Margaret University (QMU), Robert Gordon University (RGU), Stirling and the University of the West of Scotland (UWS)) reported deficits each year
- four (Glasgow Caledonian University (GCU), GSA, Napier and the University of the Highlands and Islands (UHI) moved from reporting a surplus in 2014-15 to reporting a deficit in 2017-18.

17. GSA reported the largest deficit, relative to its income, of £26.4 million (65 per cent of income) in 2017-18, mainly because of fire-related costs. GSA is awaiting the outcome of an investigation into the fire in 2018 before it can receive insurance payment for the damage caused. The next largest deficits were at QMU and RGU, at £5.4 million (15 per cent of income) and £11.4 million (12 per cent of income) respectively.

Underlying financial performance generally improved

18. One commonly used measure of underlying financial performance is Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). EBITDA is the operating position before applying the costs of financing debt and other accounting decisions (Appendix). EBITDA can be a better indicator of the immediate financial health of an organisation than the operating position because it excludes income and costs that are longer-term and fluctuate significantly between years. The measure is often used by universities for their own internal purposes and to provide assurance to banks and other providers of finance that universities will be able to repay loans.

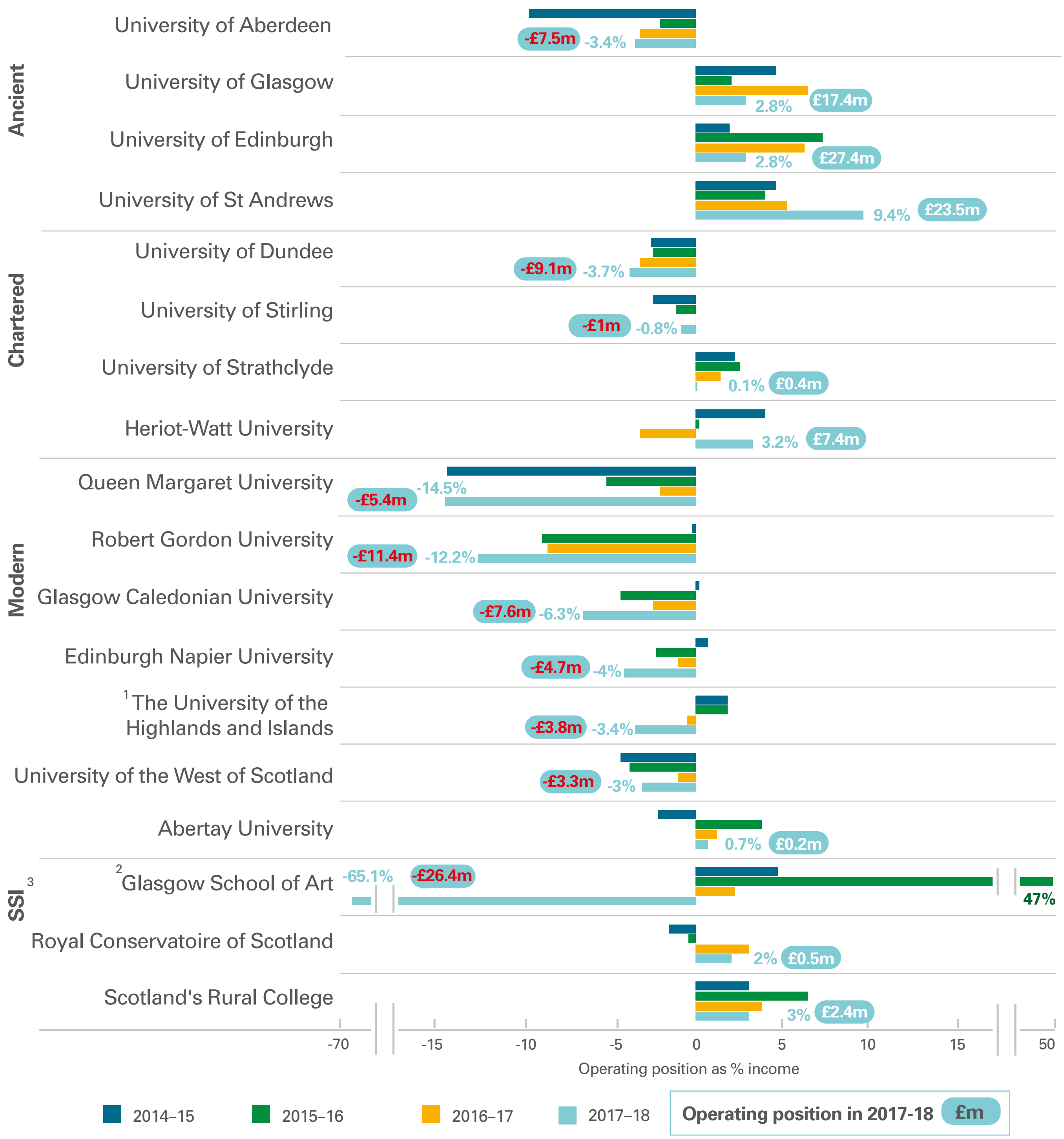
19. At July 2018, EBITDA for the sector was £256 million (seven per cent of income), compared with £140 million (four per cent of income) in 2014-15. Between 2014-15 and 2017-18, the position improved for all universities except six moderns (all except Abertay reported a decline in their position). Reductions were most notable for:

- UHI – reduced from £3.5 million to £0.5 million (by 87 per cent)
- QMU – reduced from £6.7 million to £2.4 million (by 64 per cent)
- RGU – reduced from £10.7 million to £4.5 million (by 58 per cent).

Exhibit 1

Operating position as a percentage of income by university, 2014-15 to 2017-18

More than half of universities were in deficit in 2017-18 and the position was worse for most modern and chartered universities than in 2014-15.



Notes:

1. Figures for the University of the Highlands and Islands (UHI) excludes income and expenditure for research undertaken by UHI's partners.
2. Glasgow School of Art's surplus in 2015-16 is due to insurance income from the fire in 2014. Its deficit in 2017-18 is due to damage and reconstruction costs relating to the fires in 2014 and 2018.
3. Small and specialist institutions (SSI)

Source: Audit Scotland using Higher Education Provider Data: Finance, Table 1, Higher Education Statistics Authority (HESA), March 2016 to March 2019, and university financial statements, (2014-15 to 2017-18).

SFC funding to universities has reduced by seven per cent since 2014-15

20. The Scottish Government provides the SFC with funding for universities, in accordance with a financial year-end of 31 March. The SFC is responsible for determining how this funding should be distributed to universities and provides most funding in accordance with universities' financial year-end of 31 July. The Scottish Government may announce budget revisions during the year. For these reasons, there is not necessarily direct alignment between annual Scottish Government allocations to the SFC (paragraph 21) and SFC allocations to universities (paragraph 22).

21. Scottish Government funding to the SFC for universities increased by 0.1 per cent in cash terms, from £1.116 billion in 2014/15 to £1.117 billion in 2017/18, but this equated to a real terms reduction of five per cent.[14] Taken together with a seven per cent reduction between 2010/11 and 2014/15, this represents a real terms reduction in Scottish Government funding of 12 per cent over seven years. Between 2014/15 and 2017/18:

- revenue funding (for example for teaching and research) reduced by six per cent, in real terms, to £1.1 billion
- capital funding (for example, for new buildings and equipment) increased by 45 per cent to £46 million in 2017/18. Capital funding has fluctuated over the period, from £22 million in 2015/16 to £70 million in 2016/17 (Appendix).

The total budget (revenue and capital) in 2018/19 was £1.1 billion in cash terms, representing a further reduction of 0.3 per cent in real terms.

SFC funding has reduced for all but five universities since 2014-15

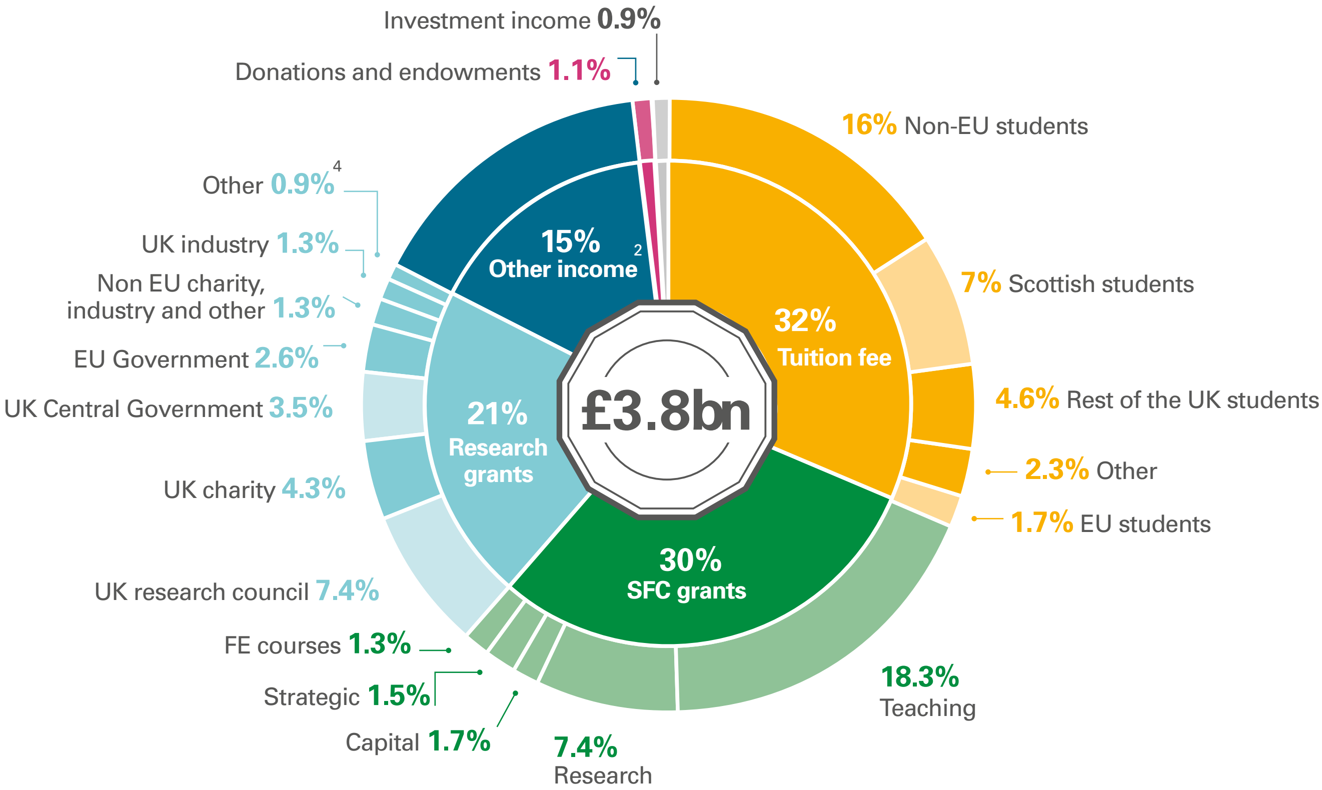
22. While the Scottish Government's budget was reduced by five per cent between 2014/15 and 2017/18, SFC funding to the sector reduced by seven per cent, from £1.2 billion in 2014-15 to £1.1 billion in 2017-18.[15] Alongside the difference in financial year-ends for the Scottish Government and universities (paragraph 20), the difference in the trend can partly be explained by an increase in the amount of Scottish Government funding that the SFC transfers to SAAS, to cover the cost of tuition fees related to additional places for widening access, articulation and undergraduate skills, and for part-time student tuition fees. The funding transfer to SAAS increased from £9 million in 2014-15 to £22 million in 2017-18.[16] Additionally, since 2013-14, universities are required to transfer 75 per cent of the funding they receive for articulation places to the colleges with which they are partnered; the SFC estimates this was around £9 million in 2017-18.

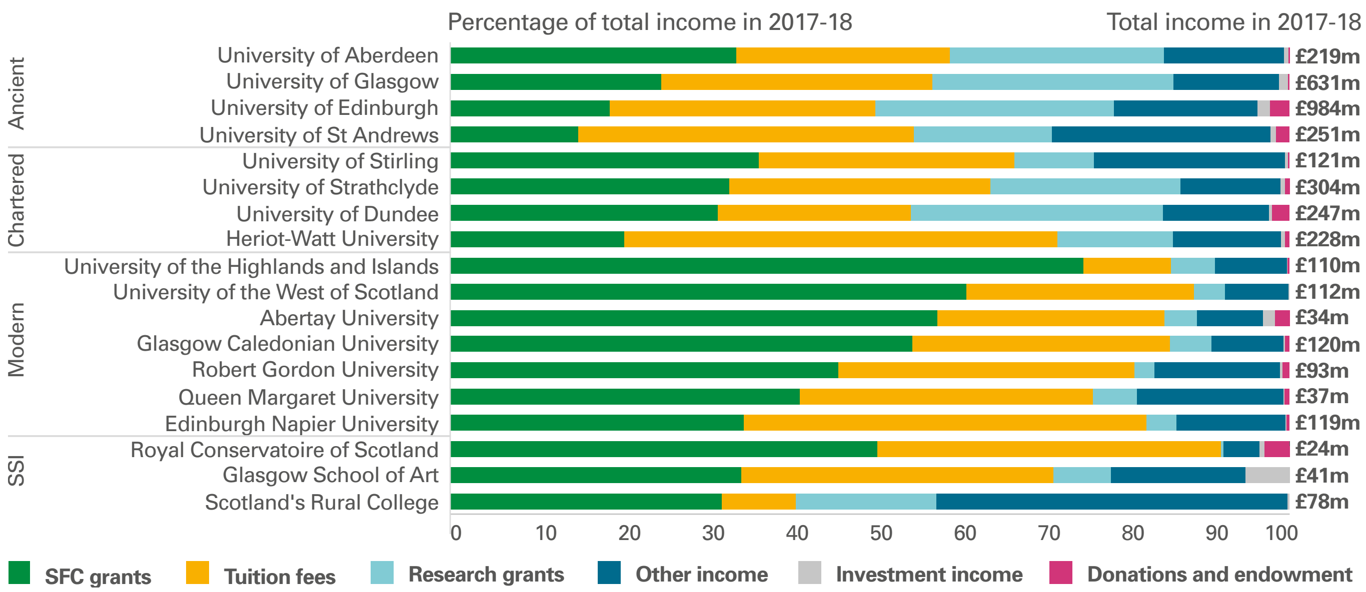
23. Between 2014-15 and 2017-18, SFC funding reduced at all but five universities and the biggest reductions were at ancient universities (by £61 million or 12 per cent). This was driven by reductions in both teaching and research grants.

24. SFC grants accounted for 30 per cent (£1.1 billion) of the total income (£3.8 billion) for the sector in 2017-18 (Exhibit 2, page 13). Generally, modern universities were more reliant on SFC funding than any other grouping, with 56 per cent of their income coming from the SFC, compared with 22 per cent for ancient universities. In addition, approximately 11 per cent of income (£71 million) at modern universities was from the tuition fees paid by the Scottish Government, via SAAS, compared to three per cent (£69 million) for ancient universities.[17]

Exhibit 2
Income profile for the university sector in 2017-18

Tuition fees were the single largest source of income for Scottish universities in 2017-18 (32 per cent of total income). Income from SFC grants ranged from 15 per cent at St Andrews to 75 per cent at UHI.[1]





Notes:
1. Lighter shading in the pie chart indicates public funding largely sourced from the Scottish or UK governments.
2. 'Other income' includes income from services to industry and public bodies, consultancy work and student residences.
3. Figures exclude income for research undertaken by UHI's partners.
4. 'Other' research grants includes income from EU charities and industry as well as other UK sources.

Source: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).

The Scottish Government provides funding for universities through a number of different streams

25. In addition to the core revenue and capital funding provided to the SFC, and Scottish and EU student tuition fees via SAAS (£213 million in 2017-18) (paragraph 5), the Scottish Government provides funding for universities in the form of:

- Financial transactions:[18] Since 2016/17 the SFC has offered low interest loans (financial transactions) to support university proposals for spend-to-save projects and the strategic development of estates. Universities compete for financial transactions funding by applying to the SFC. The Scottish Government made £10 million available for financial transactions in 2016/17 and £16.9 million in 2017/18. Funding increased to £40 million in 2018/19 and £55.5 million in 2019/20.

- Funding from other Scottish Government directorates: The Scottish Government does not routinely calculate its total funding for universities, beyond what is provided via the SFC and SAAS, but has estimated this to be around £92 million in 2018/19.[19] This is made up of a large number of additional funding streams, sometimes for quite small amounts and from a variety of Scottish Government directorates. Funding was mainly for health, rural and environmental research projects, economic development and training health professionals. The Scottish Government is considering how it reports on and distributes these funds.

Between 2014-15 and 2017-18, total sector income increased by three per cent, driven by increases at three of the four ancient universities

Sector income increased overall but income reduced at nine universities

26. Despite reductions in SFC funding, total sector income increased by three per cent, from £3.7 billion in 2014-15, to £3.8 billion in 2017-18. Income reduced at nine of the 18 universities.

27. Three of the four ancients accounted for most of the overall increase in income:

- Edinburgh – increased from £890 million to £984 million (11 per cent)
- Glasgow – increased from £601 million to £631 million (five per cent)
- St Andrews – increased from £235 million to £251 million (seven per cent).

28. The biggest reductions in income were at:

- RGU – from £107 million to £93 million (12 per cent)
- QMU – from £41 million to £37 million (nine per cent)
- Aberdeen – from £241 million to £219 million (nine per cent).

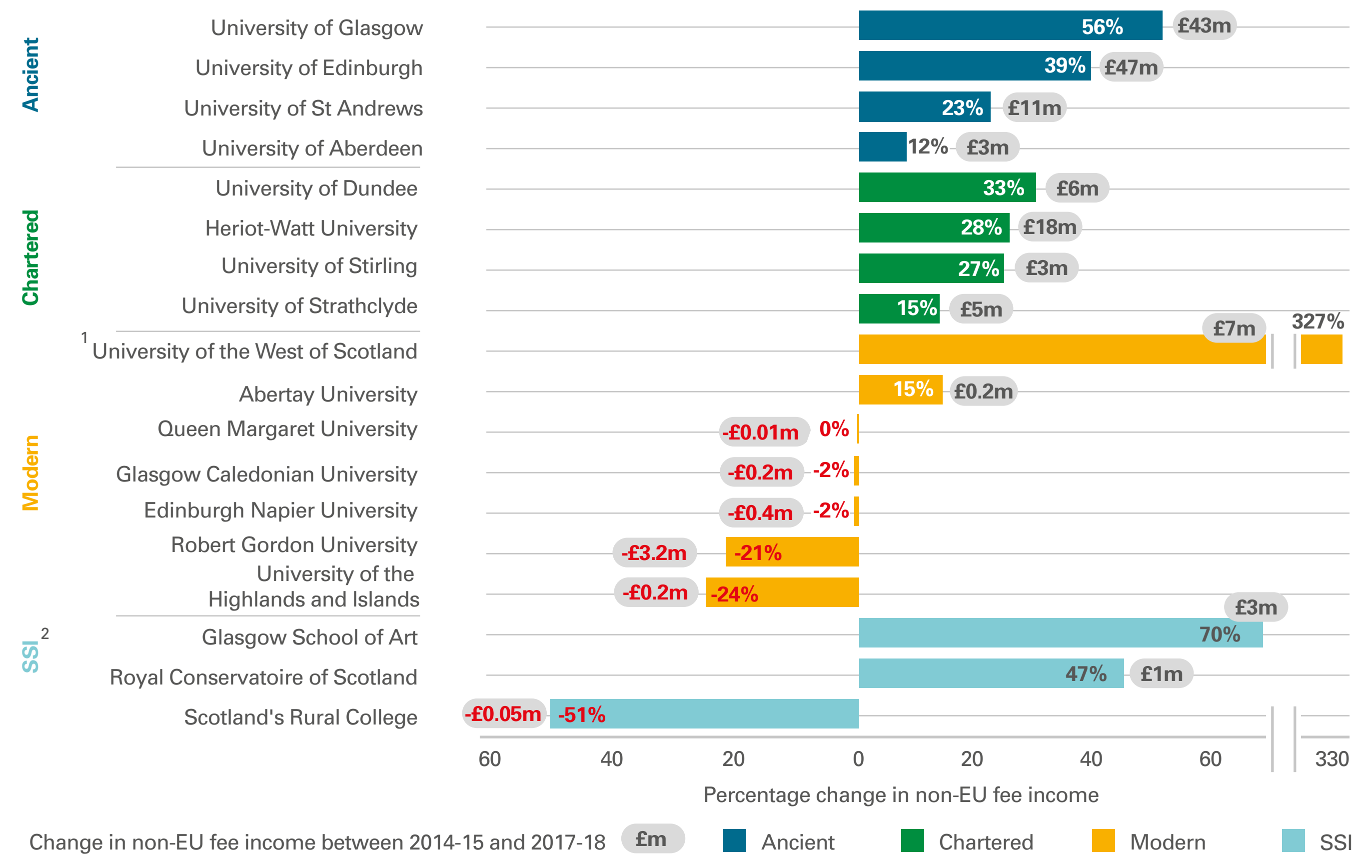
Income from tuition fees replaced SFC grants as the single largest source of income for the sector in 2017-18

29. Income from tuition fees became the largest single source of income for the sector for the first time in 2017-18 (replacing SFC grants as the main income source). Between 2014-15 and 2017-18, fee income increased by £200 million (22 per cent), to £1.2 billion (32 per cent of total income) (Exhibit 2, page 13). Fee income increased for all but four universities.

30. The overall increase in fee income was largely driven by an increase of £158 million (31 per cent) at the ancient universities. Of this, £104 million (66 per cent) was from non-EU student fees. Patterns in fee income varied by student domicile (Appendix):

- Income from Scottish and EU student fees increased by £33 million (11 per cent) since 2014-15. This includes both self-funded students and those whose fees are paid for by the Scottish Government, via SAAS.[20]
- Income from RUK students increased by £68 million (66 per cent) since 2014-15. This is largely because of an increase in fees paid by RUK undergraduate students who started their studies from 2012.[21]
- Income from non-EU student fees increased by £143 million (31 per cent) since 2014-15, but this varied by university (Exhibit 3). There is no restriction on the fee universities can charge to non-EU students. For undergraduate courses, annual fees ranged from £11,000 at UWS for a classroom-based course to £49,000 at Edinburgh for a clinical degree.[22]

Exhibit 3
Change in non-EU fee income in real terms between 2014-15 and 2017-18
Non-EU fee income fell for five of the seven modern universities and SRUC.



Notes:
1. In its 2017-18 financial statements, the University of the West of Scotland attributes an increase in non-EU fee income to significant recruitment following the opening of its London campus in 2016.
2. Small and specialist institutions

Source: Audit Scotland Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 and 2019, and university financial statements (2014-15 to 2017-18).

Universities are subsidising research and publicly-funded teaching activity with income from other sources

31. All universities in the UK use the Transparent Approach to Costing (TRAC) as the standard methodology for costing their activities. The sector has expressed concerns about relying solely on TRAC analysis to measure financial sustainability, particularly when looking at university-level data, because the subjectivity of how costs should be allocated could result in TRAC data being inconsistent or misleading (Appendix).

32. In 2016-17, on average, universities recovered 98.6 per cent of the full cost of all activities (97.2 per cent in 2015-16).[23] Funding for both publicly funded teaching and research does not always cover the full costs for delivery and, in 2016-17, on average, universities recovered:

- 92.4 per cent of the full economic cost of publicly funded teaching (93.1 per cent in 2015-16), including the teaching of Scottish, RUK and EU students
- 80.1 per cent of the full cost of research activities (79.1 per cent in 2015-16).

33. This means that universities rely on being able to generate 'cross-flows' of funding between activities. For example, to maintain and improve their position, research-intensive universities will usually have to increase income from other activities, such as non-publicly funded teaching, to cover the full economic cost of their research activity. In 2016-17, on average, universities recovered:

- 138.2 per cent of the full cost of non-publicly-funded teaching (135 per cent in 2015-16), mainly for teaching non-EU students
- 144.2 per cent of the full cost of other activities (for example, commercial activities, residences and conferences) (128.5 per cent in 2015-16).

34. Universities decide whether to pursue or grow research activity. Their ability to recover the full economic cost, or to cross-subsidise their research activities, may influence their decisions. For example, Dundee has made a strategic decision that it will not target further growth in research, because the university deemed it not to be financially sustainable.[24]

Part 2

Financial pressures affecting universities

Key messages

1 In addition to reductions in SFC funding, universities are facing several financial pressures, and their ability to respond varies. Ancient universities are generally better placed to withstand the pressures, because of their ability to generate income from other sources and the balances in their reserves, but they face strong competition from other universities in the UK and the rest of the world.

2 All universities face increased contributions to their pension schemes. Universities estimate these could be as high as £23 million per year. Scottish ministers have committed to pass on any specific UK funding to help meet planned increased employer pension contributions to the Scottish Teachers' Superannuation Scheme up until 31 March 2020.

3 At July 2018, universities estimated it would cost £937 million (25 per cent of income) to address estate maintenance requirements.

4 Universities have been trying to respond to cost pressures by increasing income from non-government sources and implementing efficiencies. Most universities are planning to increase income from non-EU students to maintain financial sustainability.

Universities face future cost pressures, and there is significant uncertainty around some important areas of activity

35. In addition to reductions in SFC funding (paragraph 22) universities face other financial pressures (Exhibit 4, page 18).

Pension deficits will result in increased contributions for universities, with risk of further industrial action

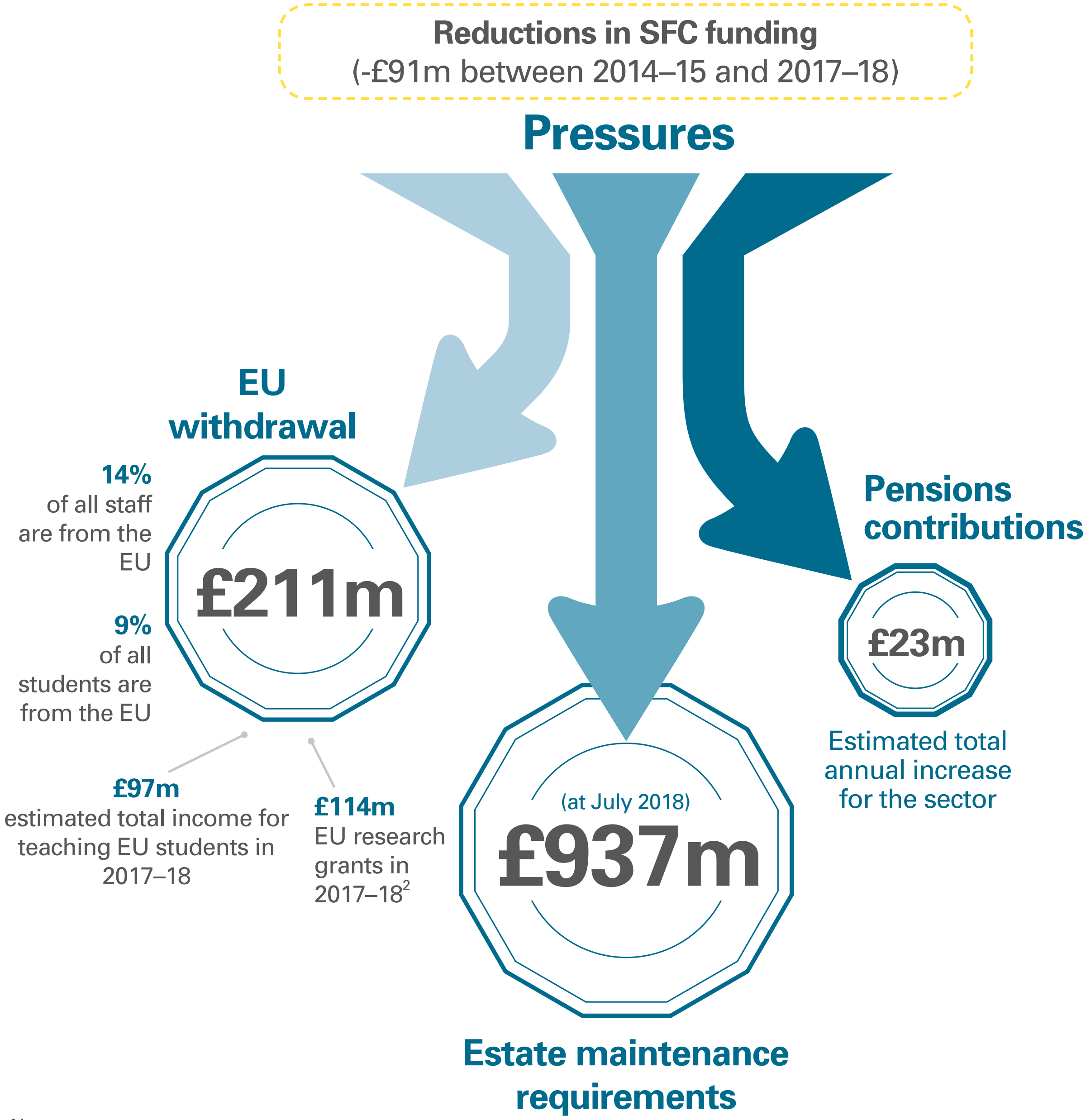
36. Universities in Scotland generally have several pension-funding obligations:

- the Universities Superannuation Scheme (USS) (a UK-wide non-government-funded scheme) of which 13 Scottish universities are members
- the Scottish Teachers' Superannuation Scheme (STSS), of which 15 Scottish universities are members
- Local Government Pension Scheme (LGPS)
- NHS Scheme for Scotland (NHSSS)

- Universities' own funded schemes.

At March 2019, the sector estimated that the total annual cost of increased employer contributions for all of the schemes would be £23 million a year from April 2019.[25]

Exhibit 4
Financial pressures affecting universities
The scale of the pressures affecting universities vary. The extent of how these risks affect universities is dependent on a number of external factors and the decisions universities take on how they plan to address them (eg capital investment).



Notes:
1. The darker the arrow the more certain the cost pressure.
2. Under a UK Government guarantee, in the event of EU withdrawal with no deal, the Scottish Government estimates that at least half of the £114 million EU research funding would be protected *(Guidance, Horizon 2020 funding after Brexit, UK Government, August 2019).*

Source: Audit Scotland

37. In 2017, the USS had a deficit of £7.5 billion (£5.3 billion in 2014).[26] To address the deficit, USS proposed to increase contributions from both universities and their employees. This proposal contributed to staff taking industrial action in March 2018. In November 2018, USS completed a further valuation of the scheme, which is still to be finalised. Increases to employer and employee contributions, based on the 2017 valuation, were implemented in April 2019. Since November 2018, USS and universities have been negotiating further changes to employer and employee contributions. The Universities and College Union was balloting members (between 9 September 2019 and 30 October 2019) to consider further industrial action.[27]

38. The STSS will require increased contributions from employers, to cover a growing deficit. The SFC estimates the annual increase to employer contributions will be around £8 million per year. The UK Government has confirmed funding allocations for the period 1 September 2019 to 31 March 2020,[28] and the SFC advised universities in July 2019 that the Scottish Government will provide additional funding of £2.75 million to the sector up until 31 March 2020, with universities having to absorb any remaining costs. The increased contributions are due to come into effect in September 2019. The Scottish Government is liaising with the UK Government about funding arrangements beyond 31 March 2020.

At July 2018, universities estimated that it would cost £937 million to address estate maintenance requirements

39. The Scottish university estate is large and diverse. There are 1,856 buildings throughout Scotland, in 146 locations.[29] Ancient universities have the most buildings (998, or over 54 per cent of the sector total) and modern universities have the most sites (88, or 60 per cent of the sector total). Six per cent of the estate was built before 1840 and 24 per cent between 1840 and 1959.[30] The value of the estate is just over £5 billion, with Edinburgh having 33 per cent (£1.7 billion) of the total value.[31]

40. In an increasingly competitive environment, universities need to maintain buildings and facilities at a high standard, to meet the specifications required for world-leading research and teaching, and to continue to be able to attract students, staff and researchers. The age, occupancy levels, listed status of buildings, space restrictions, and the cost or availability of land in convenient locations all add to this challenge. Some universities have chosen not to upgrade parts of their estate as they no longer fit with their strategic plans and are no longer in operational use, though these will still be included in the calculations of estate maintenance costs.

41. Buildings are assessed as being in one of four categories, from A to D. In 2017-18, the sector estimated that the total cost of upgrading university buildings in Scotland to category B was £937 million.[32] While most of this (£798 million, or 85 per cent) was not urgent (from condition C to B), the remaining £139 million was required to upgrade buildings from condition D to B (urgent backlog maintenance). This was equivalent to four per cent of total sector income in 2017-18, but it varies by university (Exhibit 5, page 20). The estimated cost of urgent backlog maintenance was consistently more than ten per cent of income for Aberdeen, Abertay, GSA and UWS between 2014-15 and 2017-18.

Building condition categories:

A: as new condition

B: sound, operationally safe, and exhibiting only minor deterioration

C: operational but major repair or replacement needed in the short to medium term (generally three years)

D: inoperable or at serious risk of major failure or breakdown (urgent backlog maintenance).

The extent to which individual universities are exposed to these pressures, and their capacity to respond, varies

Universities' exposure to the cost pressures varies throughout the sector

42. The above cost pressures will not affect all universities to the same extent. The extent to which universities are exposed to them is summarised in Exhibit 5.

Exhibit 5

Relative exposure of universities to financial challenges in 2017–18

Modern universities are generally more reliant on SFC funding than other groupings.[1]

Grouping	University	SFC funding as % of income	Staff costs as % of expenditure	Urgent backlog maintenance as % of income[2]
Ancient	University of Aberdeen	34	60	20.8
	University of Edinburgh	19	54	1.7
	University of Glasgow	25	54	0.2
	University of St Andrews	15	55	0
Chartered	University of Dundee	32	57	2.2
	Heriot-Watt University	21	48	0
	University of Stirling	37	58	2.4
	University of Strathclyde	33	57	9.3
Modern	Abertay University	58	70	18.4
	Edinburgh Napier University	48	64	0
	Glasgow Caledonian University	55	66	0
	Queen Margaret University	42	57	0
	Robert Gordon University	46	57	0.4
	University of the Highlands and Islands[3]	75	13	1.9
	University of the West of Scotland	61	64	12.6
SSI	Glasgow School of Art	35	47	39.2
	Royal Conservatoire of Scotland	51	75	N/A[4]
	Scotland's Rural College	32	59	N/A
Sector		30	55	3.8

Lowest	1	2	3	Highest

Notes:
1. For each measure, the higher the figure the darker the shading. The highest third are shaded the darkest and the lowest third the lightest.
2. Urgent backlog maintenance, is the estimated cost of upgrading buildings from condition D to B.
3. Staff costs at the University of Highlands and Islands are low (13 per cent) compared with other universities because it is not the direct employer of staff at the colleges and research institutes with which it partners.
4. RCS and SRUC do not submit figures on backlog maintenance to the Higher Education Statistics Agency because there is no requirement to do so. Total SRUC backlog maintenance is reported in the SFC's college estates condition survey, although the college figures were calculated on a different basis, so data is not comparable to that used for other universities.

Source: Audit Scotland using data provided by the SFC and Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).

EU withdrawal is likely to have significant implications for university students, staff and funding

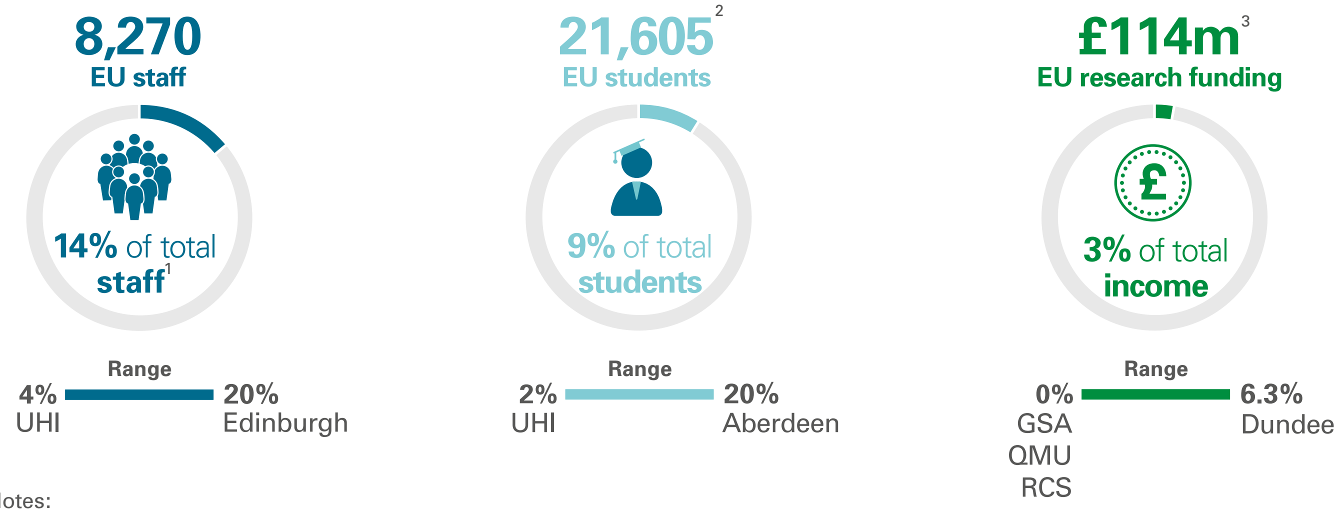
43. EU students, staff and funding are all important to universities' activities (Exhibit 6). In 2017-18, the Scottish Government provided around £97 million to universities for teaching EU students.[33]

44. EU withdrawal is likely to have significant implications for universities. For example, a loss of EU students in key subject areas (for example, biological sciences, engineering and technologies, and subjects allied to medicine) could make it harder for universities to achieve Scottish Government strategic priorities. Departure from the EU could also result in skills shortages in teaching and research – in 2017-18, 28 per cent of research staff were EU nationals. Universities also cite their ability to collaborate with European partners as a significant contributory factor in attracting research staff and maintaining their strong reputation for research.[34]

Exhibit 6

EU research funding, staff and student numbers at 2017-18

Ancient and chartered universities secure most EU research funding and generally have a higher proportion of EU staff compared to other groupings, but this varies by university.



Notes:
1. 28 per cent of research only staff are non-UK EU nationals.
2. EU student numbers exclude visiting/exchange students. For some universities, visiting/exchange students from the EU accounted for a significant proportion of their total EU student body (41 per cent for UWS in 2017–18).
3. Under a UK Government guarantee, in the event of EU withdrawal with no deal, the Scottish Government estimates that at least half of the £114 million EU funding would be protected. *(Guidance, Horizon 2020 funding after Brexit, UK Government, August 2019).*
4. UHI (University of the Highlands and Islands), GSA (Glasgow School of Art), QMU (Queen Margaret University), RCS (Royal Conservatoire of Scotland).

Source: Audit Scotland using data provided by the SFC and HESA, Higher Education Provider Data: Finance, Higher Education Statistics Authority (HESA), March 2019 and university financial statements (2017-18).

Ancient universities are generally better placed to respond to cost pressures

45. When an organisation faces an unexpected, or short-term, cost pressure, it may be able to draw on readily available sources of funding. For example, an organisation can use the cash and cash equivalents (Appendix) that it holds. Cash and cash equivalents held by all Scottish universities was equivalent to 23 per cent of total income in 2017-18, and this percentage varied across all groupings (Exhibit 7, page 22). Cash relative to income in 2017-18 was lower than in 2014-15 for eight universities (including four of the seven moderns).

Exhibit 7
Cash, income and expenditure reserves and net assets as a percentage of income in 2017–18
Ancient and chartered universities are generally better placed to respond to financial pressures than modern universities, but there is variation within each grouping.[1]

Grouping	University	Cash and cash equivalents as % income [2]	Unrestricted Income and expenditure reserves as % income [3]	Net assets as % income [4]
Ancient	University of Aberdeen	14	72	178
	University of Edinburgh	24	155	225
	University of Glasgow	33	104	137
	University of St Andrews	12	99	134
Chartered	University of Dundee	16	72	85
	Heriot-Watt University	34	25	35
	University of Stirling	21	132	136
	University of Strathclyde	36	104	115
Modern	Abertay University	21	130	133
	Edinburgh Napier University	18	71	78
	Glasgow Caledonian University	12	72	137
	Queen Margaret University	22	64	150
	Robert Gordon University	12	203	205
	University of the Highlands and Islands	10	4	4
	University of the West of Scotland	14	77	78
SSI	Glasgow School of Art	11	23	108
	Royal Conservatoire of Scotland	15	96	111
	Scotland's Rural College	18	9	16
Sector		23	103	142

Highest 1 2 3 Lowest

Notes:
1. For each measure, the lower the figure the darker the shading. The lowest third are shaded the darkest and highest third the lightest.
2. This is the total value of cash held by the university, including items that can be converted easily and quickly into cash.
3. This is the accumulated surplus produced from a university's activities.
4. This is the total assets (eg buildings) owned by a university minus its total liabilities (eg debt).

Source: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2019, and university financial statements (2017-18).

46. In the short-term, universities may also be able to convert other assets, such as buildings, into cash to meet increasing costs. However, the sale of buildings is not a sustainable solution to meeting cost pressures and should only be undertaken as part of a longer-term estate plan. Any decision on the sale, lease or transfer of an asset with a value greater than £3 million must comply with the SFC's procedures for disposal of property.[35]

47. In the medium term, universities could also draw on unrestricted income and expenditure reserves (reserves), where they have them (Appendix). If a university generates surpluses, it can build up reserves that can be used, for example, to fund planned improvements to the university estate, and manage financial difficulties. As reserves include some longer-term investments, they cannot necessarily be used to fund day-to-day running costs. Total sector reserves increased from £3.5 billion (96 per cent of income) in 2014-15 to £3.9 billion (103 per cent of total income in 2017-18) (Exhibit 7, page 22). Edinburgh accounted for 40 per cent of the sector's total reserves (£1.5 billion, or 155 per cent of its income).

48. Net assets (Appendix) can also indicate a university's ability to manage medium-term financial pressures. Net assets for the sector increased from £4.8 billion in 2014-15 to £5.3 billion in 2017-18 (or 142 per cent of total income for the sector), and all universities were in a net asset position in 2017-18 (Exhibit 7, page 22). UHI was the only university to be in net debt during the period (in 2015-16 and 2016-17) but returned to a net asset position in 2017-18.

Scottish universities are competing with universities in the UK and the rest of the world

49. In 2017-18, total sector income from research grants and contracts was £785 million, which was 21 per cent of the sector's total income (Exhibit 2, page 13). Scottish universities have a good reputation for delivering world-class research; however, the research market is globally competitive.

50. Funding arrangements for teaching in Scotland are different from those in the rest of the UK. In Scotland, universities can charge tuition fees for RUK students (up to £9,250) and non-EU students. Universities in the rest of the UK can charge fees for the entire student population but have a cap on tuition fees for UK and EU students of £9,250. Their ability to charge higher fees allows them to generate increased income, which can be invested in maintaining or improving what they can offer to prospective students and researchers.

51. In 2018, the UK Government instructed a wide-ranging review into post-18 education and funding (the Augar review).[36] It recommended in its final report that the cap on the fee chargeable to RUK and EU students (in England) should be reduced from £9,250 to £7,500 per year, with the UK Government replacing the lost fee income by increasing the teaching grant. The UK Government has not yet announced how it will respond to the recommendations, but it could result in lower tuition fees, which could have a significant impact on Scottish universities.

Universities have been trying to respond to cost pressures, by increasing income from non-government sources and implementing efficiencies

52. The recruitment of non-EU students is an important and growing source of other income for most universities, and is one way in which universities are responding to cost pressures. Scottish universities attract students from around the world and, between 2014-15 and 2017-18, the number of non-EU students attending Scottish universities increased by 13 per cent (income from non-EU student fees increased by 31 per cent, to £599 million over the same period). The recruitment of non-EU students is highly competitive, with Scottish universities competing with universities throughout the world. The sector has highlighted that financial pressures could constrain universities' ability to remain competitive, for example if they are unable to maintain and enhance estate condition or are faced with a more restrictive immigration policy than other countries.

53. Exhibit 8 (page 25) highlights some of the responses universities are taking to manage the cost pressures they are facing.

Borrowing increased at many universities and across all groupings

54. Some universities are increasingly using borrowing to fund investment in their estates. Total borrowing increased by 114 per cent, from £628 million in 2014-15 to £1.3 billion (36 per cent of income) in 2017-18. Borrowing increased at 11 universities, across all groupings. Decisions on borrowing are for individual universities and the SFC does not routinely monitor how much universities borrow or the purposes of their borrowing. Universities must get consent from the SFC before taking out any loan that would take their total annualised cost of debt servicing to exceed four per cent of their income. The SFC has given such consent to eight universities between 2014 and 2019. The SFC also considers the level of borrowing when analysing the financial health of individual universities (paragraph 79). Some larger loans involve universities paying interest for around 20 to 30 years, with repayments made in stages over this period.[37]

Exhibit 8

Examples of universities' responses to cost pressures and opportunities

Universities are responding to cost pressures in a number of ways.

Increasing income

Alumni funding for specific capital projects:

The University of St Andrews, philanthropic funding for Laidlaw Music Centre, has raised £8.4 million of £12.5 million required for the project.

Corporate partnerships:

The University of St Andrews received a £13.6 million facilitation fee from its development partner for the joint development of a student accommodation project.

City Region Deals:

Some universities are involved in City Region Deals; working with the Scottish and UK governments, local councils and other partners to drive economic growth in their regions. City Region Deals present an opportunity for universities to consolidate and grow their income, or to enhance what they can offer to prospective students, staff and businesses.

For example, as part of the £1.3 billion Edinburgh and South East City Region Deal The University of Edinburgh and Heriot-Watt University are leading on a ten year 'Data-Driven Innovation' (DDI) programme. This will include the introduction of new undergraduate, postgraduate and professional development programmes and well as expansion of the universities' research activities. The UK and Scottish governments have together committed up to £270 million to support the development of the DDI Programme. This will be matched by up to £391 million capital investment from universities and other sources.

Professionalising services:

Edinburgh Napier University has capitalised on strengthening its professional services (eg human resources and information technology) and provided these services to other businesses and institutions to generate other income.

Expanding course subjects:

In 2019-20, Edinburgh Napier University and Queen Margaret University introduced Professional Graduate Diploma in Education courses.

Entrepreneurial income:

Some universities generate income from their estates outside the academic year, by offering conference and accommodation facilities.

Efficiencies

Developing long-term plans for capital projects:

Edinburgh Napier University is engaging with stakeholders to develop a long-term plan for future capital projects, to ensure that future capital projects provide the best return on investment.

Developing shared services with other institutions and the local community:

The sports and aquatic centre in Aberdeen was developed in partnership between the University of Aberdeen, Aberdeen City Council and sportscotland.

Working with current EU partners to develop teaching/research agreements:

The University of St Andrews signed a memorandum of understanding with the University of Bonn, Germany.

Costs savings for procurement:

All universities are members of Advanced Procurement for Universities and Colleges Limited (APUC), which works on behalf of its members (colleges and universities) to secure efficiencies in procurement, achieved mainly from economies of scale. It has helped to deliver over £20 million of annual procurement savings for the university sector.

Workforce planning:

Universities have implemented staff restructuring and more flexible recruitment, to drive efficiencies, which in some cases has included voluntary severance.

Source: Audit Scotland

Part 3

The roles of the Scottish Government, the Scottish Funding Council and universities

Key messages

1 The SFC is responsible for distributing most of the Scottish Government's funding to universities and for providing advice to ministers. Universities are accountable to the SFC for the funding they receive. The SFC provides funding mainly for teaching and research, but it also provides funding for specific priorities, such as widening access.

2 Outcome agreements between the SFC and universities set out what universities plan to deliver in return for SFC funding. The Scottish Government's priorities for the sector are reflected in outcome agreements between the SFC and universities. The outcome agreements also contain measures to assess progress. But, in 2017-18, many universities did not have agreed targets for some outcome agreement measures relating to teaching and research and, in some cases, as few as two universities met their targets.

3 The SFC recovers funding where universities have not delivered an agreed volume of teaching activity, but there is no evidence of a direct link between funding and university performance against other agreed targets, such as those for student retention and for recruitment to courses in STEM. The current funding model provides transparency and a degree of certainty about how funding for teaching and research is allocated. However, strategic funding for specific purposes has reduced in real terms by 46 per cent since 2014-15.

4 The Scottish Government and the SFC have a good understanding of the issues affecting both the sector and individual universities, though there is scope for the SFC to improve its monitoring and reporting on universities' finances. The SFC has not set out specific actions to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.

The SFC is responsible for distributing funding and for monitoring universities' contributions to the Scottish Government's strategic priorities

The SFC's funding to universities is mainly for teaching and research

55. The Scottish Government provides more than a third of the Scottish university sector's income and it needs assurance that this significant investment supports the delivery of its strategic priorities. The Scottish Government determines and allocates the budget for university funding on an annual basis, with most funding supporting the delivery of teaching and research over several years. Therefore, the Scottish Government needs assurance in both the short and medium-term.

56. The SFC's Chief Executive is the accountable officer responsible for the use of the funding received from the Scottish Government, and universities are accountable to the SFC for the funding they receive.

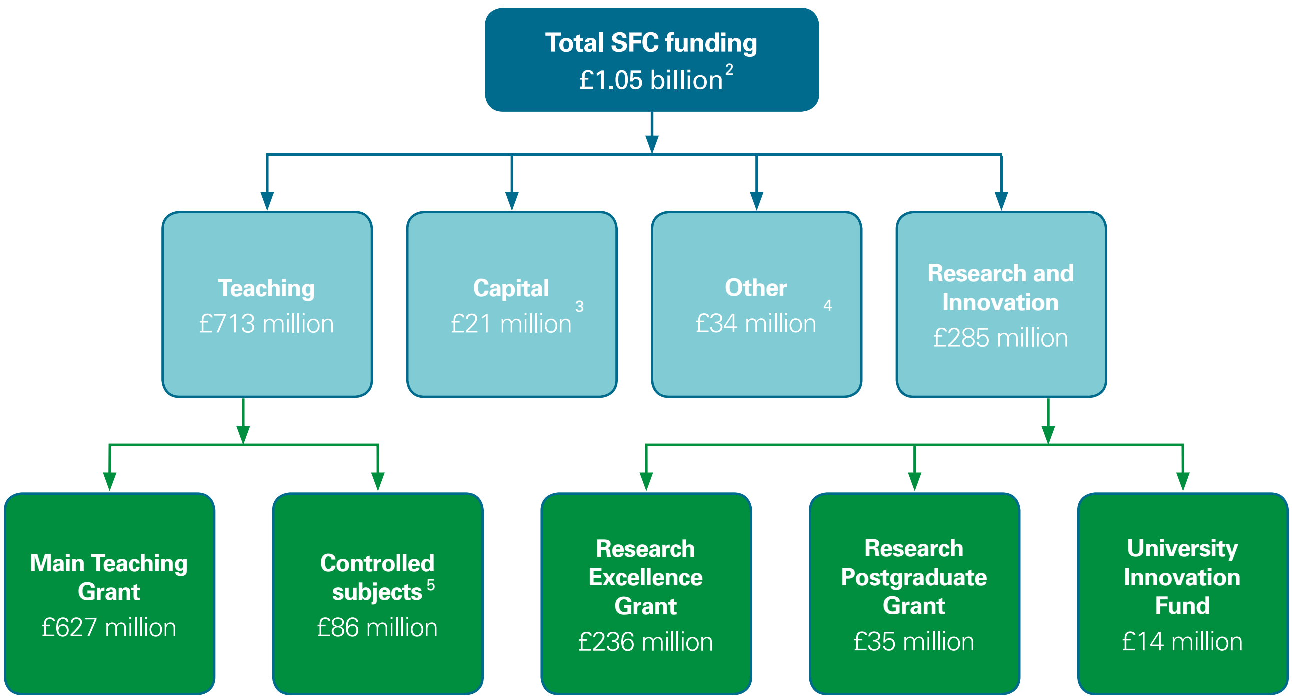
57. The SFC is responsible for determining how Scottish Government funding is distributed to individual universities. The SFC provides universities with indicative funding allocations in February each year and announces the final funding allocations in May (for the academic year starting in August). There are two main funding streams:

- for teaching Scottish and EU students (£713 million in 2019-20)
- to support research and innovation (£285 million in 2019-20) (Exhibit 9).

Exhibit 9

SFC grant funding for universities in 2019-20

There are four SFC grant-funding streams for universities: teaching, research and innovation, capital and 'other'.[1]



Notes:
1. Funding (as at May 2019) is for the academic year 2019-20, except for capital funding which is for the financial year 2019-20.
2. Includes funding for The Open University in Scotland (£24 million).
3. Capital funding excludes £16.8 million SFC funding for research capital grants, which was confirmed in June 2019.
4. Other funding includes non-core teaching funding for small and specialist institutions, for widening access and retention, and for disabled students.
5. Controlled subjects include nursing, medicine and teaching. This grant is ring-fenced and is based on the Scottish Government's workforce requirements.

Source: Audit Scotland using Funding allocations to universities for academic year 2019-20, Annex A, Scottish Funding Council, May 2019.

58. The SFC also provides funding for capital and strategic projects. For example, in 2019-20, the SFC allocated £15 million to modern universities and to The Open University, to support widening access and the retention of students from the most disadvantaged backgrounds.

Outcome agreements are intended to set out what universities plan to deliver in return for the Scottish Government funding allocated by the SFC

59. The SFC has several accountability mechanisms in place for the funding it provides to universities (Exhibit 10). Outcome agreements are intended to be the key link between funding and performance. The process aims to deliver a funding system that supports universities in pursuing ambitious goals, while delivering progress towards SFC and Scottish Government priorities.[38]

Exhibit 10

Key accountability arrangements between the SFC and universities

There are three main documents that outline how universities are accountable to the SFC.

Scottish Funding Council accountability documents	
Financial Memorandum	The Financial Memorandum sets out the formal relationship between the SFC and universities, as well as the requirements with which universities must comply as a term and condition of grant from the SFC.
Outcome agreements	Outcome agreements set out what universities plan to deliver in return for their funding from the Scottish Government, via the SFC. They cover a three-year period and are updated annually, in collaboration with an SFC outcome agreement manager.
Conditions of outcome agreement funding	Published alongside funding announcements each year, this outlines the terms and conditions of outcome agreement funding, including compliance with the Financial Memorandum, relevant Scottish Government legislation and SFC policies. If a university does not meet the conditions of funding, the SFC can encourage the university to make improvements, and ultimately could decide to recover funding from (or reduce future funding to) the university.

Sources: Financial Memorandum with Higher Education Institutions, Scottish Funding Council, December 2014. Annex D – Conditions of University Outcome Agreement Funding, Scottish Funding Council, May 2018. Guidance for the development of University Outcome Agreements: 2019-20 to 2021-22, Scottish Funding Council, October 2018.

It is difficult to determine whether universities are delivering all that Scottish ministers expect of them

There is no specific reference to the NPF outcomes in university outcome agreements

60. The Minister for Further Education, Higher Education and Science wrote to the SFC in November 2018, setting out Outcome Agreement Guidance for 2019-20.[39] The guidance includes a clear reference to the NPF (Exhibit 11, page 29) as part of the wider policy context for higher education, but it does not highlight the NPF outcomes to which the Scottish Government expects universities to contribute.

Exhibit 11

Universities will contribute to many of the 11 National Performance Framework outcomes

Source: Scottish Government

61. Although the NPF was first introduced in 2007, and was refreshed in 2011 and 2016, neither outcome agreements nor ministerial letters of guidance to the SFC prior to November 2018 refer to the NPF. The 2017-18 outcome agreements were developed before the 2018 NPF was launched. There are outcome agreement measures relating to some of the NPF indicators, for example there is a specific outcome agreement measure for carbon footprint, and outcome agreement measures for widening access link to the NPF indicator for young people's participation in education. However, there are no outcome agreement measures that link to other, significant indicators, for example there are no outcome agreement measures for attainment.

62. In its new strategic framework, published in June 2019, the SFC has mapped the measures it intends to use to measure progress towards its objectives to the 11 long-term NPF outcomes (paragraph 8). There is scope, therefore, for the SFC to reflect these measures in future outcome agreements.

The Scottish Government's priorities for higher education are reflected in outcome agreements

63. The SFC provides universities with a framework to support the development of outcome agreements. Outcome agreements set out universities' commitments and how they will contribute to each of the five Scottish Government priorities for higher education, alongside 15 associated national measures.

64. University outcome agreements include specific references to the Scottish Government's five strategic priorities for: teaching; research; widening access; knowledge exchange and innovation between universities and industry; and good governance.

	Scottish Government strategic priorities	Number of measures
1	Access to education for people from the widest range of backgrounds, including implementation of the recommendations of Commission on Widening Access (CoWA) and addressing gender balance.	5
2	High-quality learning in a learning system which is seamlessly connected for the learner, including learning which prepares people well for the world of work, prioritising provision that meets known skills gaps in the economy.	4
3	Internationally competitive and impactful research.	3
4	Effective knowledge exchange and innovation including excellent collaboration between universities and industry.	2
5	Ensuring provision of quality learning in Scottish higher education institutions.	1

Outcome agreements provide a means of supporting delivery of specific Scottish Government priorities, such as widening access

65. Every year, the SFC expects universities to identify targets for each of the 15 national measures, to demonstrate progress towards the Scottish Government's priorities. Targets against these measures vary between universities, reflecting their specific circumstances (ie past performance, student population cohort and subjects taught). The SFC encourages universities to focus on their areas of expertise but also to be aspirational and ambitious with their targets.

66. In her letter of guidance in October 2017, the Minister for Further Education, Higher Education and Science requested that the SFC 'intensify' the outcome agreement process to secure better progress against the Scottish Government's priority areas, including:

- driving improvement towards fairer access, securing progress with the challenging targets set out in the final report of the Commission on Widening Access (CoWA)
- setting more ambitious and challenging targets
- encourage engagement and collaboration

- more dynamic allocation of places and funding to drive and incentivise improvement
- enhanced transparency and accountability of institutional performance
- dynamic allocation of funding to drive and incentivise improvement.[40]

67. The Minister also asked the SFC to demonstrate how Scotland's universities are contributing to the delivery of the national priorities and to provide a clearer line of sight between Scottish Government investment and the delivery of desired outcomes. This follows a recommendation in our 2016 report on higher education.

68. In response to the Minister's request for intensification, the SFC asked universities to include a new section in their outcome agreements, outlining how each university will achieve its targets related to widening access to university for students from deprived areas. The SFC also specified the following requirements in its guidance to universities:

- More ambitious and challenging targets in 2018-19, including a focus on improving retention, attainment, and outcomes.
- More rapid progress on tackling gender imbalances in institutions' senior ranks, on their Boards and Courts.
- Further progress on delivering STEM provision, aligned with the Government's STEM Strategy for Education, Training and Lifelong Learning.

The absence of targets, and evidence of under-performance against some agreed targets, makes it difficult to determine whether universities are delivering what is expected of them

69. The SFC agrees targets with universities, to demonstrate progress against the Scottish Government's priorities but, in 2017-18, not all universities had targets for all outcome agreement measures.

70. The SFC's annual summary of progress and ambitions report provides a high-level overview of the performance of universities against the SFC's outcome agreement measures.[41] Our analysis of teaching and research performance measures found that many universities did not have agreed targets in place for some measures and, in some cases, as few as two universities met their targets (Exhibit 12, page 32). It is not possible, therefore, to assess the performance of all universities against the seven national performance measures relating to teaching and research through their outcome agreements. This also means that the annual summary of progress and ambitions report does not show performance against targets for all measures or for all universities. It also does not include complete trend information.

Exhibit 12
Outcome agreements measures for teaching and research
Not all universities set targets in their outcome agreements for 2017–18.[1]

Scottish Government strategic priority	Outcome agreement measures	Universities with targets	Universities who met targets	Change between academic years 2014-15 and 2017-18
Teaching	**Measure 6:** Retention rates for all Scottish domiciled full-time first degree entrants	15/18	9/15	Retention rates increased at 12 universities (by the most at UHI, by five percentage points).
	Measure 7: Proportion of students satisfied with the overall quality of their course in the National Student Survey	18/18	2/18	Student satisfaction dropped in all but four universities. St Andrews and UHI both saw an increase of five percentage points.[2]
High-quality learning in a system which is seamlessly connected for the learner	**Measure 8:** Proportion of Scotland-domiciled undergraduate entrants on STEM programmes	9/18	2/9	Declined at 10 universities. The biggest increase was at SRUC (by eight percentage points).
	Measure 9A:Proportion of Scotland-domiciled graduates entering positive destinations	No agreed target for this measure but, in 2016-17 students entering a positive destination after completing their course was 93% or higher at all universities.[3]		No data available for 2017-18
Research	**Measure 10**: Number of research postgraduate students	9/18	3/9	Numbers increased at 11 universities. The biggest increases were at Glasgow (by 296) and Edinburgh (by 218).
Internationally competitive and impactful research	**Measure 11**: Total income from UK Research Councils	9/18	3/9	Income declined at nine universities; five do not report baseline and target data consistently.[4]
	Measure 12: Total research income from all sources	10/18	3/10	Income declined at 11 universities.[4]

Notes:
1. Analysis excludes the OU (Appendix).
2. Comparison is between the national student survey results at July 2015 and July 2018.
3. No data available for 2017-18. The data for this measure is currently drawn from a UK-wide survey of graduate destinations. It will be replaced by a survey of graduate outcomes.
4. Trends in research income are in real terms and measure 12 excludes research and development expenditure credits (RDEC) (Appendix).

Source: Audit Scotland using data from the SFC and university outcome agreements and Guidance for the Development of University Outcome Agreements: 2019-20 to 2021-22, Scottish Funding Council, October 2018. For measure 6 only: Audit Scotland using data from the SFC report on Widening Access 2017-2018, Table 2A, 29th May 2019. For measures 11 and 12: Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 to 2019 and university accounts (2014-15 to 2017-18).

There is limited evidence of a clear link between SFC funding and university performance

The SFC has recovered funding where universities have delivered less than the agreed volume of learning activity

71. 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. The SFC will recover funding from universities if they under- or over-recruit against the target number of places it sets for the year. Funding is recovered for over-recruitment to ensure the total fees paid out by SAAS do not exceed the figure for which the Scottish Government has budgeted. In 2017/18, a total of £2.5 million was recovered from universities for recruiting outside the target number of places.

72. The SFC's model for funding to support research takes account of a university's performance in the Research Excellence Framework (REF) (paragraph 77), which takes place approximately every five years. Funding to support research at each university is adjusted based on their performance in the most recent REF exercise. Because much academic research is undertaken over the medium to long-term, recovering funding is not appropriate and could jeopardise research that is already under way. However, annual monitoring of performance against outcome agreement targets for research does provide an opportunity for the SFC to assess, understand and, if necessary, challenge a university's performance on a more frequent basis.

The SFC has not recovered funding for under-delivery against outcome agreement targets

73. Since the introduction of outcome agreements in 2012, the SFC has not recovered funding for under-delivery against outcome agreement targets. While, in some cases, the margin of under-delivery was relatively small, taken together, small margins of under-delivery by several universities will affect national performance. In 2017-18, there were also some instances where universities missed targets by more than 20 per cent; and in two cases, by over 50 per cent.

74. The SFC engages with individual universities around the content of outcome agreements. However, prior to intensification, the SFC did not require universities to set targets for all outcome agreement measures. For example, the SFC was less inclined to specify a target for measures relating to research for non-research intensive universities. The SFC engages with universities when they face challenges in delivering against agreed targets, but evidence of specific challenge by the SFC when target performance levels were not achieved is limited.

75. Following intensification, the SFC has agreed targets for almost all measures for all universities, and will systematically review performance against these targets as part of its monitoring arrangements. Given our findings in relation to target setting and performance against targets in 2017-18, it will be important that the SFC monitors trends in performance and, where agreed targets are missed, takes action appropriate to the circumstances.

The SFC's funding models provide universities with a degree of stability but strategic funding has reduced

76. The SFC calculates funding for its main teaching grants each year based on: its annual budget; the amount allocated to the sector in the previous year; any new policies introduced by the Scottish Government; and consultation with universities around changes to planned provision in specific subjects. For subjects that are nationally controlled, such as nursing, medicine and teaching ('controlled' subjects), the teaching grant is ring-fenced and is based on the Scottish Government's workforce requirements for that year.

77. The SFC's funding to support research has three main components (Exhibit 9, page 27). The main grant is the Research Excellence Grant (REG) which is formula-based and informed by universities' performance in the REF. REF is a joint exercise conducted by all four UK higher education funding bodies including the SFC. REF results are intended to provide accountability for public investment in research as well as benchmarking information. The exercise assesses research quality and considers publications, impact beyond academia and the environment that supports research, including facilities and the quality of staff. Overall, the performance of Scottish universities improved in the last REF in 2014, but the total amount of SFC research funding did not increase.[42] This meant that the research grant was spread more widely across the sector than in previous years and most research-intensive universities received less SFC research funding.

The current SFC funding models offer little scope to reflect individual universities' circumstances

78. The formula-based funding models for the core grants for teaching and research are widely accepted by the sector because they provide transparency, understanding and are perceived by the sector to be fair. However, there is little scope for the SFC to adjust funding to individual universities to reflect specific circumstances. The SFC allocates strategic funding for specific purposes, such as innovation centres, diversity and specialism. Strategic funding has reduced by 46 per cent in real terms, from £69 million in 2014-15 to £37 million in 2017-18 (four per cent of total revenue funding).[43] The reduction in strategic funding means that less funding is available to support new developments or to respond to specific circumstances or issues that arise. In the most recent letter of guidance in July 2019, the Minister for Further Education, Higher Education and Science emphasised the need for projects funded from strategic funds to be self-sustaining where appropriate, asking the SFC to reduce universities' reliance on strategic funds and to integrate and mainstream such funding arrangements where possible.[44]

The SFC has a good picture of the sector's short- to medium-term financial health

The SFC's financial analysis relies on the knowledge of a small team

79. The SFC formally reviews the financial performance of the sector twice a year, using the audited accounts submitted in December and three-year financial forecasts in June.[45] The SFC reviews the accounts and forecasts, alongside audit reports and discussions with the universities' finance teams.

80. The SFC does not routinely review universities' long-term financial strategies. Financial strategies are likely to provide more contextual information, scenario plans and longer-term forecasts, which could reduce the number of enquiries the SFC needs to make of universities each year. It would also provide a greater level of assurance on financial sustainability in the longer-term including, importantly, the ability of universities to deliver the Scottish Government's strategic priorities.

81. The SFC currently relies on the knowledge and experience of a small team of staff. While the SFC has guidance to assist staff when analysing financial information, there is scope for this to include clearer criteria and specific examples of areas that might lead to increased engagement with individual universities. This means if any members of the team are absent, or were to leave the SFC, there would be less risk that knowledge is lost or that the SFC would not be able to continue assessing the financial health of the sector to the same standard.

The SFC publishes a very high-level summary of the sector's financial position

82. For both the annual accounts and financial forecasts, the SFC reports its analysis to its finance committee, which includes an observer from the Scottish Government. The reports provide a good summary of the accounts, forecasts, challenges facing individual universities, and actions the SFC is taking to help address any problems.

83. The SFC also publishes an annual summary of the financial position of the sector based on the audited accounts. This includes very high-level commentary on the sector's income profile, operating position and balance sheet performance. While the report does not include any analysis of universities' financial forecasts, it does outline the key risks to financial sustainability (which broadly align with those we discuss in part two).[46]

84. Publishing a more detailed summary of the SFC's analysis of annual accounts and financial forecasts, anonymising individual universities (like that published by the Office for Students in England), would increase transparency, and support scrutiny by interested stakeholders.[47]

The SFC has a framework that helps it to determine whether it needs to engage more closely with individual universities

85. In August 2017, the SFC began developing a framework, to help it determine how it should engage with individual universities. It does this by assessing the finances and performance of each university. This is summarised in a document covering the sector. For the April 2019 meeting of the SFC finance committee, the document included the SFC's judgements on financial health and governance arrangements, and quality of learning and funded teaching activity. The report for the committee's meeting in May 2019 also included the SFC's commentary on the quality of research and innovation. However, these reports do not include any quantitative assessment of performance against targets and there is no link or commentary on the implications of underperformance for future funding.

The SFC has not set out proposals to secure the delivery of the Scottish Government's priorities

86. The Scottish Government has acknowledged the valuable contribution that universities make to economic growth, as well as the wider social benefits of university education. It is important that the Scottish Government is aware of the challenges the sector faces, as well as the risks that may affect delivery of its strategic priorities.

87. The Strategic Futures Group, comprising representatives from the Scottish Government, SFC and Universities Scotland, meets regularly to discuss issues affecting. The Scottish Government has also provided support to the university sector for specific issues. For example, the Scottish Government decided not to implement a recommendation from the Barclay review, which recommended removing rates relief for universities, commercial activities outside term time.[48] The Scottish Government also implemented changes to funding packages for postgraduate students, which contributed to a slight increase in enrolment figures.[49]

88. The financial analysis prepared by the SFC provides the Scottish Government with a clear picture of the challenges the university sector faces, as well as specific challenges for individual universities. The SFC's new Strategic Framework highlights the challenges and, at a high level, outlines the activities the SFC will undertake to support the delivery of Scottish Government priorities.[50] However, the SFC has not yet set out specific proposals to mitigate risks to the sector's ability to deliver the Scottish Government's priorities.

Endnotes

1 *Going for Growth. A summary of Universities Scotland's submission to the 2017 Spending Review,* Universities Scotland, August 2017.

2 *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy*, Scottish Government, May 2018.

3 *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy,* Scottish Government, May 2019.

4 In Scotland, higher education is delivered by both higher education institutions and colleges.

5 Student numbers by HE provider and subject of study at Scottish universities (headcount), for all levels and modes of study, excluding the Open University in Scotland, Higher Education Statistics Agency, January 2019. Figure includes some double counting due to some students enrolling on more than one programme of study.

6 Audit Scotland using the amount of university tuition fees paid by SAAS in academic year 2018-19, Student Awards Agency for Scotland, February 2019. The figure excludes tuition fees for nursing and midwifery students.

7 *Ministerial letter of guidance 2018-2019 to the SFC,* Scottish Government, April 2018.

8 *Working Collaboratively for a Better Scotland: strategic plan*, Enterprise and Skills Strategic Board, October 2018.

9 *National Performance Framework*, Scottish Government, June 2018.

10 Further and Higher Education (Scotland) Act 2005, Acts of the Scottish Parliament, 2005 asp 6, Part 1, The Council: functions, Section 17, October 2005.

11 Amendment of Public Finance and Accountability (Scotland) Act 2000, Public Services Reform (Scotland) Act 2010, Section 118, March 2010.

12 GDP deflators at market prices, and money GDP March 2019 (quarterly National Accounts), HM Treasury, April 2019.

13 Except for Scotland's Rural College (SRUC), which has a financial year end in March.

14 Audit Scotland using the lines for higher education in Scottish spring budget revisions, Scottish Government, February 2011 to February 2019. Figures exclude financial transactions loans. Figures include funding for The Open University in Scotland (OU, £23 million in 2017-18), which is excluded from the analysis of financial statements (from paragraph 22), because OU does not split out operations in Scotland in its financial statements.

15 Audit Scotland using Higher Education Provider Data: Finance, Higher Education Statistics Authority, March 2016 and 2019, and university financial statements (2014-15 to 2017-18).

16 *Outcome Agreement Funding for Universities – Final Allocations for AY 2014-15 and 2017-18,* Scottish Funding Council, May 2014 and May 2017.

17 Audit Scotland using amount of tuition fees paid by SAAS in academic year 2018-19, Student Awards Agency Scotland, February 2019. The figure excludes tuition fees for nursing and midwifery students.

18 Financial Transactions are a form of capital budget allocated by HM Treasury to the Scottish Government, which can only be used for the provision of loans or equity investment beyond the public sector and cannot be used to fund public services. Financial transactions have to be repaid to HM Treasury in future years.

19 This figure does not include funding universities receive directly from local authorities, European Structural Funds, local health boards, enterprise agencies or UK Government.

20 Scottish and EU fee income is largely determined by the number of students funded by the SFC, which in turn is based on the annual Scottish Government budget.

21 *The Education (Fees) (Scotland) Regulations 2011*, Scottish Government, 2011. Act enforced in August 2012.

22 *Reddin Survey of University Tuition Fees 2017-18, The complete university guide* 2017.

23 *Transparent Approach to Costing 2016-17,* Scottish Funding Council, January 2019.

24 *2018/2019 Outcome Agreement with the SFC,* University of Dundee, July 2018.

25 Letter to Deputy First Minister regarding Scottish Funding Council Indicative Allocations 2019-20, Universities Scotland, March 2019.

26 *Scheme funding report of the actuarial valuation Universities Superannuation Scheme as at 31 March 2017,* Mercer Limited, March 2017.

27 *Announcement to members, University and College Union*, 28 June 2019.

28 *Letter to Principals of Higher Education Institutions*, Scottish Funding Council, June 2019.

29 *Estates Management Record, 2017-18,* Higher Education Statistics Agency.

30 *Submission to the Scottish Government Spending Review 2018,* Universities Scotland, 2018.

31 Scottish university financial statements, 2017-18.

32 *Estates Management Record, 2014-15 to 2017-18,* Higher Education Statistics Agency, February 2019. Data provided to Audit Scotland by the SFC in August 2019.

33 Audit Scotland using data provided by the Scottish Funding Council and Student Awards Agency for Scotland, July 2019.

34 Guidance, Horizon 2020 funding after Brexit, UK Government, August 2019.

35 Disposal of property: Procedures for Universities, Scottish Funding Council, August 1997.

36 *Post-18 review of education and funding: independent panel report*, UK Department for Education, May 2019.

37 *The 24th meeting of the Finance Committee of the Scottish Funding Council*, SFC, May 2019.

38 *Guidance for the Development of University Outcome Agreements: 2019-20 to 2021-22*, Scottish Funding Council, October 2018.

39 *Scottish Funding Council, 2019-20 Outcome Agreement Guidance,* Scottish Government, November 2018.

40 *Scottish Funding Council, Letter of guidance 2018-19,* Scottish Government, October 2017.

41 *University Outcome Agreements, Summary of Progress and Ambitions Report 2018*, Scottish Funding Council, October 2018.

42 *Outcome Agreements for universities – indicative funding decisions for the Research Excellence Grant for AY 2015-16 to AY 2017-18 and Research Postgraduate Grant for AY 2015-16*, Scottish Funding Council, March 2015.

43 Audit Scotland using *Funding allocations to universities for Academic Year 2014-15 and 2017-18, Annex A*, SFC.

44 *Scottish Funding Council, Letter of guidance 2019-20,* Scottish Government, July 2019.

45 *Financial Memorandum with Higher Education Institutions,* Scottish Funding Council, December 2014.

46 *Summary financial position of the university sector: analysis of 2017-18 financial statements,* SFC, July 2019.

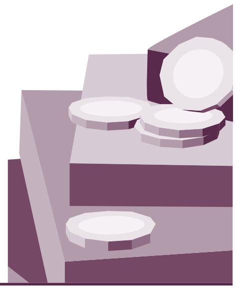
47 *Financial sustainability of higher education providers in England,* Office for Students, April 2019.

48 Report of the Barclay Review of non-domestic rates, Barclay Review, August 2017.

49 *Taught post-graduate review, Working Group Final Report*, December 2015.

50 *Strategic Framework 2019-2020*, Scottish Funding Council, June 2019.

Appendix



Background information

Throughout the report, we refer to the following four university groupings:

- Ancient universities – University of Aberdeen (Aberdeen), University of Edinburgh (Edinburgh), University of Glasgow (Glasgow), University of St Andrews (St Andrews).
- Chartered universities – University of Dundee (Dundee), Heriot-Watt University (HWU), University of Stirling (Stirling), University of Strathclyde (Strathclyde).
- Modern universities – Abertay University (Abertay), Edinburgh Napier University (Napier), Glasgow Caledonian University (GCU), University of the Highlands and Islands (UHI), Queen Margaret University (QMU), Robert Gordon University (RGU), University of the West of Scotland (UWS).
    - UHI is unlike other universities in the sector because it delivers higher and further education through a partnership of 13 colleges, research institutes and specialist institutions across the Highlands and Islands. These partners are separate legal entities which employ their own staff and own their assets. All figures taken from the financial statements exclude income and expenditure (around £12 million or 10 per cent of UHI's total income in 2017-18) for research undertaken by UHI's partners.
- Small and specialist institutions (the SSIs) - Glasgow School of Art (GSA), Royal Conservatoire of Scotland (RCS), Scotland's Rural College (SRUC) and the Open University in Scotland (OU).
    - As OU financial statements do not differentiate their operations in Scotland from the rest of the UK, OU was excluded from the analysis of financial statements. In 2017-18, the SFC provided £23 million to the Open University in Scotland. OU was also excluded from the analysis of outcome agreements as the performance measures they use are not directly comparable to those used for other universities in Scotland (Exhibit 12, page 32).

When referring to student income (paragraph 30), we use the following terms:

- 'Scottish students' to refer to students whose home address is in Scotland
- 'RUK students' for students whose home address is in the UK but outside Scotland
- 'EU students' to refer to students whose home address is in the EU but not in the UK

- 'non-EU' students for students whose home address is outside the EU.

When we refer to Scottish Government funding to universities via the Student Awards Agency Scotland (SAAS), for Scottish and EU student tuition fees, this includes only income relating to eligible Scottish and EU students, as defined by SAAS.

Audit methodology

Evidence for the audit was gathered using three main approaches:

- Desk Research: We reviewed a range of information on universities in Scotland, including the SFC's letters of guidance, outcome agreements, other SFC reports, university strategic plans and accounts, ministerial letters to the SFC, Scotland's Economic Strategy and the National Performance Framework.
- Interviews: We conducted interviews with officials from the Scottish Government, SFC and the SAAS. We also met with a range of stakeholders, including universities, unions and auditors.
  - We carried out interviews at four universities: Edinburgh Napier University, Scotland's Rural College, Strathclyde University and the University of St. Andrews. We interviewed a range of staff, including principals, vice principals, directors of finance, heads of research and innovation, knowledge exchange, international recruitment, student support and strategic planning, estates directors.
- Data analysis: We analysed data from: the Scottish Government, the SFC, the Higher Education Statistics Agency and university financial statements. This included trend data on: the Scottish Government's budget; student numbers; and university income, expenditure and balance sheet information. Unless otherwise stated, all financial figures are in real terms.

Audit advisory group

Audit Scotland would like to thank the members of the advisory group who provided advice throughout the audit. The advisory group comprised:

- Lorna MacDonald (Scottish Funding Council)
- Professor Nigel Seaton (Abertay University)
- Liam McCabe (University of Stirling)
- Dr Roddy MacDonald (Scottish Government)
- Richard Dale (University of Newcastle).

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

Notes on financial data

The Scottish Government's budget (paragraph 21):

- Around half of capital funding is for maintenance, which is allocated pro-rata, to a university's share of its main teaching grant. The remaining capital funding is to support research or specific projects. For example, in 2018-19, the SFC provided GSA with loan support of £3.8 million.
- The capital budget fluctuates from year to year. In 2016/17, an additional £24.3 million was allocated to universities for the upgrade and maintenance of estates and research infrastructure. This was part of the Scottish Government's £100 million capital investment package to support the economy following the EU referendum result.

Measures of financial health: operating position and underlying position Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) (paragraphs 15–19)

- Operating position is the surplus or deficit at the year-end. It is the income minus expenditure. There are a number of reasons why this can be an unreliable measure of financial health. For example, since 2015-16, universities must comply with Financial Reporting Standard 102 (FRS102). FRS102 changed the way some income and expenditure items were reported. This could make the operating position more volatile from year to year, making trend analysis more difficult. For example, capital grants, donations and endowments are now recognised as income, in full, in the year they are received. Before FRS102 was implemented, capital grants, donations and endowments were accounted for as income as the money was spent. In 2017-18, SFC capital grants were £28 million (0.7 per cent of income) and total donations and endowments were £41 million (one per cent of income). While this income is small relative to total income, it is concentrated in a small number of universities each year.
- To ensure figures are comparable between 2014-15 and 2017-18, we used the 2014-15 figures reported in the 2015-16 accounts. However, variation in universities' accounting policies across the sector prior to the implementation of FRS102 continue to affect the operating position for each university in different ways. For example, universities have different policies on the frequency of asset revaluation. For some universities, depreciation charges resulting from the revaluation of assets in 2014 continue to be included in the operating position, despite fluctuations in the property market over this period.
- EBITDA is the operating position before decisions on accounting and financing policies are applied. We calculated EBITDA using the definition recommended by the British Universities Finance Directors Group (BUFDG) in 2017. The figure does not include an adjustment for tax as this is very small for universities. EBITDA was calculated as follows:
  - surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates
    - **plus:** share of operating surplus/(deficit) in joint venture(s); share of operating surplus/(deficit) in associate(s); depreciation; amortisation of intangibles; amortisation of goodwill; interest payable; pension cost adjustment; fundamental restructuring costs
    - **minus:** capital grant income; new endowments; Research Development and Expenditure Credits (RDEC).

While RDEC is not in the BUDFG definition of EBITDA, it is an exceptional item that seven universities received in 2014-15 (totalling £64 million). RDEC was an HM Revenue and Customs tax credit that universities were able to claim on eligible research expenditure between 2013 and 2015.

TRAC (paragraphs 31–34)

- TRAC was established in 2000, to identify the full economic cost of research activities. It was intended to improve accountability for the use of public funds for research and to inform university decision-making. TRAC was subsequently extended to other university activities, including teaching. In 2015-16, to reflect changes resulting from the introduction of FRS102, the methodology for calculating TRAC was adjusted. These changes make it difficult to compare TRAC results from 2015-16 onwards with historical TRAC data.
- The calculation of TRAC requires individual universities to assess how costs should be allocated. For example, it is up to a university to decide how to apportion the maintenance and utility costs for a building that is used for both teaching and research, and this approach may vary across the sector. This subjectivity may result in TRAC data being inconsistent or misleading, particularly when comparing individual university-level data.

Cash and cash equivalents (paragraph 45) (Exhibit 7):

- This is the total value of cash held by the university, including items that can be converted easily and quickly into cash. We have used the cash and cash equivalent figures reported in university financial statements.

Unrestricted income and expenditure reserves (paragraph 47) (Exhibit 7):

- This is the accumulated surplus produced from a university's activities. In 2017-18, the £3.9 billion reserve consisted of:
  - the £3.5 billion balance at August 2017
  - minus a £25 million operating deficit in 2017-18
  - plus:
    - £392 million other comprehensive income (including, for example, gains or losses on investments that are classified as available for sale; pension plans and foreign currency translation)
    - £37 million transfer from the revaluation reserve (gains from the revaluation of fixed assets)
    - £4 million release of restricted funds spent in the year.

Net assets (paragraph 48) (Exhibit 7):

This is the total assets (eg buildings) owned by a university minus its total liabilities (eg debt).

Borrowing (paragraph 54):

- This includes: bank overdrafts, bank loans and external borrowing, obligations under finance leases and service concessions, and loans repayable to the SFC. The figure excludes other creditors such as SFC grant recovery, deferred income and deferred capital grants.

Finances of 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

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 913287 08 5 AGS/2019/6