



SFC Announcement

Outcome agreement funding for colleges – final allocations for 2018-19

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Outcome agreement funding for colleges – final allocations for 2018-19

1. I am writing to provide you with the Scottish Funding Council's (SFC) final decisions on college outcome agreement funding for academic year (AY) 2018-19.
2. SFC announced indicative college outcome agreement funding allocations for AY 2018-19 on 27 February 2018 ([SFC/AN/06/2018](#)). The indicative funding decisions reflected the Minister for Further Education, Higher Education and Science's [Letter of Guidance](#) to SFC of 30 March 2017, and were consistent with our wish to intensify outcome agreements, as detailed in the Minister's [Outcome Agreement Guidance letter](#) of 18 October 2017.
3. We received a further Ministerial [Letter of Guidance](#) on 4 April 2018 in which she reiterated the Scottish Government's high-level strategic objectives:
 - SFC's role in contributing to effective delivery of the key aims of the Enterprise and Skills Strategic Board.
 - 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.
 - The highest standards of teaching, governance and financial accountability in colleges.
 - Colleges working in partnership.
 - Effective knowledge exchange and innovation between universities and colleges and industry.
 - SFC operating as a highly effective public body.
4. Our final funding decisions, set out in this announcement, reflect that guidance.
5. Final funding allocations also reflect the extent to which targets and commitments in outcome agreements for AY 2018-19 meet SFC's national aspirations (as identified in our [Outcome Agreement Guidance](#)), and some adjustments have been made since the indicative funding announcement was made in February 2018.
6. This approach supports the delivery of [SFC's Strategic Plan](#), and is consistent with our wish to intensify outcome agreements, as detailed in the Minister for Further Education, Higher Education and Science's [Outcome Agreement guidance letter](#) of 18 October 2017.

Key points

7. The key points in this final funding announcement for AY 2018-19 are:
 - Teaching funding has been increased to meet the full identified harmonisation costs of national bargaining – an increase of £34.2 million.
 - An additional £4.2 million has been added to teaching grants for other additional financial pressures – equivalent to a 1% increase.
 - The core student activity (credit) target has increased, but the mainstreaming of childcare activity and changes to European Social Fund (ESF) *allocations* have resulted in a slight decrease to the overall activity target of around 1%.
 - Core student support funding has increased by £3.6 million and a further £5.2 million has been set aside for the implementation of the Scottish Government-commissioned Independent Review of Student Support.
 - Capital funding has increased by £29.3 million.

Scottish Budget 2018-19

8. The Scottish Government's [*Scottish Budget: Draft Budget 2018-19*](#) was published on 14 December 2017 and approved by the Scottish Parliament on 21 February 2018. When it was announced, the Cabinet Secretary for Finance and the Constitution's stated that the Draft Budget:
 - *"...invests around £1.8bn in our colleges and universities – providing a real terms increase in their funding". "This investment funds the teaching, research and innovation that will provide opportunities for our young people, train the workforce of the future and drive our productivity."*
 - supports *"the expansion (of publicly funded childcare entitlement) by upskilling the early years workforce"* and provides *"funding for graduate level Early Learning and Childcare courses"*.
9. The Budget document states that *"through the Scottish Funding Council, we invest around £1.8 billion in Scotland's colleges and universities to fund teaching, research and innovation activities for Scotland's learners. The ambitions of the Enterprise and Skills Review, particularly in relation to skills alignment, innovation, internationalisation and securing an improved learner journey post-15 will be driven by the Council's investment and activity in:*
 - *Working in partnership with our colleges and universities to improve Scotland's skills base by providing accessible, high quality learning*

opportunities, with good outcomes for learners which are aligned to industry needs.

- *Enhancing knowledge exchange and delivering impactful research and innovation.*
- *Supporting our universities and colleges to work collaboratively in developing international partnerships, to attract international students, and to ensure Scotland has the right skills to secure inward investment.*
- *Focusing efforts in growth employment areas, including through the implementation of the Science, Technology, Engineering and Mathematics (STEM) strategy and the expansion of the Early Learning and Childcare workforce.*
- *Promoting a partnership approach between employers and education, to improve skills alignment and deliver high quality training opportunities to up-skill and re-skill the workforce through the Flexible Workforce Development Fund and other routes.*
- *To support an improved, more coherent learner journey post-15 by improving the alignment of our learning and skills system.”*

10. The Budget document also stated that, in 2018-19, the Scottish Government will:

- *“Deliver a real-terms increase in SFC funding, including a real-terms increase in college budgets.*
- *Work in partnership with our colleges to provide high quality learning and teaching; improve Scotland’s skills base; enhance knowledge exchange; and maximise the impact of research, innovation and internationalisation in line with the recommendations of the Enterprise and Skills Review.*
- *Contribute to the ambitions of the Strategic Board for Enterprise and Skills, and drive improved skills alignment and investment, alongside Skills Development Scotland.*
- *Work with the college sector to address gender equality at all levels from course choices to senior staff and boards.*
- *Contribute to the implementation of the STEM strategy, in particular increasing participation in STEM study at colleges.*
- *Support the expansion of the Early Learning and Childcare workforce.*
- *Provide additional investment of over £5 million for initial implementation of the findings of the Independent Review of Student Support.*

- *Maintain at least 116,000 FTE college places, meeting the needs of learners and the economy, raise attainment levels and increase the numbers of students successfully completing courses and achieving qualifications.*
- *Continue to develop the Flexible Workforce Development Fund to promote partnership working between colleges and employers to deliver high quality training opportunities to up-skill and re-skill the workforce.”*

Overall funds available for college sector

11. The Further Education (FE) Resource (revenue) budget for financial year (FY) 2018-19 was announced as £588.2 million; a £36.9 million (6.7%) increase from FY 2017-18.
12. The Net College Capital budget has increased by £29.3 million to £76.7 million. This budget includes a capital funding commitment of £42 million for Forth Valley College’s new estate project.
13. In setting SFC’s AY budget for 2018-19, we span two financial years (FYs) 2018-19 and 2019-20. SFC does not have any information on the level of funding for FYs beyond 2018-19, and as such have planned on the basis of ‘flat cash’ for FY 2019-20. On that basis we have set an FE Revenue budget for AY 2018-19 of £599.9 million (as shown in [Table 1](#)) which represents an increase of £45.9 million (8.3%) compared with AY 2017-18. (This is the FY budget converted to an AY budget, taking account of the proportion of the FY 2018-19 budget that is already committed to AY 2017-18.)

Changes from the indicative funding announcement

14. There are some colleges where we believe that the activity targets set out in the indicative outcome agreement funding announcement on 27 February should be adjusted. The sector is expected to deliver 116,000 Full-Time Equivalent (FTE) student places from core teaching funds. To secure that target, we have allocated some additional activity to colleges that have demand and some capacity to grow. This has been achieved through a reduction of some other colleges’ activity targets, where we have identified a risk that they may not be able to achieve the target set out in the indicative funding announcement; this is partly based on expected performance against their AY 2017-18 activity targets, and performance in previous years. While these adjustments have increased or decreased funding allocations for the colleges concerned, overall budgets remain essentially unchanged.
15. We plan to improve our in-year redistribution process to make best use of funded places in-year. This may mean that some colleges will see activity levels restored if they provide sufficient evidence that they can deliver more student places to priority groups in 2018-19 and in future years.

Teaching funding

16. As set out in [Table 2](#), for AY 2018-19 SFC has increased its core teaching funding grant by £40.1 million (9.7%), from £414.6 million to £454.7 million. This is unchanged from the indicative funding announcement.

National bargaining costs

17. The costs of the harmonisation related to national bargaining, down to individual institution level, are taken from information collated and provided by Colleges Scotland (and validated by SFC). The teaching uplift that SFC is providing in AY 2018-19 will be sufficient to fully meet the agreed and estimated costs of the national bargaining harmonisation settlement for that year. The figures provided by Colleges Scotland demonstrate that the national bargaining harmonisation costs in AY 2018-19 will be £32 million higher than in AY 2017-18, but to fully fund the agreed settlement, a further £2.1 million is required for changes to annual leave for lecturing staff and additional annual leave for support staff for which no additional funding was provided in AY 2017-18. This is shown in [Table 2](#) and is unchanged from the indicative funding announcement.
18. [Table 2A](#) shows that within the overall funding available for national bargaining harmonisation costs, around £10.9 million has been identified as the costs associated with support staff and middle management harmonisation. This is currently an estimated cost, as the process of job evaluation is yet to commence. Therefore, the allocation to individual colleges/regions will most likely change in-year. This element of the national bargaining harmonisation funding will be held back until there is greater clarity on how these funds should be allocated across the sector.
19. The uplift for national bargaining harmonisation amounts to 8.3% overall. However, the uplifts for individual colleges / regions range from 4.2% at West College Scotland to 19.6% for the Highlands & Islands region (although there are some very specific additional costs for some very small colleges).
20. In AY 2018-19 we are providing an uplift to all college / region teaching allocations to ensure that there are sufficient funds to meet the full cost of the harmonisation related to national bargaining (pay and terms and conditions). This means that not all colleges / regions need or have received the same increase. Over time, SFC intends to return to a simplified 'price x volume' model. We have compared college / region funds calculated through the model with the uplift needed to secure the national bargaining costs, and the difference equates to an institutional element which we are funding in AY 2018-19.

21. This 'institutional element' will be gradually reduced over time once the transition to the harmonised terms and conditions is fully implemented. This eventual reduction for some colleges will be offset, at least partially, by an increase in the unit price for teaching funding.
22. It remains a condition of this additional funding that colleges are party to the recent agreement between colleges and EIS-FELA or are mirroring the national bargaining agreement for lecturing and support staff pay and conditions. Where a college has not agreed to pay staff in line with the national bargaining agreement, we will withhold this funding.

Additional uplift to teaching grant

23. SFC is aware that colleges are also facing other financial pressures, which are not fully addressed by the uplift for national bargaining harmonisation costs. We have, therefore, provided an additional increase to teaching grants of 1% (£4.2 million). This is shown in [Table 2](#) and is unchanged from the indicative funding announcement.

Rural and Remoteness review

24. Following SFC's consultation on rurality funding, we have increased the Rural and Remoteness Premium for the colleges that are now categorised as rural and remote; an increase of £1 million, as shown in [Table 2](#). This is unchanged from the indicative funding announcement and is based on our view of the longer term sustainability of colleges and prioritising small colleges with less opportunity for efficiencies and supporting dispersed campuses across the region.
25. For those institutions (Dundee & Angus and SRUC) which are no longer categorised as 'rural and remote' under our new definition, SFC will continue to provide a sustainable level of funding to protect their dispersed provision. This will be an institutional element that we will provide through the outcome agreement process. We intend to discuss and agree, with both institutions, the outcomes we expect in return for this resource.

English for Speakers of Other Languages

26. As previously communicated, SFC has transferred £1.5 million of English for Speakers of Other Languages (ESOL) funding from Strategic funds to core Teaching grant, as shown in [Table 2](#). This is unchanged from the indicative funding announcement. This was a small top-up grant for ESOL to be delivered by college and Community Planning Partnerships (CPPs). SFC still expects colleges to work with CPPs on ESOL provision and we will monitor all ESOL activity through our outcome agreement process.

AY 2018-19 student activity targets

27. The Scottish Government has reaffirmed its commitment to maintain 116,000 FTE student places. SFC uses its demographic model to inform the decision of the allocation of places to colleges / regions and we have updated that model to take account of the increased priority for older learners and part-time study. Our demographic model always worked in partnership with other indicators such as historic performance against activity targets.
28. As described in paragraph 14, we have made changes to some college activity targets for AY 2018-19.
29. For AY 2018-19, SFC has set an overall sector core student activity target of 1.7 million credits. This is unchanged from the indicative funding announcement. [Table 3](#) shows the original core activity target for AY 2017-18 and any in-year redistribution of college activity. The core activity target has then been reduced by an amount equal to around 0.5% of the final AY 2017-18 core activity target (including childcare) to give us our AY 2018-19 starting point. It also shows the changes we have made to some individual college targets since the indicative funding announcement.

Early Learning and Childcare workforce

30. The Scottish Government Budget states that SFC should “*support the expansion of the Early Learning and Childcare (ELC) workforce*”. In AY 2017-18 SFC received additional funds, over and above its core budget, to provide additional college (and university) places. For AY 2018-19, SFC is expected to fund this activity at colleges as a priority from its own core funds and there will be no additional funding provided by the Scottish Government for this purpose.
31. In AY 2017-18 colleges were expected to deliver over 11,213 additional credits. SFC has been working with colleagues in the Scottish Government Early Years Education Division and, to meet their target output for trained ELC professionals, we will require an increase in childcare activity in AY 2018-19; the delivery of an additional 29,125 credits (on top of baseline), as shown in [Table 3A](#). This is an increase of 858 credits from the indicative funding announcement and reflects additional Childcare credits that have been allocated to Lanarkshire Region for AY 2018-19.

European Social Funding

32. SFC funding for European Social Fund (ESF) projects for colleges in Lowlands & Uplands Scotland (LUPS) will remain at c.£8 million for 2018-19. The ‘*Youth Employment Initiative*’ (YEI) closes at the end of AY 2017-18. From AY 2018-19, therefore, subject to final Scottish Government approval to extend SFC’s

participation in the ‘*Developing Scotland’s Workforce*’ (DSW) programme from AY 2018-19, all ESF for colleges in LUPS will come through DSW, which focuses on higher level (Higher National / SCQF level 7+) activity. All colleges are eligible, including those previously operating under the YEI.

33. The overall 2018-19 ESF budget for colleges in LUPS, including ESF match-funding, will total £13.1 million; a decrease of c.£6.6 million from 2017-18 due to the lower ESF funding contribution under DSW (40%), compared with YEI (66%).
34. Subject to final Scottish Government approval, AY 2018-19 funding for ESF is set out in [Table 2](#) and additional activity (credit) targets for ESF are shown in [Table 3](#). This is unchanged from the indicative funding announcement.
35. The additional ESF credit targets are for Higher National-level (SCQF level 7+) activity and, therefore, SFC has not allocated any additional ESF student support funding, as HE level student support is allocated through the Students Awards Agency for Scotland. Childcare costs arising from this ESF activity will be met through core student support (childcare) budgets. As shown in Tables 2 and 3, the reduction in AY 2018-19 (compared with AY 2017-18) in college teaching funding for ESF is £0.8 million. The ESF activity targets for AY 2018-19 have reduced by c.10,000 credits.
36. The above excludes University of the Highlands and Islands (UHI) partner colleges in the Highlands & Islands (H&I) region which, under a separate (ring-fenced) DSW operation for the H&I transition region, will receive SFC funding for ESF activity from university strategic funding. It also excludes SRUC which will receive SFC funding for ESF activity from HE strategic funds.

Flexible Workforce Development Fund

37. The Flexible Workforce Development Fund (FWDF) was set up in AY 2017-18 as a pilot programme to provide employers with flexible workforce development training opportunities, to support inclusive growth through up-skilling and re-skilling employees. This was in response to feedback from the Scottish Government’s consultation on the introduction of the UK Government Apprenticeship Levy.
38. The FWDF will continue in AY 2018-19 and, in line with AY 2017-18, a total budget of £10 million will be available for AY 2018-19.
39. The success of the pilot year of the programme will be reviewed and this will inform the scope and operation of the programme in AY 2018-19. We will also consider the individual FWDF allocations to colleges / regions as part of the review process. We will issue separate guidance for the AY 2018-19 FWDF prior to the start of the AY.

College / university articulation places

40. Streamlining the learner journey by encouraging articulation between colleges and universities remains a priority for SFC. This was further emphasised in a letter to the Chair of SFC, dated 18 October 2017, which set out the Minister's expectations that *"SFC, alongside universities and colleges, closely monitors the expansion of articulation to ensure it continues to support disadvantaged learners to progress to degree level study. Where this is not achieved my expectation is, in line with the recommendation, that a proportion of articulation places will be prioritised for disadvantaged learners"*.
41. To support this priority area, SFC has reviewed the additional articulation places (associate students) scheme. The scheme has proved successful in increasing the number of articulating students and – with some minor exceptions – the additional places have been filled. We are, therefore, proposing no change to the additional articulation places scheme for AY 2018-19 (and AY 2019-20), subject to satisfactory outcome agreement targets with the universities that receive these places. Colleges (and universities) should continue with current arrangements to meet the priorities set out by the Minister to expand articulation and ensure it continues to support disadvantaged learners to progress to degree level study.
42. As discussed and emphasised in previous SFC guidance, we expect 75% of funding for those years in which activity is delivered in colleges to be transferred from universities to colleges. SFC will continue to monitor the transfer and impact of this funding and, subject to budget availability, will continue these arrangements.

Student support

43. For AY 2018-19 SFC has provided an increase of 1.5% to the student support bursary and childcare rates, and discretionary fund. The cost of this uplift is £1.6 million. This is unchanged from the indicative funding announcement.
44. Whilst there is no change to the overall budget for student support, we have reflected the changes to some college activity targets, previously described. Therefore, colleges with some additional growth will receive some additional student support funds and correspondingly those with a decrease in their credit target will see a reduction in student support.
45. The amount of student support needed by colleges in any year is always difficult to predict and in AY 2017-18 we set aside an additional £2 million for the in-year redistribution. These funds were not needed for the in-year redistribution in AY 2017-18. However, given the unpredictable nature of support funding needs of students, we have included the additional £2 million

to our initial allocation bringing the total student support allocation for AY 2018-19 to £111 million. Individual allocations are based on colleges' actual student support spend in AY 2016-17, as shown in [Table 4](#).

46. SFC has also ring-fenced £5.2 million for the implementation of the Independent Review of Student Support, commissioned by the Scottish Government.

Strategic funds

47. The AY 2018-19 budget for strategic projects and grants has been set at £14.9 million, which will allow SFC to meet all current strategic funding commitments. This is unchanged from the indicative funding announcement and is primarily the AY 2017-18 strategic fund budget, adjusted by £1.5 million for ESOL (see paragraph 26).
48. There has also been an adjustment for Lanarkshire region which received an additional uplift of £750k to its Access and Inclusion Premium from Strategic funds in AY 2017-18. For AY 2018-19 we have included this uplift in core Teaching but this will be subject to the delivery of satisfactory outcomes.

Capital

49. There are three distinct elements to the Council's policy objective to support capital investment in the college sector:
 - Meeting the ongoing lifecycle maintenance needs which are essentially the core estate needs, year-on-year, of the sector.
 - Tackling the very high priority estates needs identified in the recently completed sector condition survey.
 - Continuing to develop and refine an evaluation framework to allow SFC to identify and prioritise major capital projects for campus replacement or refurbishment.
50. The total capital funding budget for colleges in FY 2018-19 is £76.7 million; an increase of £29.3 million from FY 2017-18. In addition there is £5.8 million available from project slippage in FY 2017-18, giving an overall total for FY 2018-19 of £82.5 million.

51. Taking into account estate project funding commitments, including £42 million for Forth Valley College’s new campus project, this increased budget will be used as shown below:

College Capital FY 2018-19	£ million
Lifecycle maintenance	12.5
Very high priority backlog maintenance (as informed by the sector condition survey)	26.9
Forth Valley College – new Falkirk Campus project	42.0
New College Lanarkshire – loan repayment	1.1
Total capital funding for colleges	82.5

Lifecycle maintenance

52. Funding for college lifecycle maintenance represents SFC’s contribution to the sector’s core estate needs as the year-on-year costs of running the college estate. We have allocated £12.5 million in FY 2018-19 for college lifecycle costs. Funding has been allocated in proportion to activity (credit) targets, as a proxy for the size of a college’s estate.

Very high priority backlog maintenance

53. SFC is providing £26.9 million for very high priority backlog maintenance in FY 2018-19, as informed by the sector estate condition survey. Through the outcome agreement process we will ensure that each college / region uses these funds to address their very urgent needs.
54. Sector-wide indicative capital funding allocations for both lifecycle maintenance and high priority backlog maintenance are shown in [Table 5](#). There have been some small movements between the indicative figures and the final allocations to reflect the final credit target adjustments (which lifecycle allocations are based on).

College NPD expenditure

55. The Scottish Government has allocated £29.3 million for college Non-Profit Distributing (NPD) expenditure in AY 2018-19. This is to support the annual unitary charges associated with NPD projects at Inverness College UHI, Ayrshire College (Kilmarnock) and City of Glasgow College, and has been agreed with Scottish Futures Trust.

Final funding tables for AY 2018-19

56. We have attached the following tables:

- [Annex A](#) – Conditions of grant.
- [Table 1](#) – College sector – overall budget.
- [Table 2](#) – Teaching funding allocations.
- [Table 2A](#) – National bargaining harmonisation costs.
- [Table 3](#) – Activity (credit) targets.
- [Table 3A](#) – Childcare activity (credit) targets.
- [Table 4](#) – Student support funding allocations.
- [Table 5](#) – Capital funding (FY 2018-19).

Acceptance of grant and outcome agreements

57. This letter announces the final funding that will be associated with your outcome agreement for AY 2018-19. Funding is dependent on agreeing a satisfactory outcome agreement. By signing your outcome agreement you are agreeing to the activity / funding allocations announced in this letter and the associated terms and conditions of grant.

Further information

58. Please contact Lorna MacDonald, Director of Finance, Tel: 0131 313 6690, email: lornamacdonald@sfc.ac.uk or Martin Smith, Chief Funding & Information Officer, Tel: 0131 313 6528, email: msmith@sfc.ac.uk.



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