



Chief Executive's Report

Purpose

1. This paper provides Council with a report on matters of current interest and an overview of my key external engagements (at Annex 1).

UK General Election

2. Political parties have now published their manifestos for the UK General Election to be held on Thursday 12 December. While education is devolved and many of the manifesto commitments will not apply directly to Scotland, some potential UK policies may affect Scotland and may result in Barnett consequentials. Annex 2 sets out relevant commitments from each of the main parties.

Spending Review

3. With the UK General Election now being held on 12 December, the Scottish Government has confirmed that its budget will be postponed until after Christmas. This delay will impact on the timing of SFC's funding announcements. Rather than issuing an indicative announcement in February, SFC currently plans to issue a communication to the sectors in the early New Year providing high-level AY 2020-21 indicative funding assumptions for planning purposes. Following publication of the Scottish Government draft / approved budget, SFC will most likely make a final funding announcement in May 2020. The delay in the budget is likely to lead to a delay to the announcement of AY 2020-21 student intake targets for controlled subjects of medicine, dentistry, nursing, and teacher education. SFC normally aims to make these announcements at the beginning of February. The Scottish Government may choose to set a one-year budget.

Fraser of Allander Analysis

4. The Fraser of Allander Institute published its fourth analysis of the Scottish Budget and a briefing on the key issues facing Scotland's devolved public finances in mid-November. The report provides an overview of the state of the economy, the outlook for Scotland's block grant and tax revenues, and the policy options open to the Cabinet Secretary for Finance as the Scottish Government prepares to set its budget each year.



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5. The report sets out the strategic context for the 2020-21 Budget, noting that the outlook for the Scottish resource block grant has improved throughout this parliamentary term due to UK Government spending increases. It also notes that the Scottish Government has used its new income tax powers to raise additional revenues, although the anticipated positive revenue impact of such decisions has been offset by weaker growth in the Scottish tax base.
6. The report contains a number of specific references to tertiary education:
 - Spending associated with education has generally increased, particularly relating to the expansion of childcare and closing the attainment gap, alongside the budget for Skills Development Scotland and colleges. However, these increases have been largely offset by real terms reductions of over 5% in allocations for universities and in grant support to students.
 - Although the Scottish Government's capital grant allocation has increased over the course of this parliament, the health and education portfolios have seen their capital budget allocation fall in real terms over the course of the parliament.
 - Consequentials flowing from increased UK Government spending include an increase in spending on education of £324m.

The Muscatelli Report: Driving Innovation in Scotland – a National Mission

7. A report on driving innovation in Scotland was published on 27 November by Professor Sir Anton Muscatelli, Vice-Chancellor and Principal of the University of Glasgow. Commissioned by the Scottish Government, the Muscatelli report examines universities' engagement with industry and their contribution to economic growth. It sets out 22 recommendations for driving innovation in Scotland. Fifteen of these refer explicitly to SFC, whether in the recommendation or the supporting explanations.
8. Key themes in the report include: collaboration; building consortia to take action at scale; a focus on quantifying the return to the public purse of the investment in university research; and the need for all agencies of Government to be "as one" in a truly Team Scotland approach to a stated national mission. The report does not explore skills or education and while it refers to a similar commission to Dr Paul Little and Audrey Cumberland, there are few explicit links with colleges or tertiary provision. A list of the recommendations is provided at Annex 3.



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9. SFC has welcomed the report, noting that it provides an opportunity to build on the success of existing partnerships between industry and academia, strengthening Scotland's reputation as a nation of innovators. SFC will now work with partners across the institutions and the enterprise and skills agencies to consider the recommendations.

The Smith Report

10. While the UK Government has previously stated that it may seek association (partial membership) to the EU's main funding stream for research – the Horizon Fund – after Brexit, it also commissioned earlier this year an independent report to consider the establishment of an alternative domestic scheme to support international collaboration, innovation and research activity should association to Horizon not be pursued. Professor Sir Adrian Smith was commissioned by the Department of Business, Energy and Industrial Strategy to undertake this review and his Report was published earlier this month.
11. While it is the preference of Scotland's universities to be associated to Horizon, many of the actions and strategies recommended by the report align with SFC's thinking on how we can develop our international work, for example a sizeable new investment fund, research fellowships / scholarships, complementary immigration policy and integration with the Shared Prosperity Fund. It is not yet clear how any changes might be administered or how the interests of the devolved nations will be represented within a future system.

University Strike Action

12. As you will have read in the recent Board update, 12 Scottish universities have been subject to strike action from 25 November, due to take place over a period of eight days. The strike action has been the focus of considerable media coverage. SFC has not been approached for comment on this action and there is no role for SFC to be involved. However, our focus will remain on ensuring the continuity of the learning experience for students and if we were approached for comment we would be urging both parties to come to an agreement as quickly as possible.



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Annex 1: Chief Executive's key external engagements from 4 to 28 November 2019

Colleges, universities and specialist institutions

University of the Highlands and Islands (UHI)

Forth Valley College

Enterprise and Skills Agencies

Innovation Centre meeting with Chief Executives of Scottish Enterprise, HIE and SFC
Agency CEOs meeting followed by Chair and CEO meeting

Scottish Government

Permanent Secretary invitation to address SG Directors on reflections having left SG
HE Strategic Futures Group officials' meeting

Monthly catch-up with Aileen McKechnie Director of Advanced Learning and Science
Launch of the Muscatelli Report

Scottish Parliament

Mr Swinney and Mr Lochhead meeting with Chair and Interim CEO, UHI

Key partners

UK Funding Bodies CEO meeting in London

University Chairs Group, accompanying SFC Chair

NHS Education Scotland – Chair and CEO yearly meeting to sign MOU

Caroline Gardner, Auditor General

Royal Society of Edinburgh roundtable on future of HE with Lord David Willetts,
former UK Minister

Other

British Council – Jackie Killeen, Director Scotland

UNISON – members from the FE Committee

Aberdeen City Council, Perth and Kinross Council, SDS and SFC meeting to discuss
skills and the future workforce



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Annex 2: Summary of Manifesto Commitments

Conservative Party promises:

- to “carefully consider” Augar’s proposals for £7,500 fees topped up by the Treasury and to look again at interest rates on loan repayments;
- 14,000 new undergraduate nursing students and 5,000 new nursing degree apprenticeships;
- to charge the Office for Students with looking at increasing access, with a particular focus on “all ages”;
- to “continue to collaborate internationally and with the EU on scientific research, including Horizon;
- to invest £18bn in research and development by 2024/25, including money for a DARPA-like research agency, directly allocating funding for key strategic projects, probably outside the existing dual support system;
- to fast-track entry to the UK for what is termed “the small number of the best technology and science graduates from the top universities in the world, and those who win top scientific prizes”;
- a reform of the research funding system to “to cut the time wasted by scientists filling in forms”, and unlocking the “long-term capital in pension funds to invest in and commercialise our scientific discoveries, creating a vibrant science-based economy post-Brexit”; and
- to invest £1.8bn in capital spending in the FE sector.

Labour Party promises:

- to end tuition fees alongside introducing a new funding formula that includes “adequate” funding for teaching and research;
- a sustained focus on widening access and part-time learning;
- a return to grants for the poorest students;
- to move the Office for Students into their National Education Service plans, as an advocate for public interest rather than a regulator;
- a fundamental rethink of the assessment of teaching and research quality;
- continued participation in EU agencies and funding programmes, including in such vital areas of cooperation as the environment, scientific research and culture; and
- to increase national spending on research and development to reach 3 per cent of GDP by 2030.

Liberal Democrats promises to:



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- to strengthen the Office for Students, emphasising work on widening access, work with schools and colleges, and admissions;
- a review of sector finance;
- introduction of bursaries for mental health and learning disability nursing students;
- increase national spending on research and development with a long term goal of 3 per cent of GDP;
- bring in a two-year visa for international students to work after graduation;
- to invest an extra £1bn in FE funding, which would include refunding colleges for the VAT they pay;
- to introduce a “Young People’s Premium” which would see disadvantages 16-18 year-olds receive money if they remain in education; and
- to introduce “Skills Wallets”, giving every adult in England £10,000 to spend on education and training throughout their lives.

SNP promises:

- a commitment to free higher education and no return to tuition fees in Scotland;
- to campaign to ensure Westminster protects the funding Scotland has benefited from through EU Structural and Social Funds
- to introduce a ‘Green Growth Accelerator’ to combine public and private investment in emissions-reducing projects
- to establish a Climate Emergency Skills Action Plan to maximise the economic and social benefits of decarbonisation
- to continue to call on the UK Government to guarantee EU nationals’ right to remain in the UK, and for devolution of migration policy
- to oppose plans to introduce a minimum salary threshold for admittance to the UK
- to campaign for an extension to the no-deal three-year “*Temporary Leave to Remain*” scheme; and
- to oppose the Immigration Skills Charge and any similar charges for workers from the UK post-Brexit.



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Annex 3: Recommendations from the Muscatelli Report

1) The first overarching recommendation is that all actors in the field – agencies, universities and industry – should adopt the Scottish Government objective of turning Scotland into a world-leading innovative nation as a shared national mission.

2) As previously set out, Scotland seems to underperform other parts of the UK in terms of accessing Innovate UK funding (though our HEIs perform relatively well). In order to maximise how Scotland benefits from major external funding streams through, for example, the UK Industrial Strategy, SFC and the Enterprise Agencies should set a target for Scotland to attract investment for innovation activity from external sources.

3) To ensure Scotland is equipped to succeed in this aim, a mechanism to ensure greater collaboration and coordination in bidding for UK funding streams is needed, preventing actors in Scotland from pursuing conflicting objectives or duplicating efforts.

4) Each HEI has strong networks and should help Scotland in its ambitious export strategy. HEIs, through Universities Scotland, should work closely with Scottish Development International (SDI) and Directorate for International Trade and Investment officials in Scottish Government to ensure that we are maximising our impact on trade, including identifying ways to effectively use existing international networks.

5) HEIs might encourage some of their most influential alumni to join a network of people able to help connect Scotland with potential inward investors.

6) As already set out, many of the basic policy tools utilised by comparable countries to promote innovation and to drive productivity growth are not currently devolved to Scotland. The Scottish Government, supported by the HE sector, should continue to call for powers over skilled immigration to be devolved to the Scottish Parliament. It should also explore the possibility with the UK Government of introducing some flexibility in R&D tax incentives between the UK devolved nations. This would allow policies tailored to the needs of the HE sector and industry in Scotland and to allow us to unlock our full potential as an innovative nation.

7) The Scottish Government should investigate Scotland's relative competitiveness in the area of early-stage capital in innovative firms (both university spin-outs and



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Scottish companies which develop through access to the University research base) in order to allow greater insight into how we turn Scotland's world-class research base into innovation.

8) The Scottish Government should encourage SFC and the Enterprise Agencies, in consultation with the HE sector, to advise it on a clear focus for a national innovation strategy. The consultation should also ensure that this is congruent with the Scottish Government's priorities in key areas of policies which would naturally fit into a mission-oriented approach to innovation policy.

9) The Enterprise and Skills agencies should seek to align their investment streams more closely to help drive innovation from the research base. The agencies have already begun to do this. The Scottish Government should also consider aligning other relevant streams of funding in this area.

10) While all universities can play a key role in their local and regional economies, there are further opportunities to be gained from maximising growth in City Region economies. Scottish Enterprise should, working with the other Enterprise Agencies, help Scotland's major City Regions and their component local authorities to develop city-based, place-making strategies with the universities and colleges in each City/City Region.

11) The Scottish National Investment Bank (SNIB) should consider, with the Enterprise and Skills Agencies, what role it could play in respect of encouraging and incentivising place-based innovation activity which will drive the economy.

12) The Scottish Government should work closely with SFC and the Enterprise Agencies to assess the rate of return from current spending, and the potential rate of return from future investments on publicly-funded R&D, in terms of Scotland's inclusive economic growth.

13) Given that, as is well understood from studies by Scottish Enterprise and NCUB, Scotland's industrial and business sector has a lower demand for innovation activities than other UK regional and national economies, SFC and the Enterprise Agencies should consider the implications of this for the balance of their innovation investments (e.g. in UIF and innovation Centres). This could form part of the SFC's current review of UIF.



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14) The Scottish Government should work with SFC and the Enterprise Agencies to benchmark our current levels of public R&D spending, and the outputs generated from this investment in Scotland's research base with some of the most dynamic small EU economies with similarly sized HE sectors.

15) Universities should encourage greater collaboration (and where appropriate specialisation) between their KE and innovation activities.

16) If the quantum of funding is constrained by pressures in the public finances, SFC should consider focusing its REG and UIF funding in a way which maximises the impact for Scotland both in terms of UKRI leverage (both Research Council and Innovate UK/industrial strategy funding) and, more generally, the excellence of Scotland's research and innovation landscape.

17) SFC should consider the long-run sustainability of Scotland's universities' research and innovation activities and provide advice to Government during the next spending reviews, taking account of recommendations 12 – 14. Universities for their part will be developing the evidence base behind the sustainability of the research and innovation activity in the HE system. In developing the evidence base for this, the HE sector should be open about its ambitions for expanding its research activities and leveraging more income into Scotland from UK and other sources.

18) SFC should continue to work closely with UKRI to ensure that Scotland can take advantage of major investments in the UK Industrial Strategy where these are aimed at technologies and sectors in which Scotland has a competitive advantage. SFC, working closely with universities, Universities Scotland and the Enterprise Agencies, should ensure that UKRI and major third sector funders (e.g. Wellcome Trust, CRUK) understand Scotland's competitive advantage in areas of research-driven innovation. Scotland has the opportunity to attract greater investment if it brings together consortia across disciplines, universities, research institutes and business to make larger bids. SFC should work with universities, research pools, innovation centres and its partner agencies to increase ISCF investment through collaborative bids of scale.

19) Universities should benchmark their terms and conditions for spin-outs and joint industry collaborations to optimise the terms and conditions offered to industry.

20) Similarly, universities should align their offering in terms of the quality of the commercialisation and research collaboration offer to Scottish-based industry



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collaborators (e.g. speed of response, ease of arriving at a licensing agreement). This could be an important part of the universities' contribution to a national innovation mission (see Recommendation 1).

21) Universities should commit to breaking down the barriers which currently exist in their academic career tracks which prevent a free movement of researchers from industry to HE and vice-versa. There has been some good progress in this area; however, there is the scope to do much more to incentivise movements from academia to research and innovation within industry.

22) Scottish Enterprise, SDI, and SFC could work with major Scottish Universities to provide an improved offer to inward investors wishing to locate major R&D activities to Scotland.