

Project scope

Finances of Scottish universities



AUDITOR GENERAL 

Prepared by Audit Scotland
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Background

The higher education sector in Scotland makes an important contribution to both the Scottish economy and wider society. It has global reach, attracting students from across the world. An internationally competitive and inclusive higher education sector is central to achieving the Scottish Government's strategic objectives of a 'Smarter Scotland' and a 'Wealthier and Fairer Scotland'.

The sector is diverse, with 19 autonomous higher education institutions (which we refer to here as 'universities'), differing in history, size, profile, location and mission. In the 2016-17 academic year, there were 241,935 students enrolled in Scottish universities.¹ The Scottish Government, through the Scottish Funding Council (SFC), provides around £1.1 billion per year to support teaching, research and innovation activities at Scottish universities.² In 2016/17, the sector raised an additional £775 million in research grants and contracts.³ Universities also received around £1.09 billion for tuition fees and education contracts, and around £626 million from other sources.⁴

Universities are responsible for appointing their own external auditors, unlike Scottish public bodies, whose external auditors are appointed by the Auditor General for Scotland and the Accounts Commission. The Auditor General for Scotland has had powers since 2010 to perform value for money audits in bodies funded by the former 'higher education funding body for Scotland' (the SFC).

Why are we doing this audit?

Audit Scotland published an [Audit of higher education in Scottish universities](#)  in July 2016. This included an assessment of the financial position of Scottish universities in 2014/15. We concluded that, overall, the sector was in good financial health, with an income of £3.5 billion and a surplus of £146 million. However, income and surpluses varied by institution and some universities were heavily reliant on Scottish Government funding. We also found that universities were increasingly relying on income from fee-paying students from the rest of the UK and outside the European Union (EU). Our report concluded that universities need to continue to generate surpluses and make efficiency

savings to fund capital costs and to subsidise some of their activities.

Universities continue to face several challenges that could impact their financial sustainability and performance. These include:

- potential reductions in funding from the SFC within the current challenging financial environment
- increasing costs of maintaining university estates and funding capital investments
- rising staff and pension costs
- continuing to attract fee-paying students from the rest of the UK and outside the EU in an increasingly competitive market.

The impact of UK withdrawal from the EU is also likely to present both challenges and opportunities for universities in Scotland. Some potential implications for the sector are included in our recent briefing paper: [Withdrawal from the European Union: Key audit issues for the Scottish public sector](#) .

What will the scope of the audit be?

The overall aim of the audit is to report on the financial position of Scottish universities in 2017/18 and to assess how effectively the SFC plans and manages funding for the sector. The audit will seek to answer the following questions:

- What was the financial position of the higher education sector in Scotland in 2017/18?

- 1 Higher Education Student Statistics: UK, 2016/17 - Student numbers and characteristics, HESA, January 2018.
- 2 Scottish Government draft budget, 2018/19.
- 3 What is the income and expenditure of HE providers? HESA, March 2018. Note: this figure excludes Scottish Funding Council grants for research.
- 4 The £1.09 billion for tuition fees and education contracts includes: £467 million from tuition fees for UK and EU students for higher education courses; £539 million from tuition fees for students outside the EU for higher education courses; and £80m for further education course fees and 'education contracts'. The £626 million from other sources includes income from services rendered to industry and public bodies, consultancy work, endowments and donations. Financial information excludes activities undertaken by the Open University in Scotland.

- What are the financial opportunities and challenges for the sector, and for individual institutions over the next five years?
- How well are Scottish universities, the SFC and the Scottish Government working together to develop sustainable plans for the sector?

We will not specifically look at the effectiveness of individual universities' governance arrangements, funding for student support or funding for delivering higher education in Scotland's colleges.

How will we carry out the audit?

We will gather evidence using a range of methods, including analysing data, reviewing documents and interviewing staff in relevant bodies, including universities, the SFC and the Scottish Government.

What impact will the audit have?

The audit will establish the financial health of the higher education sector in Scotland. It will also assess the potential scale of future financial challenges and the extent to which the sector is equipped to deal with these challenges. We will highlight good practice and make recommendations for improvement.

Audit timing and contacts

We plan to publish our report in the autumn of 2019. We are carrying out the audit on behalf of the Auditor General for Scotland. For further information, please contact Adam Bullough, Audit Manager, on 0131 625 1865 or abullough@audit-scotland.gov.uk .



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