

Professor Alice Brown CBE FRSE  
Chair  
Scottish Funding Council  
Apex 2  
97 Haymarket Terrace  
Edinburgh  
EH12 5HD

8 February 2016

Dear Professor Brown

## **SCOTTISH FUNDING COUNCIL (SFC) – LETTER OF GUIDANCE 2016-17**

### **Ministerial Letter of Guidance to the Scottish Funding Council**

#### **Introduction**

1. I wrote to you in September 2015 setting out my expectations for the funding provided to the Scottish Funding Council (SFC), before you finalised your guidance to institutions for outcome agreements for 2016-17. I made clear in that letter that the timing of the UK Government's Comprehensive Spending Review meant I was unable at that point to advise on funding figures, and that I would write again following publication of the Scottish Draft Budget.

2. The Scottish Government has now published its Draft Budget proposals for 2016-17, including planned funding for colleges and universities:

<b>Financial Year 2016-17</b>	<b>(£m)</b>
Higher Education Resource	1027.2
Higher Education Capital	35.7 (including £10m Financial Transactions)
College Resource	530.3
College Capital	27.0
College NPD Expenditure	24.4

3. As normal, transfers in and out of the budget will be detailed in the Spring and Autumn Budget Revisions, published each year and subject to Parliamentary scrutiny. Budgets for 2017-18, and subsequent years, will be confirmed as part of the forthcoming Spending Review.

4. In what has been a tight financial settlement for public services across Scotland, I am pleased to confirm that I have been able to protect college resource funding at 2015-16 levels, and that I have maintained investment in the university sector at over a billion pounds. The Scottish Government makes a significant investment in Scotland's people through the resources provided to schools, colleges and universities. We want to build a stronger economy and a fairer society. Part of that is ensuring that the post-16 learner journey delivers for every individual.

5. This settlement clearly recognises the importance the Scottish Government places on the vital role of Scotland's colleges in ensuring learners have employment-focused learning opportunities; and our continued commitment to supporting a world-class university sector delivering high quality learning and contributing to economic growth through skills, research and innovation.

### **Effectiveness and Efficiency**

6. In 2016-17, I again look to the SFC to make decisions that ensure the funds provided to it by the Scottish Government are used strategically and in a way that enables institutions and their partners to deliver high quality outcomes for Scotland's learners. These decisions should support the development and delivery of study programmes that offer coherent, accessible, high-quality provision for learners across Scotland, and enable universities to undertake world-class and impactful research.

7. Consistent with the principles of the Christie Commission, we want organisations delivering public services, and in receipt of public funds, to work together effectively to achieve outcomes, improve performance, and secure public value. In 2016-17, I want you both to generate ideas and explore existing mechanisms through which the SFC can work with Strategic Forum Partners (Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and Visit Scotland), as well as other partners across the education and skills landscapes to maximise opportunities for efficiencies and to support delivery of a more coherent learner journey.

### **Funding and High Level Objectives**

8. I set out in my letter of 10 September 2015 the high level strategic objectives for both the college and university sectors and can now confirm that these remain unchanged. I expect to see the SFC use the resources available to it to deliver against each of these strategic objectives.

9. The SFC has, for the first time, been allocated £10m of financial transactions to support capital activity in the university sector. I expect the SFC to work collaboratively with the sector to determine the most effective way in which these can be used. This work should align with the SFC's forthcoming Infrastructure Investment Plan which I expect to be ready in Spring 2016.

10. The budget allocated to the SFC also includes £24.4m to cover College NPD expenditure. I expect the SFC to use this funding to cover the unitary charge payments required for college NPD projects in 2016-17.

11. I welcomed the publication of the SFC's Strategic Plan 2015-2018 in November 2015 – a plan which is broad in scope and stretching in terms of ambition. I note the three main outcomes set out in the plan which are to be delivered by 2018: delivery of high quality learning and teaching; provision of world leading research; and stimulating innovation in the economy. I ask that the SFC ensures that robust processes are in place to ensure delivery of its aims and that regular progress towards meeting these ambitions is reported to the Scottish Government, noting the ambitions of the Deputy First Minister for reform and simplification of the innovation support landscape.

12. In addition, I would like to restate my commitment to supporting free tuition. The substantial resource provided to the SFC enables all Scottish domiciled first time undergraduates to access high quality education without having to pay for it. A firm emphasis on access to education being based on the ability to learn, not the ability to pay is one that the Scottish Government places right at the heart of our ambitions for Scotland. I am also committed to both the FE and HE sectors supporting our broader ambitions for Scotland and communities across the country, including the development of a strong and productive labour force, with the skills to maximise our country's economic potential, and improve life chances for all our citizens. Colleges in particular have an important contribution to make to these objectives, working closely with local and regional partners, the business and third sectors, and local communities.

13. The Community Empowerment (Scotland) Act 2015 places statutory duties on regional colleges and Regional Strategic Bodies to work closely with other partners and community bodies in Community Planning Partnerships to improve local outcomes and tackle inequalities. I look to the SFC to support the Boards of Management of regional colleges and Regional Strategic Bodies in meeting these and other statutory duties in the Act in order to exploit opportunities to use collective resources in ways which can deliver for communities across Scotland.

## **Strategic Objectives**

### Fair Work and Living Wage Accreditation

14. Ministers have been clear that public bodies should lead the way on Fair Work, ensuring access to good jobs providing security and opportunity to employees, treating them with respect and providing fair reward. In line with this, I welcome confirmation that the SFC has, over the course of 2015-16, become an Accredited Living Wage Employer. I would ask that you build on this by encouraging more FE and HE institutions to become Accredited Employers themselves and to promote the benefits of Fair Work, both through their HR functions and more widely to staff and students.

### Gender Balance

15. Gender Equality on Boards is a key focus of the programme for Government. Ministers have made clear their commitment to change through 50:50 by 2020 and I am pleased to note the progress the SFC has made on this with regard to its own Board.

16. I would also like to reiterate my commitment to working in partnership with the SFC, college and university sectors and others to address the underrepresentation of women in STEM subject courses, in academia and on the governance structures of many of our institutions. In line with this, I expect the SFC and its education partners to engage actively

with the college and university sectors in the development of the gender action plan, and to address the gender imbalance at senior academic levels in our institutions.

## STEM

17. I expect both colleges and universities to shape their offer to address the known and emerging skills needs of different parts of the economy. To that end I look to the SFC to collaborate closely with SDS on the use by the university and college sectors of Skills Investment Plans and to ensure that close links with industry are maintained and developed by institutions. Of particular importance are the high level skills which support economic growth. To this end, I expect the SFC to work closely with partners and institutions to support the delivery of STEM provision which meets the needs of employers and the economy. Of particular interest are the ICT-digital and low carbon sectors, which are identified as priorities in Scotland's Economic Strategy.

## Learner Journey

18. Within the college and university sectors, I believe there is potential to ensure a more streamlined approach to the learner journey, ensuring that there is a clearer, more targeted path for young people between schools, colleges, universities and employment. In that context, I would like the SFC to allocate funding in a way that can best support more impactful delivery and, crucially, improvement in the quality of the learner experience.

19. I want to secure an education system that better enables schools, colleges and universities to offer a diverse range of learner journeys. Each sector should link with, and build upon, other parts of the system, at all times putting the learner at the centre. I therefore want to step up significantly efforts to get people into work, or to the next level of education at the right pace for the student.

20. For some, this will mean a focus on courses that articulate effectively with higher education; for others, we shall need provision that builds quickly, and with purpose, on what they have learned at school - including the new vocational pathways created through *Developing the Young Workforce* - and which get people ready for work quickly.

21. For others, colleges are a route to higher education. I want to make increasing use of the role of colleges in higher education – both in providing higher national qualifications that are valued by industry in their own right, and in articulating with university courses. Effective and successful learning will improve outcomes for Scotland's learners. This is a complex matter requiring genuine collaboration. The SFC should strengthen its role in ensuring that what we offer to learners is coherent and of high quality.

## **Outcome Agreement Process**

22. The outcome agreement process is now entering its fifth year. I welcome the progress that the SFC has made in delivering this important reform. By continuing to use this process, and focusing on the importance of outcomes for learners and the Scottish economy across both the college and university sectors, I expect the SFC to be able to demonstrate clearly how Scotland's colleges and universities are contributing to the delivery of our national priorities, and particularly the expectations set out in both the Government's Programme for Government and Scotland's Economic Strategy.

23. Moreover, I expect the SFC to support institutions to develop and deliver these outcome agreements in an inclusive, outward-focussed way. You should therefore continue to work to improve the outcome agreements process for future years, ensuring robust negotiation, and performance management, of commitments.

## **Institutional Governance**

24. All institutions in receipt of public funding are required to adhere to the highest possible standards of good governance at all times: SFC must play a key leadership role in pro-actively assuring itself that institutions are governed effectively and are meeting the terms and conditions of their grant.

25. I welcome the SFC's input to my College Good Governance Task Group in considering further measures to improve college governance and to increase confidence therein. The Group will report in March and I expect the SFC to implement its recommendations swiftly and effectively. Among other things, the report will inform a revised college code of good governance.

26. The Higher Education Governance (Scotland) Bill is nearing the end of its consideration by Parliament. Should Parliament pass this legislation, I expect the SFC to continue to work with the university sector to improve and refine governance practices. A review of the Code of Good HE Governance is planned for 2016. I also expect the SFC to engage with sector partners in this work, with the aim of embedding a more modern, transparent and inclusive approach to governance as we move further into the 21<sup>st</sup> century.

## **Higher Education Institutions**

27. I will continue to work with the university sector to build a long term partnership underpinned by our significant investment, supporting the delivery of our key priorities, including our economic strategy and our widening access ambitions. The SFC shares my ambitions for a university sector that delivers world-class research, excellent and widely accessible learning for all, and innovation that drives business growth. I look to the SFC to work collaboratively with my officials and the sector to ensure that this ambition becomes a reality, working together to maximise the benefits of higher education for Scotland's success.

28. The recently published UK Government Green Paper "Fulfilling Our Potential – Teaching Excellence, Social Mobility and Student Choice" sets out a number of reform proposals for England. However, a number of proposals - including the Teaching Excellence Framework, new Research UK and the REF review - have the potential to impact on the competitiveness and funding of Scotland's university sector. I look to the SFC to work with my officials to ensure that the development and implementation of these proposals have no adverse consequences for the provision of higher education in Scotland.

## **Access and Learning**

29. Core budget allocations to universities are important to ensure high quality, widely accessible learning experiences and to support world class research. As such I ask the SFC to protect, as far as possible, the available budget for core teaching and research.

30. At the same time, I want to ensure a continued focus on benefits for learners and to ensure that there is no diminution in efforts to widen access. This Government is firmly committed to achieving our ambition that every child, whatever their socio-economic background, should have an equal chance of attending university. I therefore expect the SFC to drive further and faster progress here, using the various levers at its disposal, informed by the findings and forthcoming recommendations of the Commission on Widening Access. I would expect to see this progress reflected in continued improvements in national measures.

### Skills

31. A particular priority is digital skills. We currently have an insufficient number of college and university graduates entering the labour market with the necessary digital skills to occupy the wide-range of jobs available within the sector itself and across other sectors. I expect the SFC to ensure students have access to the courses that reflect the needs of industry (particularly Computing Science) and to ensure that the links currently established between industry and HE/FE are built upon. I also expect the efforts of the SFC to reflect that of the public sector as a whole in addressing the gender imbalance within computing science studies across the education pipeline.

32. The Scottish Government is considering recommendations contained in the final report of the review, led by Professor Bryan MacGregor, of the support for taught postgraduate students in Scotland. I would expect the SFC to work with Scottish Government officials to examine the format of support for postgraduate students in future. This work will be also be informed by the introduction of new support for students in England by the UKG.

### Research

33. I believe that the budget settlement for the university sector will enable the core research budget for higher education to be protected as a key investment for the future of Scotland that supports the leverage of funds into Scotland from elsewhere. In recognition of this, I would ask the SFC to seek to maintain the Research Excellence Grant in 2016-17 at the same level as in 2015-16.

### Knowledge Exchange and Innovation

34. Innovation is a key driver of growth, competitiveness and productivity and sits at the heart of Scotland's economic policy. As set out in the Draft Budget, we also believe that our approach to innovation requires greater focus to maximise economic impact. Universities are central to our ambition of becoming a world-leading entrepreneurial and innovative nation. I therefore expect to see the SFC engage with the Scottish Government, Scottish Enterprise, Highlands & Islands Enterprise and the sectors to support a journey of major reform that enables us to further align our approach to innovation, pool resources and simplify the innovation landscape.

35. As you know, the 2015-16 Programme for Government announced initial plans for Innovation and Investment Hubs and the Draft Budget identified £3.5 million to support initial hubs in Brussels, Dublin and London. While each of the hubs has different objectives to reflect the nature of the challenges and opportunities in each location, I would look to the SFC to support the sector, including innovation centres, to use the hubs to collaborate and engage in innovation beyond Scotland.

36. The SFC's programme of eight innovation centres builds on Scotland's successful collaborative approach; responds to the demands of businesses, and remains a flagship priority for this Government. I recognise that capacity to develop additional innovation centres may be constrained, but I look to the SFC to work to maximise the impact of the existing innovation centres to the economy and ensure they continue to focus on the needs of businesses. As the six year programme reaches its mid term, I expect the SFC to undertake a comprehensive review to ensure that the programme remains effective in delivering against its objectives, and to consider the long-term sustainability of the programme.

## College Sector

### Improvement in Learner Outcomes: Developing the Young Workforce and Measuring Success

37. Our college sector has been transformed over the recent period of reform, and the period of restructuring has allowed it effectively to target provision on the young people most at risk of becoming a 'lost generation' because of the downturn in 2008. As you know, Ministers have set a clear priority for this cohort of learners, and the resultant impact on relative levels of youth unemployment has been a positive one. I am grateful to the SFC – and, of course, to colleges - for their efforts in maximising the number of full time college places available for young people. Providing opportunities for our young people remains a priority for this administration.

38. The Scottish economy and its labour market demands have changed: we are now entering a period in which the challenges are markedly different to those of the last four years. The number of young people of school leaving age has dropped - and the demographic position confirms this to be a medium-term trend - and the proportion of young people staying on at school has increased. *Developing the Young Workforce (DYW)*, the Government's Youth Employment Strategy, is setting in train a step change in how schools and colleges cooperate and collaborate to serve young people. Additionally, through widening access to university, there is greater emphasis on colleges' role, again taking a learner centred approach to progression and articulation through further and higher education.

39. Building on the recent successes of the sector in responding to the needs of young people, to learners of all ages and to the local and national economy, I wish the college sector to continue its focus on the following priorities:

- **learner success.** I welcome colleges' success in improving the proportion of their learners that are successful in their chosen course. By way of another illustration of the gains from reform, in 2014/15 10,916 more students (FE and HE) successfully completed full-time courses leading to recognised qualifications than in 2008/09 – an increase of 24%. I now want to focus on reinforcing and driving forward that record of success;
- **continuing to implement *Developing Scotland's Young Workforce*.** Colleges have played a central role in the introduction of new vocational pathways in the senior phase of Curriculum for Excellence. I now want colleges to work with partners to learn the lessons of the first pathways and expand these widely so that all schools have the opportunity to offer high quality pathways informed by regional and national labour market demand in partnership with colleges.

40. Against this background, I invite the SFC to work with my officials, and with representatives from the college sector, to consider how best to set a framework for further improvement, including in both learner outcomes and support, in the light of the changing context for the college sector. I should welcome advice in this respect by 19 February and will write to you again on the basis of that advice.

41. In collaboration with Skills Development Scotland and colleges, I expect the SFC to maximise the opportunities available through the current European Funding programme, paying particular attention to your responsibility to comply with regulations and audit procedures.

42. In addition to the above, 2015-16 saw the baselining of funding for the English for Speakers of Other Languages programme into the SFC's main budget. I want you to maintain delivery of this important programme, the shape of which should be determined by the work you have been carrying out with key stakeholders, to determine a sustainable model going forward.

### Funding and Accountability

43. A key role of the SFC is to ensure the financial sustainability of individual colleges through effective engagement and monitoring of college finances, either directly or through the effective monitoring of regional strategic bodies and proactive risk management.

44. I welcome the support that the SFC has offered the college sector since ONS reclassification and expect the SFC to continue to work constructively with the sector to manage and mitigate the impact, and to provide practical advice and support. This should focus particularly on ensuring the quality and robustness of financial reporting from the sector; effective, timely and efficient handling of any challenges which may arise as well as monitoring the sector's use of Arm's Length Foundations.

45. It is also important that the SFC continues to support regional strategic bodies to assume their full responsibilities for funding their assigned colleges and for college planning and board appointments in their region and that it has robust arrangements in place to discharge its duty to monitor the performance of them.

### **National Bargaining**

46. I expect the SFC to continue its efforts to ensure the college sector maintains progress on national bargaining and its plans for modernising the college workforce.

### **Employability Services for Unemployed People**

47. We have started to plan our approach to employability services for long-term unemployed and unemployed disabled people, ahead of further devolution from 1 April 2017. I look forward to discussing with the SFC the college sector's contribution, building on its experience to date, including delivery of the Employability Fund.

## Corporate Expectations

48. Alongside its role in ensuring that delivery across Scotland's college and university sectors is effective, the SFC itself must demonstrate the highest standards of corporate governance, financial and risk management, and outward focus. It is important that the SFC is able to demonstrate the right levels of flexibility and responsiveness, supported by the right levels of expertise. I welcome the steps already taken by the Chief Executive to support the organisation through a period of reform.

49. I look to you, as the Chair of the SFC Board, to ensure that the Chief Executive continues to be supported by a Board structure that provides strong, appropriate challenge as well as constructive feedback and timely intervention. In a time of increasing financial pressures, your Chief Executive's role as accountable officer for public funds granted to colleges and universities remains a crucial one. I expect you, and your Board, to use the powers available to you to ensure no ambiguity across either sector about the importance of absolute compliance with the terms and conditions of grant set out in the SFC's Financial Memoranda.

50. Equally, you should ensure that the organisation itself has the necessary capacity and capability to monitor proactively and seek reassurance that processes and procedures are being followed throughout both the financial and academic years.

51. In order to measure progress and demonstrate success, it is essential to have access to high quality evidence on a timely basis which also will help inform future decisions. As a producer of official statistics, you should focus on the continuous improvement of your statistical outputs, building on best practice and ensuring any products are trustworthy, high quality and of public value, as defined in the Code of Practice for official statistics.

52. I also urge you to participate in analytical developments that are being promoted by the Scottish Government, such as data linkage and open data. You should also endeavour to follow the Government Social Research code which provides similar guidance on the development, use and publication of Social Research for public policy making and monitoring.

53. The Scottish Government has set clear and ambitious targets for carbon emissions reductions in the Climate Change (Scotland) Act 2009. I note the commitments made by both colleges and universities towards these targets, in the form of the Universities and Colleges Climate Commitment for Scotland. I welcome the investment made recently by the SFC to help reduce the carbon footprint in the university sector.

54. However given the Government's ambitions in this area, including adapting to the impacts of climate change as set out in 'Climate Ready Scotland: Scottish Climate Change Adaptation Programme' which was laid before Parliament in May 2014, I expect the SFC to make further progress both to reduce the carbon footprint of both sectors and prepare effectively for the unavoidable impacts of climate change. This includes working with the newly merged colleges to encourage them to comply with the newly introduced legislation for all universities and colleges in Scotland to report annually accurate, consistent, and complete information on the climate change duties by 30 November each year. In doing so, you should make all universities and colleges aware that they can call upon the free advisory tools and support provided by the Sustainable Scotland Network, Resource Efficient Scotland, Adaptation Scotland and the Energy Saving Trust to help with effective and timeous climate change reporting for 2015/16.

## Conclusion

55. This has been an important year for the SFC. I want to thank you and the Board for providing continued guidance, support and challenge. Moving forward I ask that you continue to deliver effective and ambitious support for both the FE and HE sectors in Scotland.



**ANGELA CONSTANCE**

## Copies:

Stewart Maxwell MSP, Convener of Scottish Parliament Education and Culture Committee  
Hugh Hall, Chair, Colleges Scotland  
Shona Struthers, Chief Executive, Colleges Scotland  
Liz McIntyre, Convenor, Scotland's Colleges' Principals' Convention  
Professor Sir Peter Downes, Convener, Universities Scotland  
Alastair Sim, Director, Universities Scotland  
Barbara Lindsay, Acting Chief Executive, COSLA  
Bill Maxwell, Chief Executive, Education Scotland  
Damien Yeates, Chief Executive, Skills Development Scotland  
Grahame Smith, General Secretary, Scottish Trades Union Congress  
Mary Senior, Scottish Official, University and College Union  
Larry Flanagan, General Secretary, Education Institute for Scotland  
Mike Kirby, General Secretary, UNISON Scotland  
Pat Rafferty, General Secretary, UNITE Scotland  
Gary Smith, Acting Secretary, GMB Scotland  
Vonnie Sandlan, President, NUS Scotland  
Lena Wilson, Chief Executive Scottish Enterprise  
Alex Paterson, Chief Executive, Highlands and Islands Enterprise