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2 July 2019

Dear Mike,

SCOTTISH FUNDING COUNCIL - LETTER OF GUIDANCE 2019-20

Introduction

1. Following our Joint Strategic Letter of Guidance to the Scottish Funding Council (SFC) and other Enterprise and Skills Agencies in January 2019, and the First Minister's subsequent declaration of a global climate emergency, I am writing to set out more specific guidance on my expectations and priorities for the SFC in 2019-20.

Strategic context

2. Our Economic Strategy maps out the priority areas where we look to invest in our economic future. This letter sets out how I, along with my Ministerial colleagues, expect the Enterprise and Skills agencies to work collaboratively in delivering on these priorities and deliver on our commitment to create a more prosperous nation with more jobs, fair work and a dynamic, sustainable and inclusive economy.

3. All organisations and businesses need to increase their focus and action on decarbonisation to ensure Scotland's contribution to climate change ends by 2045 at the latest. If we are to achieve true inclusive and carbon-neutral growth for our economy, it is critical that we work together to unlock the full potential of our entire economy, including its rural aspects, by embracing the opportunities they present and responding to their needs in the best way we can.

4. Our ambitions and priorities have been clearly stated in recent months - in our National Performance Framework, which includes a statement of values alongside our purpose (refreshed 2018); our Programme for Government (September 2018); and the Economic Action Plan (EAP) (October 2018). The Joint Strategic Guidance Letter sent to you on

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11 January highlights these and our support for the aims of the Strategic Board as set out in its Strategic Plan.

5. We want Scotland to be a fair work nation by 2025. Our commitment to fair work is demonstrated through the publication of our [Fair Work Action Plan](#) (February 2019), which sets out how we will deliver our ambitions on fair work across Scotland. To achieve our ambition we need employers, including the SFC, to adopt Fair Work practices and to support the delivery of Fair Work in its operational activities and through its procurement practices. I would ask that the SFC adopts the terms of the Scottish Government's Fair Work Agreement with the Civil Service Trade Unions with your recognised trade unions and attaches Fair Work criteria to your appropriate grants and funding streams.

6. However, Scottish Ministers do not underestimate the current risks posed by the uncertainty around the UK Government's plans to leave the EU and the impact that could have on your organisation's ability to deliver its business and achieve our shared ambitions for the year ahead. I would ask that the SFC continues to demonstrate the high level of preparedness and resilience that has been shown to date and to continue to engage actively with my officials and your stakeholders.

Enterprise and Skills Strategic Board – Collaboration and Alignment

7. The Strategic Board's Strategic Plan provides long term strategic direction to Scotland's enterprise and skills agencies and provides a blueprint for the Scottish Government to improve productivity and drive inclusive and sustainable economic growth. I look to you for your continued commitment to implementing the Plan and pursuing its aims in close collaboration with the other agencies, and to continue working closely with the Board and fellow agencies in support of the Board's forward-looking priorities.

8. I expect that the SFC will play a vital role in delivering against the relevant key priorities over the next 12 months. I am grateful for the work you have done and continue to do, to develop your Strategic and Operating Plans for 2019-20 and beyond in support of the Strategic Board's ambitions. I would ask that you continue to explore opportunities for further alignment of your planning and activities with the other enterprise and skills agencies – this should include joint decision making and genuine co-development of future plans, including at the most senior level, and mainstreaming throughout your organisation the very positive culture of co-development and collaboration that we are already seeing bring real benefits. I am keen to see the SFC play its part in ensuring this also extends to other parts of the wider system and I will ensure that the Scottish Government does likewise. And, in light of the climate emergency declaration, I would also ask you to give urgent consideration of how you can support the Scottish economy to decarbonise at pace. In doing this, I expect you to reprioritise, manage your resources, and make the changes required to your organisation and to the way it works to meet these new collective priorities.

9. I also look to you to continue to work with the other E&S agencies to fund and support the Strategic Board's Analytical Unit to help deliver increased efficiency and effectiveness across the enterprise and skills system. This requires each E&S agency to devote a share of their investment in evidence and evaluation to support the research programme of the Analytical Unit. This, together with alignment of your plans and a shared approach to performance measurement, should ultimately demonstrate how your individual and combined activities drive activity to achieve the outcomes from NPF, in particular those identified in the Strategic Board's Performance Framework.

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10. Recognising the importance of this area of work, we ask that during 2019/20 the SFC contributes to regular updates on activity and progress made against each of the relevant Strategic Plan missions and actions, as well as in relation to the SFC's support for the Scottish Government's response to the recommendations in the Strategic Plan.

The SFC Contribution

11. The SFC has a key role, as the national strategic body for funding teaching, learning and research in our colleges and universities; to support our drive to achieve excellence and equity across the education and skills landscape; to maintain our reputation for world-class research encouraging collaboration and innovation across the sector; to realise increased effectiveness and efficiencies; and to generate the skilled workforce Scotland needs for sustainable economic growth. In the year ahead, I look to you to realise the ambitions set out in your new Strategic Framework and to deliver the programme of activity set out in your Operational Plan.

12. At the heart of this lies the expectations that the SFC operates as a highly effective public body, working in partnership with others in both the public and private sectors and with communities to improve outcomes, moderate the demand on wider public services and support an inclusive and sustainable economy, in line with the Government's commitment to public service reform building on the principles of the Christie Commission.

13. My ambitions and operational asks of the SFC for 2019-20 are set out in greater detail in the **Annex** to this letter and reflect the high-level themes of the SFC's work as set out in your new Strategic Framework.

SFC Budget 2019-20

14. I welcome the SFC's approach to working constructively with officials to better understand and consider the prioritisation and maximisation of opportunities within its allocated budget for 2019-20. I ask the SFC to maintain its scrutiny on its financial position during the course of 2019-20 and seek all opportunities to secure efficiencies. I welcome your commitment to deliver £8m savings from your 2019-20 budget and would ask you to continue to work closely with my officials to deliver these.

15. In 2019-20, I look to the SFC to make decisions that ensure the funds provided to it by the Scottish Government are used to drive sustainable inclusive growth, deliver the priorities detailed in this letter and achieve the outcomes set out in your plans for 2019-20.

16. The budget includes the planned funding for colleges and universities and administration funding for the SFC as summarised in the table below. 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.

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Financial Year 2019-20	£m
SFC Admin	7.5
FE Programme	606.5
HE Programme	1,025.3
FE Capital	47.6
HE Capital	37.5
NPD	29.3
Financial Transactions	55.5
College Depreciation	30.1
Total	1,839.3

Conclusion

17. I trust that the priorities set out in this letter are helpful in carrying forward your planning for 2019-20 and in the longer term. I and my Ministerial colleagues are grateful for the contribution the SFC continues to make to realising the Government's purpose and I look forward to continuing our work together.

Yours Sincerely



RICHARD LOCHHEAD

Copies:

Karen Watt, Chief Executive, Scottish Funding Council
 Clare Adamson, Convener, Scottish Parliament Education and Skills Committee
 Roz Thomson, Clerk to the Scottish Parliament Education and Skills Committee
 Ken Milroy, Chair, Colleges Scotland
 Shona Struthers, Chief Executive, Colleges Scotland
 Carol Turnbull, Chair, College Principals Group
 The Very Reverend Dr Graham Forbes, Chair, Committee of Chairs of Scottish Higher Education Institutions
 Professor Andrea Nolan, Convener, Universities Scotland
 Alastair Sim, Director, Universities Scotland
 Sally Loudon, Chief Executive, COSLA
 Gayle Gorman, Chief Executive, Education Scotland
 Frank Mitchell, Chair, Skills Development 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, Educational Institute of Scotland
 Dave Prentis, General Secretary, UNISON
 Pat Rafferty, Regional Secretary, UNITE Scotland
 Gary Smith, Secretary, GMB Scotland
 Liam McCabe, President, NUS Scotland
 Willie Mackie, Interim Chair, Scottish Enterprise
 Steve Dunlop, Chief Executive, Scottish Enterprise
 Lorne Crerar, Chair, Highlands and Islands Enterprise
 Charlotte Wright, Chief Executive, Highlands and Islands Enterprise

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Nora Senior, Chair, Enterprise and Skills Strategic Board
Audrey Cumberford, Skills Mission Lead, Enterprise and Skills Strategic Board
Russel Griggs, Chair, South of Scotland Economic Partnership
Gerald McLaughlin, Chief Executive, NHS Health Scotland

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SFC LETTER OF GUIDANCE 2019-20

1. In 2019-20, I want us to continue to work at pace to deliver for Scotland's learners and to build on the progress and achievements of last year. The SFC has a key role in realising our ambitions. I look to you to take a lead role in supporting our efforts to develop a fully aligned and coherent education and skills system which delivers the best student experience through: support for acceleration of the implementation of our Learner Journey review; improvements to the student support system; delivery of learning through our Community Learning and Development work; support for the ambitions of the Strategic Board in maximising the contribution of the wider skills system to economic growth; capitalising on the contribution of our alumni; and ensuring that our investment in science, research and innovation is fully exploited.

2. You have developed your new Strategic Framework, which is founded on the National Performance Framework and the Strategic Board's Strategic Plan. The paragraphs below provide greater detail on the specific activities and outcomes I expect in 2019-20. I look forward to receiving progress updates on these at our regular meetings, through sponsorship liaison and the reporting which supports that, and through the bespoke arrangements for individual areas of work.

Section 1: The Learner

SG priority: To provide the best student experience, seamlessly connected for learners of all ages and backgrounds.

SFC core objective: *To invest in education that is accessible to learners from all backgrounds, gives them a high-quality learning experience, supports them to succeed in their studies, and equips them to flourish in employment, further study and fulfilling lives.*

Access and Learning

3. Continued progress, at pace, on implementation of the recommendations made by the Commission on Widening Access remains a priority and the Scottish Government's Access Delivery Group has a central role in helping us to achieve this. Within the Delivery Group and through the SFC's own stakeholder groups, I expect the SFC to actively drive forward this agenda, demonstrating leadership in particular in respect of access thresholds, working collaboratively with the higher education sector to ensure their impact can be monitored.

4. I also expect the SFC to ensure continued good progress is made in 2019/20 towards the targets set by the Commission, which should be reflected clearly in Outcome Agreements.

Mental Health and Wellbeing

5. I am pleased to see the priority colleges and universities are giving to achieving consistent support for students across Scotland. We want to see colleges and universities as places where students' well-being is supported and nurtured, throughout an institution's activities, and where support services are sensitive to the varying needs of all students. We expect all institutions to have in place a mental health strategy (covering students and staff) and, working with their students association, and the NUS Scotland Think Positive project, develop a Student Mental Health Agreement. I expect institutions to closely monitor, with their

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student associations, progress on implementing their mental health strategy and Student Mental Health Agreement, through the Outcome Agreement process.

6. A Student Mental Health and Well-Being Working Group has been established, to support the implementation of the Programme for Government commitments on additional counsellors, the development of an integrated approach to student wellbeing, and to support improved local partnerships between colleges, universities, NHS Scotland, Health and Social Care Partnerships, local authorities and the third sector. I expect the sector to play a key role in the Working Group and in sharing and building on the initiatives already put in place by many colleges and universities, and for the SFC to play a full role in the delivery of this commitment from Academic Year 2019/20.

Equally Safe in Colleges and Universities

7. I welcome the commitment made by universities and colleges in tackling gender based violence on campuses, and providing a safe environment for students and staff. I look to the SFC to continue to work in partnership with colleges and universities and their student associations on adopting and working with the Equally Safe in Higher Education Toolkit (including its adaptation for colleges), benefitting the diversity of their staff and students. I would also ask the SFC to work closely with colleges and universities in developing and putting in place reporting systems, and data capture arrangements, in respect to gender based violence; and in their consideration of support for survivors of gender based violence, reporting on progress through the Outcome Agreement process.

Student Voice

8. I would encourage the SFC and institutions to develop further the engagement of students' association representatives, in the development of 2020-21 Outcome Agreements, to ensure the lived experience of students informs, and is embedded in, individual outcome agreements and their monitoring.

Student Support

9. We committed to a range of improvements in response to the independent review of student support and further to that, I want to underline our commitment to care-experienced students and see the previously committed rate of £8,100 per year for this group continued in 2019/20. I would also ask the SFC to work closely with SAAS on the development of the online portal for Further and Higher Education student support to ensure FE considerations are fully reflected in this new service for current and prospective students.

Adult Learning

10. Ensuring adult learners, particularly those with few or no formal qualifications or those furthest from the labour market, can access high quality, flexible and accredited learning is a priority. A key part of this is recognising, through SCQF credit rating, informal adult learning in support of progression into college or employment. In support of this I want you to ensure the continued development of Adult Achievement Awards in partnership with Newbattle Abbey College in the year ahead, working with them and the wider college sector to increase their reach and impact with a focus on sustaining these awards in partnership with the sector.

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English for Speakers of Other Languages (ESOL)

11. Working with Community Learning & Development Managers Scotland (CLDMS), Education Scotland (ES) and voluntary sector providers, I want the SFC to support local partnership working to better meet ESOL need. This should include consideration of how funds can support all types of provision that meet this need. In so doing I want you to ensure that colleges establish joint delivery plans with Community Planning Partnerships that make clear how local need is being met and make best use of core funding.

12. You should provide colleges with sufficient flexibility in these arrangements to allow all ESOL learners to be supported to participate on non-accredited provision, where this is appropriate. The joint delivery plans should establish the pipeline of provision which supports progression into formal accredited college courses, where that is appropriate. Where local partnerships need additional support, SFC should actively work with CLDMS, ES and voluntary sector partners to address this.

Section 2: The System

SG priority: To provide high quality learning in a system where institutions work in partnership and demonstrate the highest standards of governance and financial accountability

SFC core objective: *To ensure colleges, universities and specialist institutions form part of a successful, world-leading, coherent and sustainable system of education that responds effectively to the future needs of learners and the skills needs of the economy and society, enhances our rich cultural life, and strengthens Scotland's international connections.*

Skills for the Economy

Skills alignment

13. Developing the skills of Scotland's current and future workforce is central to improving productivity, supporting the Scottish Government's focus on fair, inclusive and sustainable economic growth. As concluded by the Enterprise and Skills Review and reinforced subsequently by the Strategic Plan of the Enterprise and Skills Strategic Board, the impact of our investment in skills would be enhanced by increasing the planning alignment between SDS and SFC, so that this investment better reflects the needs of employers, learners and the economy.

14. We want Scotland's skills system to be agile and demand-led, responding to industry and learner needs and providing the critical skills the economy needs, as set out in robust and agreed demand evidence. Your shared vision with SDS: Scotland 2035 (A Human Future) will help to articulate this ambition and should support our Future Skills Action Plan which we will publish in 2019. I ask SFC and SDS to work with us to deliver the ambition of this in 2019-20, and to use it to inform 2020-21 Outcome Agreements and the development of our evidence base for future skills alignment and investment.

15. I ask SFC and SDS to continue working with my officials in your joint delivery of the skills alignment work stream, specifically:

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- Establishing reformed governance to provide executive oversight, coordination and decision-making for skills alignment activity across SFC and SDS.
- Work with the recently appointed Skills Alignment Director to define and deliver the 5-step Skills Alignment Model, including the initial 4 Skills Alignment Commissions by supporting:
 - A comprehensive review of demand data and identification of opportunities for improving the data and ensuring that it is available in advance of key investment decision points.
 - A comprehensive review of the progression of the skills system, reflecting all enrolments, progressions and end destinations.
 - A review of all outcome measures during the procurement and monitoring steps to evidence the short-term outcomes arising from skills investment across a range of pathways.
 - The Analytical Unit to develop a comprehensive review and evaluation process to consistently measure the long-term impact of all skills investment to ensure public value.
- Developing a single demand and provision planning cycle with SDS.
- Working closely with SG and SDS to develop analysis and options relating to future skills provision in the context of a Spending Review.

16. Implementation of this approach will help to inform on-going consideration of the most effective balance of our skills investment to maximise returns, in terms of productivity and labour market inclusion, and avoid duplication of effort and funding.

Support for 15-24 year olds

17. I expect the SFC to continue to lead the college sector to increase the provision of vocational pathways in the senior phase in support of the Developing the Young Workforce programme. The SFC should continue to drive this increase, supporting effective collaboration between schools, colleges and employers, to ensure all young people have access to a high standard of work-related opportunities at a range of appropriate SCQF levels (in addition to provision at level 5 and above). In support of this, I ask that you work with Education Scotland, the Association of Directors of Education in Scotland and Colleges Scotland to establish criteria for effective partnerships moving towards shared measurement to assist continuous improvement in practice.

18. SFC has a key role to play in the implementation of the 15-24 Learner Journey Review. In support of this I ask that you appraise options for further alignment of skills provision and funding, considering the consequences of implementation and provide advice to me. This advice should include a more assertive approach to skills alignment, setting out options to unify the planning of provision between SFC and SDS, including Foundation, Modern and Graduate Apprenticeships.

The Apprenticeship Family

19. Apprenticeships are crucial to our Youth Employment, Economic and STEM education and training strategies and I look to the SFC to work with SDS, colleges and universities to develop the apprenticeship family and other work-based learning pathways in support of economic and inclusive growth, ensuring that they meet the needs of employers in rural as well as urban areas.

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20. I expect SFC and SDS to work together to ensure that colleges and universities play their vital role in expanding apprenticeships at every level. I expect the SFC and the institutions it funds to work effectively in delivering these ambitions, recognising the value of more diversified work based learning pathways into employment.

21. As Foundation, Modern and Graduate Apprenticeships become mainstream in schools, colleges and universities, and with continued uncertainty around European funding, I expect SFC and SDS to work with the Government to fully explore options for the sustainable delivery of these elements of the apprenticeship family, as part of the total learning and skills system. SFC and SDS should continue to work closely together on skills alignment, including engaging with Government to provide evidence and options on how Government investment routed through both organisations should be utilised to support our shared objectives on skills.

Flexible Workforce Development Fund (FWDF)

22. I expect the SFC to work closely with the Scottish Government to deliver Year 3 of the Flexible Workforce Development Fund. Work should continue between SFC and SG officials to ensure the FWDF responds to the needs of employers and the economy, while also considering the role of the FWDF in the wider upskilling and retraining agenda.

Early Learning and Childcare (ELC)

23. The expansion of Early Learning and Childcare (ELC) is a key policy and, building on the increase in provision of training places over the previous two academic years, more additional places to support the expansion are sought for the 2019/20 academic year. Specifically:

- 1,500 additional new starts to be allocated to HNCs or to SVQs at SCQF level 7, on the basis of provision offered by colleges and local demand;
- This total includes 77 additional HNC places at university (through UHI), to train at practitioner level in the sector.
- The total figure of 1,500 additional new starts reflects adjustments which have been made to account for withdrawal rates, as discussed with SFC colleagues.
- 494 additional places (247 FTEs) at managerial level, split between 316 BA Childhood Practice places (158 FTE) at universities and 178 PDA places (89 FTE) at colleges.

24. My officials will engage with SFC on a regular basis to receive data and intelligence on how colleges and universities are progressing with meeting these targets throughout the academic year.

25. Exploring greater flexibility in delivery of courses to widen the training options available, in particular for career changers, will be important in the coming year. I am grateful that you continue to work with colleagues from the Directorate for Early Learning and Childcare Programme, contributing to a number of cross sector fora to progress this policy and, in particular, with the work of the ELC Workforce Project Board which is overseeing implementation of the ELC Workforce Expansion. Finally on ELC, I welcome your on-going support in building a diverse workforce to support the expansion of ELC, particularly via the Challenge Fund for Men in Early Years which SFC is administering, but also via work with those from minority ethnic groups and those with disabilities.

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Public Health

26. As part of the [reform of public health](#), the Scottish Government and COSLA jointly launched [Scotland's public health priorities](#) in June 2018. I am pleased that the SFC endorsed these as it has a crucial strategic role to play in supporting their delivery and generating the skilled workforce Scotland needs for sustainable and inclusive economic growth.

27. In 2019-20, I would ask the university and college sectors to build on current activities, informed by a robust assessment of their contribution to both Scotland's public health priorities and the local priorities identified through community planning partnerships. In particular, we would ask the university and college sectors, as key players, to provide examples of how they engage with partners at a local level to support the delivery of local priorities to improve health and wellbeing.

STEM Education and Training Strategy

28. In 2019-20 I would ask the SFC to continue to work with partners to drive delivery of the STEM Education and Training Strategy, including through membership of the STEM Strategy Implementation Group. I would also expect you to lead on the delivery, monitoring and reporting of relevant actions under the Strategy, including: leading the development of the college-led STEM Hubs; supporting a growth in STEM based college provision in line with labour market need; increasing the opportunities for STEM related professional learning for practitioners in the college sector; supporting the Innovation Centres to improve the links between business and academia and schools; advancing equity in participation in STEM learning in the FE/HE sector, including through your Gender Action Plan and your work on Widening Access; and supporting work to enhance the understanding and awareness of STEM careers and workplaces for college and university students.

Digital

29. I expect the SFC to work with colleges and universities, as well as public and private partners, to emphasise the necessity of improved digital skills development across all subject areas for both students and teaching staff and to greatly enhance industry links, so that the system responds effectively and quickly to the evolving digital skills requirements across all sectors. Furthermore, I would like the SFC, through its representation on the Digital Skills Partnership, to illustrate new opportunities that enhance Further and Higher Education provision of digital skills.

Screen Sector Growth

30. I expect the SFC to continue to play a full part in Screen Scotland's governance and contribute actively to the work to fulfil your shared ambition of closer and stronger collaborative working and more effective delivery of public sector investment and resources to drive growth in Scotland's television and film sectors.

Carbon Management

31. In light of the global climate emergency and advice from the UK Committee on Climate Change, the Scottish Government has lodged amendments to the Climate Change Bill that will see Scotland's contribution to climate change end within a generation. We invite the SFC to work with universities and colleges to develop a more ambitious agenda on climate change

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with increased sector commitments on greenhouse gas emissions reduction, plastic pollution and contribution to the Sustainable Development Goals. We will update the Climate Change Plan within 6 months of the Bill receiving Royal Assent and would welcome the SFC's contribution to that process. With the SFC's support, Scotland has already almost halved emissions since 1990 while growing the economy, increasing employment and productivity. It is important that we continue in this vein and I expect you to play a central role in achieving that.

Creative Arts

32. In recognition of the importance of art and creative education exemplified by specialist art institutions, to the creative industries, future skills, and contribution to culture in Scotland, I expect you to give consideration to ways in which this can be better recognised and articulated through Outcome Agreements with these institutions from 2019/20 and beyond. I ask that you give thought to how the Outcome Agreements can better capture the significant performance of these institutions, recognise the work undertaken and the value they represent, and promote improvements where needed. I expect the SFC to work with the further and higher education system and public and private partners to support, protect, and develop creative education and ensure its benefits to society.

National Manufacturing Institute Scotland

33. I expect the SFC to contribute fully to establishing the National Manufacturing Institute Scotland (NMIS) and to ensure it draws on Scotland's wider university and college capability to help make Scotland an internationally recognised manufacturing centre where research, industry and the public sector work together to transform skills, productivity and innovation. In the year ahead I look to SFC to ensure delivery of early initiatives, including a programme of Continuous Professional Development and commencement of 30 NMIS Industry Doctorate projects, both of which should involve a range of Scottish universities.

Skills Action Plan for Rural Scotland

34. The Action Plan sets out our strategic approach to support the skills needs of the rural economy, addressing skills shortages, talent retention and attraction, and demographic challenges through enhanced work-based learning pathways and by increasing access to education and skills provision in rural areas. The Plan identifies five priority areas, details the specific actions required to be taken by SFC, with other public organisations and employers, to address the skills issues faced by individuals and employers in rural areas. I look to the SFC to support implementation of the Skills Action Plan for Rural Scotland by leading on specific actions and working in partnership with others to deliver key priorities.

Good governance in colleges and universities

35. For the college sector, I expect the SFC to continue to work with the Good Governance Steering Group and the Scottish Government to take forward the outcomes of the Good Governance consultation and to ensure the highest standards of governance in the sector.

36. For the university sector, the SFC should work with institutions and the Committee of Scottish Chairs to take forward the recommendations of the report on lessons learned which you published jointly with Robert Gordon University.

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Gender balance on boards

37. I welcome the progress that many institutions have already made towards gender balance on their boards and, where there are imbalances, of the steps being taken by the institutions to address these. I wish to see rapid progress made by our further and higher education institutions in addressing imbalances in gender representation on Boards and also in their senior ranks. It is important that institutions reflect the wide diversity within Scotland's society and the student population that they serve.

38. The SFC should work with Scottish Government and the sectors to develop arrangements for reporting against the requirements of the Gender Representation on Public Boards (Scotland) Act 2018, in line with guidance which will be consulted on and developed over the coming months. The SFC should also ensure that institutions reflect on their progress towards achieving gender balance on their Boards and at senior levels, and highlight how they are proactively working towards achieving these outcomes through their Outcome Agreement or Gender Action Plan.

Senior Level Pay

39. The SFC should encourage senior figures within the college and university sectors to demonstrate restraint in their own pay settlements and senior pay packages should be in step with the salary, terms and conditions offered to other university and college staff. As set out in your Financial Memoranda, while Public Sector Pay Policy does not apply directly to colleges and universities, they must have regard to it. Therefore, the SFC should be assured that institutions are setting pay arrangements for senior staff that ensure value for money, affordability and sustainability in the longer term.

Scotland's colleges

40. I am grateful to the SFC and colleges for their efforts in continuing to exceed our commitment to deliver 116,000 full-time equivalent places. To enable Scotland to respond effectively to current and future skills needs, I look to the college sector to ensure that it is flexible and highly responsive to the needs of industry and learners of all ages. I wish the college sector to continue to develop its culture of improvement and for there to be a clear line of sight between your investment in colleges and their contribution to the delivery of our national priorities as outlined in the Scottish Government's National Performance Framework and the contribution they can make to the UN Sustainable Development Goals

41. The national college improvement project will continue to build on the learning from Phase 1 and I look to the SFC to play a full part in the ongoing development and wider application of this work, which should progress with pace in 2019-20.

42. I look to the SFC to continue to work with the college sector to monitor and mitigate, as far as possible, the likely impact of EU Exit on the sector and to ensure that Scotland's colleges remain attractive and competitive in a global education market. The SFC should also continue work with colleges to ensure the sector is equipped to meet the skills needs of a changing labour market.

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Employer engagement and strengthening college links with industry

43. The SFC should prioritise supporting colleges to create effective partnerships with employers and industry groups. This should build on the work already underway with Education Scotland to establish an evidence base of employer engagement across the sector and the establishment of an Employer Engagement Framework to support colleges in enhancing their relationship with industry. SFC should work with colleges to take forward the findings from Education Scotland's Overview Report, to be published this year, to further strengthen the quality of employer engagement at strategic, operational and practitioner levels.

44. This focus on employer engagement should be undertaken by the SFC as part of wider work to maximise the vocational routes learners and employers need, and support the delivery of recommendation 11 of the 15-24 Learner Journey review. Working with Colleges Scotland and SDS, I want to see the SFC lead this work with impetus to ensure colleges are well placed to inform and deliver the Scottish Government's Future Skills Action Plan.

Financial reporting, medium and long-term planning

45. The SFC should ensure colleges manage their resources efficiently and effectively. The SFC should work with the sector to ensure colleges base Financial Forecast Returns on the agreed planning assumptions for the 2019-20 returns and utilise reasonable information for key planning assumptions to underpin their forecasts covering the period ending Academic Year 2023-24.

46. The SFC should ensure it works towards implementing the recommendations highlighted in the Audit Scotland Scotland's Colleges Review 2019.

47. In the context of the Spending Review exercise which the SG will run in 2019, the SFC should engage closely with the sector to develop the evidence base in relation to the public investment in Scotland's colleges. In a period where we will be required to prioritise public investment, it is essential that the sector can evidence an efficient and effective approach to delivery, including collaboration across the learning and skills system, and a focus on improved educational outcomes. I expect this to be a focus of the Colleges Strategic Futures group in the period ahead.

National bargaining

48. Whilst a successful conclusion has been reached on the cost of living pay uplift for college lecturers to August 2020, national bargaining still remains a key priority for the college sector and we welcome the enhanced role the SFC play in national bargaining to improve transparency in relation to the validation of financial and operational information. The SFC should continue to ensure proposals and draft costings from the joint secretaries are received at least two weeks before any negotiating meeting, allowing time for the data to be validated and agreed in advance of any discussion taking place. The SFC will have the final say on the validation of the data and therefore on the associated financial implications.

49. Additionally, and as part of their long-term financial planning, I would urge the SFC to ensure that colleges include the cost of staff pay, cost of living increases and terms and conditions in their financial plans.

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Arm's Length Foundations

50. I would welcome advice from the SFC on how the sector, based on the Financial Forecast Return, is looking to utilise the Arm's Length Foundation funds for future investment.

Regional Strategic Bodies

51. The SFC should continue to support all three Regional Strategic Bodies through their long-term planning for colleges in their region. You should ensure that each regional board has robust arrangements in place to self-evaluate its performance, support high-standards of governance and that of any colleges assigned to it, fulfilling their legislative requirements and the requirements of the Financial Memorandum with the SFC.

52. The SFC should also advise Ministers on the scope for improving the efficiency and effectiveness of the RSBs following completion of the exercise under-way with the Regional Strategic Bodies over summer 2019 in assessing the extent to which the RSBs are meeting the aims of regionalisation.

College capital investment and estates strategy

53. The SFC should use its prioritisation framework to identify projects for future capital or revenue funded investment, including new build, refurbishment, upgrading and maintenance.

54. The SFC should also continue to work with the Scottish Government to develop and publish clear guidance on the disposal of property within the college sector, and advise the Government of anticipated disposals.

55. The SFC should continue to work with the SFT and Scottish Government in developing the evidence base for investment in college estates projects in the context of revenue funded investment. In line with the Audit Scotland recommendation from its 2019 Colleges report, the SFC should work with the Scottish Government, Colleges Scotland and other stakeholders to develop a medium term investment plan covering the physical and digital college estate. In doing so the SFC must pay due regard to the requirements set out in para 30 on carbon management.

Scotland's universities

56. I am grateful to both the SFC and Scotland's universities for their collective effort to deliver quality education and research across the sector and for the contribution this work makes to the skills agenda, economic growth and wider society. In recognising this contribution I also look to the SFC to ensure that there is a clear line of sight between our investment in universities and their contribution to the delivery of our national priorities as outlined in the Scottish Government's National Performance Framework and the Sustainable Development Goals of the UN with which our NPF is aligned.

Employer engagement and strengthening links with industry on skills

57. I look to the university sector to ensure that, in delivering its primary objectives, it is flexible and highly responsive to the needs of both industry and learners of all ages. In particular, I look to the university sector to continue to develop its strong links with business, while also building on the relationships that exist with colleges and schools. I expect SFC to

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play a key role in helping the sector deliver this, including supporting the university sector to further develop its partnerships with employers and industry groups.

Financial Reporting, medium and long-term planning

58. The SFC should ensure universities manage the resources we provide in a way that is effective and efficient and which provides the best possible student experience. The SFC should work with the sector to ensure that universities base their Strategic Plan Forecasts on appropriate planning assumptions and utilise information available to underpin their forecasts for 2019-20 and beyond.

HE Financial Sustainability and Strategic Futures

59. The SFC should continue to ensure that universities maximise the effectiveness of the resources provided by the Scottish Government and that efficiencies are made wherever possible, using analytics and information available to support this. The SFC should continue to engage with the Scottish Government and the sector through the Strategic Futures Group and via other platforms to consider issues that affect delivery and service provision. The SFC has a crucial role in the continued development and improvement of this long-term partnership working and in ensuring maximum value for our public investment.

60. In the context of the Spending Review exercise which the SG will run in 2019, the SFC should engage closely with both the Scottish Government and the sector to develop the evidence base in relation to the public investment in Scotland's universities while undertaking modelling to demonstrate and advise Ministers on the impact of any budgetary changes. In a period where prioritisation of public investment will be required, it is essential that the sector can evidence an efficient and effective approach to delivery, including collaboration across the learning and skills system, and a focus on improved educational outcomes. I expect discussions around maximising the social and economic impact of Scotland's universities to continue to be a key feature of discussions through the Strategic Future's Group and in engagement with Ministers.

University capital investment and estates strategy

61. Gaining an understanding of the costs of maintaining a fit for purpose university sector estate is vital to the effective use of capital funds. The work which SFC has undertaken to establish the evidence base for the sector's year-on-year life-cycle and backlog maintenance needs is a key part of this. The SFC should continue to develop this analysis in order to determine strategic priorities for investment in relation to both direct capital investment and Financial Transactions.

62. The SFC has been allocated £55.5m of financial transactions as part of the 2019-20 Scottish Budget to support capital activity in the university sector. I expect the SFC to work collaboratively with the skills system to determine the most effective way in which these can be used.

Quality assurance in universities

63. In the context of the changing regulatory framework in England, the SFC should continue to work to protect, as far as possible, the interests of the Scottish university sector. In respect of the Teaching Excellence and Student Outcomes Framework, the existing Quality

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Enhancement Framework approach to quality assurance in Scotland remains the key determinant of assessing the provision of quality learning in Scottish universities. The SFC should therefore work with us and sector partners to mitigate the impact on quality assurance in Scotland of changes implemented in other parts of the United Kingdom.

Section 3: Research and Innovation

SG priority: To support Scotland's global reputation as a Science and Research Nation synonymous with high quality teaching, research, knowledge exchange and innovation.

SFC core objective: *To invest in excellent research and innovation that adds to current knowledge, delivers economic and societal value, enhances Scotland's international reputation and attractiveness, and makes the world around us prosperous, healthier and more sustainable.*

Research excellence

64. Maintaining Scotland's research excellence and promoting our world-class science base remains at the core of my priorities. In the context of Brexit, it is more important than ever for Scotland to strengthen its international research collaborations to maintain our world-renowned excellence and reputation.

65. Together with other funders, SFC should play an active role in encouraging Scottish universities and colleges to work together, and with other science and research organisations in Scotland, to add value to Scotland's research excellence and strengthen international collaborations. I would also expect research pools and innovation centres to play an increasing role in this.

Effective knowledge exchange and innovation

66. Maximising the impact of our investment in research through effective knowledge exchange and innovation is also a priority. I would expect SFC to continue to strengthen its focus on this area and increase its efforts to have a single coherent approach to its support for relevant activities by universities, the innovation centres and Interface.

67. Encouraging partnerships between the universities, colleges and industry, public and third sector organisations in Scotland, the UK and internationally will have to remain an important part of this. Such partnerships should not only increase the likelihood of effective research translation into practice but also offer increased opportunities to secure competitive funding from elsewhere, including from UKRI and Third Sector funders.

68. I would also expect all organisations involved to make a more concerted effort to promote the outputs, outcomes and impacts of SFC's research and innovation investments more prominently. This should include activities to improve Scotland's reputation for science and research excellence internationally in support of the Sustainable Development Goals and strengthening of our global research collaborations as set out above.

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Section 4: The SFC – Strategic and Leadership Role

SG priority: To operate as a highly effective public body, providing leadership and working in partnership with others to improve outcomes and support an inclusive and sustainable economy.

SFC core objective: *To be an excellent, outcome-focused public body that provides leadership, inspires confidence, models collaborative working, is committed to continuous improvement, and stewards public resources well.*

Policy development and engagement

69. The SFC Strategic Plan 2019-22 sets out clearly your plans and ambitions for the next 3 years and your role as a constructive partner for government, the other Enterprise and Skills Agencies and the skills system. In this regard, I welcome your continued efforts to champion and challenge the role and performance of the sectors and to share your knowledge, data and insights to better inform decision-making in Government and across the education system more widely.

Role of the Board

70. I have welcomed the opportunity to engage with the Board as it developed the SFC's strategic priorities and planning for 2019-20 onwards. The Board plays a key role in providing leadership and strategic direction to the organisation as well as sound management and stewardship of Government's significant investment in further and higher education and research.

71. To do this effectively, it is essential that the Boards of public bodies, including the SFC, are high-performing, work in an efficient, effective and collaborative manner and demonstrate the very highest standards of governance and accountability, including adherence to the Principles of Public Life in Scotland. They must have the right mix of skills and experience, be committed to ongoing training and development and ensure that they reflect on their effectiveness and impact, identifying areas of strength and for development, and taking opportunities for continuous improvement.

72. This year's appointments' round is an opportunity to bring a refreshed perspective, diversity and focus to the Board's work and to ensure that it reflects the perspective of the sectors it supports but most importantly of those who engage with and benefit from its work. I also believe it is a timely opportunity to reflect on the Board's development going forward and to consider how its contribution can be maximised in 2019-20 and longer term. I look to the SFC to work closely with the SG to progress this.

Promoting Fair Work

73. Ministers have made clear that public bodies should lead the way on Fair Work, ensuring access to work that offers effective voice, opportunity, respect, fulfilment and security of employment. I am therefore asking the SFC – along with the other enterprise and skills agencies – to be an early adopter of Fair Work First within your organisation. The Scottish Government's Fair Work team will work with you to agree arrangements for monitoring and measuring progress. I am also keen that our public sector partners consider developing a Fair Work Agreement with the relevant trade unions to guide their fair work approach, similar to

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that signed jointly by the Scottish Government and the Civil Service trade unions. Fair Work officials will liaise with you to explore this further.

74. I also expect the SFC to promote Fair Work across the college and university sectors, with a view to them adopting Fair Work First as part of our wider roll-out of this approach to bodies in receipt of public sector funding. I will also look to you to continue to promote Fair Work to other organisations with which you work and through your stakeholder networks.

Equality and diversity

75. The Scottish Government's expectations are that the SFC will place equality and diversity at the heart of your activity to drive forward change both as an employer and in your service delivery that will make an enduring difference to our ambitions for a fairer Scotland and for inclusive economic growth. In particular it should make a contribution to the delivery of the Government's ambitions of reducing the gender pay gap; halving the disability employment gap; supporting more minority ethnic people into employment, and to ensure that they are employed in jobs which are appropriate for their level of skills, qualifications and experience.

76. As outlined in the Equality Human Right Commission's Report on Public Authorities' performance in meeting the Scottish Specific Equality Duties, 2017, and in keeping with your duties under the Public Sector Equality Duty, I would welcome a commitment from you to improve the setting of measurable equality outcomes and the collection and use of employee data in order to improve direct interventions or test new ways of approaching persistent problems. We have also committed to undertake a review of the Scottish specific duties, to ensure that they remain an effective vehicle to deliver the Public Sector Equality Duty. We expect the review will take place over the course of this year and I will expect the SFC to participate fully in this process.

Europe and International

77. Relationships with other countries – both in Europe and further afield – support the quality and diversity of Scotland's colleges and universities. Thousands of students from across the world come to Scotland each year, and – particularly in the face of the challenges relating to Brexit - it is important we maintain this network to enhance our global reputation.

78. I look to the SFC to continue to work with the sector through Connected Scotland and other partnerships to identify opportunities to work together and to communicate that our colleges and universities remain open and welcoming to students and academics from across the world and committed to teaching, research and mobility collaborations with our European and international partners.

Investment decisions and financial accountability

79. An unprecedented level of uncertainty due to EU Exit and the potential consequences for our economy are likely to represent budget pressures in 2019-20. Therefore it is essential that we maximise the impact of our investment in education and skills on inclusive economic growth and I look to you to invest wisely and strategically, to ensure we achieve the desired outcomes, while managing transitions and change successfully.

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Spending review

80. I welcome SFC's input to the Spending Review process and ask that you work closely with my officials to provide a robust evidence base and develop scenarios and options which will inform Ministerial decision taking about budget priorities.

Strategic Funds/non-core funds

81. Having funds available to invest in activity which contributes to meeting Scottish Government strategic objectives is something that I welcome and would like to see continue. I would stress the importance I attach to ensuring that projects prioritised for funding are clearly linked to Scottish Government strategic objectives. As part of this, I welcome the SFC's planned review of Strategic Funds and ask you to work closely with my officials in that process. I am also keen that the SFC seeks to ensure that funded projects become self-sustaining where appropriate.

82. I am aware of the continued downward pressure on such funds and look to the SFC to manage wherever possible institutions' need for emergency funding by encouraging them to consider a full set of options before funds are provided and ensuring that, where emergency funding is invested, the institution has the appropriate structures in place. This should tie in with institutions' ability to accurately forecast a year in advance, have in place appropriate scenario planning, sensitivity analysis, assessment of key risks and the identification of mitigation strategies. In the same vein, I look to the SFC to reduce universities' reliance on strategic funds and look to integrate and mainstream funding arrangements where possible.

Planning, Performance and Evaluation

83. The Strategic Board's plan highlights the importance of smarter delivery across the skills and enterprise agencies, with an increased focus on collaboration and data-driven decision making to yield greater economic and societal impact. I expect the SFC to be able to report on its delivery and programme outcomes, across all activities and, in doing so, demonstrate alignment with and progress against relevant performance frameworks, including that of the Strategic Board.

Production of statistics, reporting and performance management

84. The SFC should continue to develop its analytical capability and work collaboratively with other organisations to enhance and make better use of existing and new data collections. This will allow for a greater understanding of learner pathways and outcomes, especially for individual learners. This work should align to the recommendations of the SFC Analytical Unit review with a focus on the pillars of the Code of Practice for Statistics, namely Trustworthiness, Quality and Value.

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