

## College Outcome Agreement Guidance AY2015-16

### Annex G: Outcome agreements and funding

#### Introduction

1. Outcome agreements and associated conditions of grant aim to deliver a funding system that supports colleges in pursuing ambitious but realistic goals that are complementary to their strategies, agreed by their regional strategic board and/or college board and deliver progress toward Scottish Government priorities.
2. Performance and progress towards agreed outcomes is the responsibility of colleges and their respective boards. In allocating funding to achieve specific outcomes, the Scottish Funding Council (SFC) expects colleges to comply with the conditions attached to that funding. Based on past performance, we expect that underperformance will be rare and that in the vast majority of cases the college will make enough progress against the aspirations in the outcome agreement to be able to demonstrate effective use of funding.
3. Within their outcome agreements colleges will set out their objectives across the full range of SFC funded activity. The significant majority of that funding is the subject of existing conditions of grant and levers that will continue to be available to SFC to secure the best outcomes from the investment of public funds.
4. For example, the majority of SFC funding in relation to learning and teaching, will be based on 'needs based funding' for the college region and this will drive performance and outcomes.

5. However, in the interests of providing clarity and of encouraging colleges to set stretching targets, this section of the guidance sets out the way that SFC will monitor progress and decide whether to apply a funding recovery and/or financial penalty within the outcome agreement process for specific aspects of outcome agreements, specifically:

- Outcome agreement funded incentive mechanisms
- Other objectives agreed in outcome agreements that are aligned to Scottish Government priorities but not governed by specific funding or conditions of grant
- Specific strategic projects for which SFC has chosen to use outcome agreements as the vehicle for monitoring of performance and has notified the funded colleges of this

## Process

6. It is our aim through outcome agreement discussions to support the college sector to meet Scottish Government priorities effectively. SFC recognises that managing funding decisions in relation to progress against outcomes will take account of the existing system of performance drivers and conditions of grant. This includes requirements such as the need to meet activity targets.
7. Whilst the subject of discussion between SFC and a college, where outcomes are related to needs-based funding that either is directly linked to performance and/or has its own system of funding recovery and penalty, SFC will rely on these established mechanisms.
8. SFC recognises that consideration of progress towards agreed outcomes will sometimes be a complex process that will need to consider a range of contextual matters. In order to do this properly it is important that information on any potential underperformance is shared as early as possible. That is, if the college has concerns that it may not meet a specific aspiration it shares that information with SFC, if we have concerns as a result of statistical or other monitoring we will share that with the college.
9. When considering progress, SFC will establish evidence of under-delivery from a combination of the statistical data available, from the progress reported by institutions and by the information available from the outcome manager and key stakeholders. It will be the responsibility of a college to make its case in relation to its progress, so that the decision making process is informed by a full and accurate account of progress submitted by the institution.
10. As is currently the case, action to reduce funding, funding recovery or apply a penalty would only be taken once statistical evidence was established and after discussion with the college.
11. If there is evidence of under-delivery, SFC will take as its starting point the relationship between the scale of under-delivery, the duration of under-delivery and the relative strategic importance of outcomes that have not been delivered. Typically, an outcome of high strategic performance would relate to a Scottish Government priority, to a priority highlighted within SFC guidance, or might relate to a significant challenge faced either by the sector, a particular group of regions or by an individual college.

12. SFC may then take four types of action which are not mutually exclusive:

- Establishing an improvement plan in relation to specific areas of under-delivery, with no impact on funding
- Reducing funding in future years commensurate to the level of under-delivery
- Applying funding recovery
- Applying a penalty

**Responding to under-delivery**

<b>High Priority</b>	SFC will consider reducing future funding	<p>A penalty could be applied</p> <p>A proportion of funding is recovered commensurate with scale of under-delivery</p> <p>SFC will consider reducing future funding</p>
<b>Low Priority</b>	<p>Performance monitored</p> <p>Improvement plan discussed</p>	SFC will consider reducing future funding
	<b>Small under-delivery</b>	<b>Large under-delivery</b>

13. Where there is evidence of under-delivery SFC would work within the principles set out at **Appendix 1** and would calibrate its decision against the framework set out above. Recognising that performance needs to be considered over the short, medium and longer term, we would apply the principles of the framework as follows:
- Where there is **small under-delivery in a low priority** outcome in a single year SFC would continue to discuss strategies for improvement and so there would be no impact on funding
  - Where there is **multi-year, small under-delivery in a low priority** outcome SFC would continue to discuss strategies for improvement with a possible impact upon funding
  - Where there is **multi-year, small under-delivery in a high priority** outcome, SFC would consider reducing funding and reconsider a college region's commitment to this priority. This may have implications for receipt of additional strategic incentive investment where it relates to the area of under-delivery
  - Where there is **large under-delivery in either a low or a high priority** in a single year SFC would consider funding recovery and/or reduce future funding
  - Where there is **multi-year large under-delivery in a low priority** outcome then SFC would consider reducing funding and reconsider a college region's commitment to this priority. This may have implications for the receipt of additional strategic incentive investment where it relates to the area of under-delivery
  - Where there is **multi-year large under-delivery in a high priority** outcome SFC would consider funding recovery, and in particular circumstances the application of a penalty. Future funding would also be reduced
14. For illustration, a number of scenarios, setting out how SFC would apply the framework, are set out at **Appendix 2**.
15. A key element in SFC decision making process will be the information on progress submitted by colleges. College region's progress reports would be submitted throughout each year and will match ONS claims. In

addition, SFC would also systematically look at performance across all colleges in early spring when outcomes are aggregated at sector level.

16. Decisions relating to under-performance would be taken by SFC and discussed through dialogue with outcome managers in order to inform funding recovery and/or future funding allocations. The following indicative timeline summaries this process:

### Indicative Timeline

Date	Action
September	Negotiations commence
Oct	Progress reports submitted by colleges to inform SFC funding allocation decisions
Jan	SFC makes indicative funding allocation decisions
Jan – April	SFC review progress made within outcome agreements and within strategic projects – combining college reporting with available statistical data. National, regional and college progress established
	SFC Board make decisions in relation to funding recovery Colleges are informed of decisions
June - August	Appeals If necessary funding recovery applied before end of academic year
September	Negotiations commence

17. When considering the application of funding recovery and/or reduction of future funding, SFC will be mindful of its impact on an college, particularly in relation to smaller colleges. SFC will also be mindful of its consequence on the achievement of its broader policy aims.

### Monitoring & Funding recovery

18. Decisions on funding recovery in relation to progress would be taken by SFC at a meeting in Spring each year.
19. Where there are cases of under-delivery against other parts of the outcome agreement the SFC Board would consider funding recovery (claw back money that has already been paid out) and or reducing future funding. In doing so SFC will consider carefully the impact of any reduction on achieving the aim for which the funding was given and the

need to incentivise the correct actions. We will also be mindful of the inclusion of colleges in public sector accounts and the implications this has on the ability to carry forward reserves.

20. More specifically, we would consider funding recovery:
  - Where a college region has not spent funds or where there are unspent funds arising from insufficient progress with a strategic project
  - Where funds have not been spent in accordance with conditions of grant
  - Where there is repeated and/or significant failure to meet the aspirations of an outcome agreement
21. Funding recovery will continue to operate on the same basis as it does now. That is, we expect college regions to deliver the amount of activities they commit to in the outcome agreement and where they do not they should presume that unless there are very compelling reasons not to, SFC will claw back funding.
22. In such instances, SFC would ensure that funding recovery operated in a way which supported college regions in setting stretching ambitions for what they will achieve in return for SFC funding and would, therefore, take full account of the degree of ambition and stretch in a college regions intended outcomes. In doing so, the SFC Board would ensure that colleges are not penalised for setting and working towards ambitious outcomes.
23. As is currently the case, in all instances where funding recovery is applied, SFC's starting assumption will be to reduce the target number of places and/or funding the following year.
24. In particularly extreme circumstances the SFC Board will also consider the application of penalties.
25. Progress against particular outcomes would be published each year to enable the sector obtain a clear picture of the impact being made.

## Appeals

26. Where a college region has a complaint about the outcome agreement process, this would be dealt with through the existing SFC complaints procedure. Further details can be found at:

[http://www.sfc.ac.uk/web/FILES/About the Council Our Conduct/SFC complaints procedure.pdf](http://www.sfc.ac.uk/web/FILES/About%20the%20Council%20Our%20Conduct/SFC%20complaints%20procedure.pdf)

27. Where a college region wished to appeal the decision reached by SFC, either with regard to the rationale for funding recovery or its scale, the process for appeal would operate as is set out on the SFC website at the following link:

[http://www.sfc.ac.uk/about the council/our conduct/about conduct funding.aspx](http://www.sfc.ac.uk/about%20the%20council/our%20conduct/about%20conduct%20funding.aspx)

## Further information

28. Contact: John Kemp, Director, Access, Skills and Outcome Agreements, Telephone: 0131 313 6637; email: [jkemp@sfc.ac.uk](mailto:jkemp@sfc.ac.uk).

### Principles

29. To inform its approach and support colleges to secure the best outcomes from the investment of public funds, SFC has adopted the following set of principles.

30. The SFC Board will:

- **Adopt a learner centred approach:** Recognising that every learner has the right to a high quality learning experience, funding decisions will prioritise the interests of the learner. SFC will, therefore, aim to ensure funding follows the learner, such that, in an instance where an institution does not meet its target of places, for example in relation to articulation, the SFC Board will wish to see the funding made available to another institution to ensure the opportunity for progression for the learner is maintained
- **Establish expectations and potential consequences at the outset:** SFC wants colleges to know what the conditions of funding and the consequence of under delivery are. In determining this, the SFC Board will be mindful of the importance of particular outcomes and each institution's role in achieving the objectives of the Scottish Government
- **Consider a range of factors when assessing performance, ensuring that institutions that set ambitious targets will not be penalised:** In managing funding, SFC will recognise context and will be informed by the progress reported by a college and evidence of the existence of systems necessary to deliver particular outcomes
- **Ensure that, where there is under-delivery, a reduction of future funding or funding recovery will be commensurate with the level of under-delivery**

**Recognise where a region is starting from and consider a pattern of performance:** SFC will support regions to make an appropriate contribution. SFC will be consistent and fair in its approach that if and when incidences of under-delivery do occur, they will be considered relative to a college's pattern of progress.

## Appendix 2

Scenario 1	Response
<p><b>At the end of the first year of a three year outcome agreement a multi-college region reports that it is below its credit target.</b></p>	<p>The outcome manager and the college region would discuss progress against credit targets throughout the year and, in particular, after the first two quarterly data returns.</p> <p>The college region would be encouraged to make clear its plans to meet its target or consider returning credits and funding to be allocated back within the sector.</p> <p>The outcome manager would raise the issue of the risk of potential funding recovery, recognising that meeting the student activity target is a high priority area and has clear implications for the college sector as a whole.</p> <p><b>Funding recovery</b> Funding recovery would depend on the scale of under-delivery and the nature and the quality of engagement with the outcome agreement manager throughout the academic year. It would also take into account other factors, such as, for example, whether this was the first year of the college region managing an increased share of provision.</p> <p>If funding recovery were to be applied, the funding associated with the under-used credits would be recovered if and when the statistical return confirmed the under-delivery.</p> <p><b>Credit adjustments</b> SFC Board may also adjust future allocations. It may, for example, adjust future credit allocations to the college region to ensure it achieves the right balance in relation to need, resource and capability to deliver. If credits are to be reduced in future years, the SFC Board will want to make the funds available to another college region to ensure the sector as a whole continues to meet its student activity targets.</p> <p>If the future credit allocation was not reduced, perhaps because there was strong evidence that the region needed a particular level of activity, the outcome manager would expect to reasonably negotiate improvements.</p> <p>If under-delivery were to be repeated above or at the same level, the SFC Board would expect the outcome manager to undertake a more detailed enquiry into the practices of the college..</p>

Scenario 2	Response
<p><b>In its third year since merger a single-college region reports that the number of students achieving recognised qualifications at non-advanced level has continued to decline.</b></p> <p><b>The college has tried to explain the situation within its progress report and claims that the primary reason for the under-delivery relates to the time to complete regional restructuring following merger.</b></p> <p><b>However, the outcome manager reports that progress on unified quality systems has not materially moved on since the one-year post merger evaluation.</b></p> <p><b>The most recent Education Scotland AEV suggests the college has been slow to develop a single unified system of quality and the last two learner satisfaction surveys conducted by the college show satisfaction falling and the number of survey responses decreasing overall.</b></p>	<p>In this example, the SFC Board response will be informed by the scale of under-delivery and the feedback and context captured through the college’s engagement with the outcome manager.</p> <p>Throughout the duration of the three year outcome agreement, the college and the outcome manager would have engaged in a series of discussions on this issue. By the end of the second year of the agreement, if the final FES return established continued under-performance (against the sector average and against the college’s own targets – mindful of its baseline position) then a development plan would be established with the college.</p> <p>This development plan would require the college to consider in some detail its strategy in relation to this issue and would involve the outcome manager working with Education Scotland and the college to analyse curriculum delivery in some detail to agree a course of action leading to improved learner success outcomes. If necessary, the outcome manager would also involve peer support and the sharing of effective practice between colleges and regions to help improve the situation.</p> <p>Having instigated its development plan, the SFC Board would then consider the progress in the third year relative to the aims of the plan.</p> <p>Funding recovery would be very unusual in a situation such as this. Dependant on the evidence reported, the SFC Board might apply funding recovery or consider reducing the level of funding and activity to the college until the actions set-out in the development plan had been achieved. Any decision would be reasonable and commensurate to the level of under-delivery.</p> <p>Until the situation was improved there would be more frequent and detailed engagement with the outcome manager who would help coordinate progress against the recovery plan.</p> <p>If the situation did not improve after the fourth year, the SFC Board would consider intensive peer expertise and support.</p>

<b>Scenario 3</b>	<b>Response</b>
<p><b>Over the past two academic years a multi-college region has seen its overall retention rate fall by on average 3% a year.</b></p> <p><b>The college region explains that this reflects the increase in the proportion of learners aged 16 to 19 years and the increase in pre-employability activity aimed at those furthest from the labour market.</b></p> <p><b>FES data confirms the increase in the proportion of younger aged learners and the pre-employability provision is in response to requests from two of the three CPPs in the region.</b></p> <p><b>School leaver data shows that school pupils in the region have lower than average academic attainment scores.</b></p> <p><b>The most recent annual engagement visit is positive about the college region's commitment to learner support and the outcome manager has reported evidence of the college's commitment to staff development in working with young people.</b></p>	<p>The SFC Board will not apply a shopping list approach but will consider a range of factors before applying funding recovery or adjusting future funding allocations.</p> <p>In this example, the SFC Board, having considered the range of factors involved, would not adjust funding.</p> <p>Instead it would continue to work with the college region to help it improve its practice.</p> <p>The action recommended might involve specific input from the College Development Network or organising peer and best practice support from the sector.</p>

Scenario 4	Response
<p><b>Previously the SFC Board applied funding recovery to a college for under-delivery in relation to a key sector skills project.</b></p> <p><b>Another college has now underperformed to a similar level.</b></p> <p><b>However, in this case the college has reported that exceptional circumstances need to be considered given the fact that it is still in the process of restructuring the departments involved in the project.</b></p>	<p>The SFC Board will take a sector wide over-view and will be consistent in how they apply funding recovery.</p> <p>In this example, the SFC Board will start from the point of view that funding recovery should be applied.</p> <p>In arriving at its final decision the SFC Board will consider the case for the exceptional circumstances and consider to what extent these issues could have been planned for from the outset.</p> <p>The relationship between the outcome manager and the college will be critical here in understanding and interpreting the wider context.</p>