

**Education and Culture Committee**  
**Scrutiny of the 2013-14 Draft Budget**

**Letter from the Cabinet Secretary for Education and Lifelong Learning**

**2013-14 draft budget scrutiny**

I refer to your letter of 23 October 2012. I was surprised, given in particular that we had previously exchanged letters, and we had a reasonable amount of time during my oral evidence session on 23 October, that there were so many further questions from the Committee.

Nonetheless, my responses are set out below. I have set out in Annex A information on the College Transformation Fund, as requested by Liam McArthur, but not referenced in your letter. My letter incorporates material in response to Colin Beattie's question on innovation centres, as you referred to them in your letter.

**1. Impact on FE staff numbers, student time and teaching quality**

Staffing is a matter for individual colleges - my ability to direct colleges in that regard was removed by a previous administration. However, as I stated in my oral evidence, and consistent with my letter of guidance to the Scottish Funding Council (SFC), I am encouraged that, to date, reform is progressing in a manner that avoids the need for compulsory redundancies. In terms of student numbers, as I have previously mentioned and as Mark Batho made clear in his evidence to Committee on 2 October, we are confident that the draft budget for 2013-14 will allow us to continue to meet our manifesto commitment to maintain the volume of college learning.

**2. Scottish Government's strategic approach to change**

Revisions to draft allocations for colleges (and, for that matter, universities) are not a feature of recent funding: these have taken place consistently since the creation of the Scottish Parliament, both at autumn and spring budget revision stages.

It is our intention, subject to Parliamentary approval of the budget, to increase amount of provision delivered by Skills Development Scotland (SDS) from 4% in 2012-13 to 8% in 2013-14. I cannot, obviously, at this stage say what the likely future balance between SDS and SFC provision will be beyond this point; decisions on this and related matters will be made at an appropriate time in the future. Work on the transfers from SFC to SDS and SAAS has been ongoing throughout the preparation and publication of the draft budget; these will be subject to Parliamentary approval by the budget revisions process.

My strategic approach to funding colleges remains one whereby the key objectives are to improve life chances, support jobs and growth, and ensure the sustainability of the system. Further detail on my strategic approach is set out very fully in *Putting Learners at the Centre*, and in the subsequent joint consultation undertaken with the SFC on regionalisation.

I expect colleges to continue to derive funding from a range of sources; as a matter of principle I am less concerned with how funding is routed than I am with the extent to which it helps to achieve the objectives.

I cannot at this stage say whether further funding will be available for colleges prior to finalising the 2013-14 budget bill- that will be a matter for Parliament.

### **3. The Scottish Government's purpose**

The Scottish Government is supporting a range of initiatives to support the employability of graduates and their entry into graduate level jobs. This includes graduate placement programmes which provide graduates with the opportunity to gain valuable work experience in their chosen field and give them a step up onto the careers ladder. The Adopt-an-intern programme, funded by the Scottish Government, in particular reports that some 61% of interns find relevant full-time employment following their internship.

We are also working closely with both public and private sector partners to provide a comprehensive package of services to help graduates into employment. This has included funding for AGCAS (Association of Graduate Careers Advisory Services) Scotland to secure improved web-based services which provide advice and information on job vacancies.

The Talent Scotland Graduate Placement Programme (TSGPP) is a Scotland-wide graduate placement programme. It is a collaborative project, led by Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) with the Scottish Government, SFC, Skills Development Scotland (SDS), and AGCAS as partners. The aim of this programme is to support projects which would otherwise not go ahead, focused on business innovation, knowledge transfer, productivity improvements and international growth; to address concerns relating to graduate unemployment and underemployment; and to enhance graduate employability skills through training.

In June 2012 we announced £505,000 funding for a pilot scheme to encourage Graduate Youth Employment within Scotland's smaller businesses. Run through the Scottish Chambers of Commerce, this project supports graduates into jobs using small recruitment incentives and running small business undergraduate fairs at universities to increase the knowledge and understanding of employment opportunities.

The Scottish Government recognises the role of universities in shaping, preserving and developing our country, our economy, our culture and our society. Universities support the Government's Purpose of increasing sustainable economic growth and delivering real, positive change for the benefit of Scotland and its people.

The relative balance of funding between colleges and universities will always be a matter for debate, but I believe that our actions to deliver on the post-16 agenda will lead to a significant improvement in the efficiency and effectiveness of our colleges and universities that will be of benefit to the Scottish economy. Perhaps the most significant assessment of relative economic benefits of a college or a university education relate to the impact on the earning capacity of those individuals: there are a number of studies which demonstrate a premium associated with higher skills and training levels.

Ultimately this will result in increased tax revenue and spending power, both of which have direct effects on the economy of the country and in this respect, our efforts to widen access and ensure even more young Scots can enter and succeed in higher education are particularly important.

The higher level skills base is also an important factor in attracting and retaining industry in Scotland. There are lessons from other countries of the value of investment in these areas and their impact in stimulating and supporting economic growth. OECD figures back this up.

Higher education commercialisation and innovation activity, focused on areas of research strength, contributes to the economy. For example, we are actively encouraging greater Scottish participation in European funding programmes. The latest Framework Programme 7 figures show around 1,000 (986) organisations in Scotland have been successful in attracting over €374 million investment in innovation and R&D activities. Centres of innovation excellence are being created, such as the Offshore Renewable Energy (ORE) Catapult Centre, headquartered at Strathclyde University, which will receive around £50 - £100m from the UK Technology Strategy Board over a period of 5 - 10 years.

We are also developing new initiatives, such as innovation centres, which we expect to have a positive impact upon economic growth across key sectors, including the SME sector, and will stimulate the labour market as a result.

In terms of innovation centres specifically, the SFC and Enterprise Agencies are in the process of establishing a new group of such centres. Their aim is to provide a boost to the economy by harnessing the excellence of our academic research base to address the problems faced by business and industry. An important measure of success will be the extent to which business and industry become partners in innovation centres and invest in them over a prolonged period. Businesses will only do this if they envisage a return on that investment, a return that enhances their competitive edge internationally and boosts their profits. The business and industry interest in developing the new innovation centres is strong as evidenced by their level of engagement and willingness to co-invest in cash and in kind in setting them up. The success of innovation centres will be measured by the jobs and the Gross Value Added they create, as well as through increased engagement and partnerships between Industry, academia and Enterprise Agencies. I attach further information on innovation centres at Annex B.

In terms of the competitiveness and excellence of Scotland's university sector, the criteria and weighting used vary across ranking systems, but the Times Higher Education rankings for example use 13 performance indicators grouped into five areas:

- Teaching: the learning environment (worth 30 per cent of the overall ranking score)
- Research: volume, income and reputation (worth 30 per cent)
- Citations: research influence (worth 30 per cent)
- Industry income: innovation (worth 2.5 per cent)
- International outlook: staff, students and research (worth 7.5 per cent).

Research quality and impact are therefore significant criteria in measuring international competitiveness and excellence, but there is no single way of measuring this. Examples are: the Research Assessment Exercise (to be replaced by the Research Excellence Framework in 2014), which is the only comprehensive and independent assessment of the quality of research across the HE sector in Scotland; the research income of Scottish institutions (from research councils, the EU, charities, industry and other sources); the number of citations and publications by GDP; research workforce; and postgraduate student numbers.

#### **4. Outcome Agreements**

##### *Colleges*

Outcome Agreements (OAs) are the means by which the Government will link our funding for colleges (and universities) to a reciprocal and transparent commitment to deliver our priorities for further education and skills. As such, they represent a ground-breaking change in our relationship with these institutions. This first set of outcome agreements demonstrates significant progress particularly in relation to structural change. Importantly, they also provide assurance that the focus on, and accountability for, outcomes is becoming embedded in attitudes and behaviours across the college sector.

But whilst the first set of OAs represents a real achievement, it is only a first step and the Scottish Government (SG) and SFC are working with the sector to:

- Improve the level of ambition and detail described in the agreements;
- Support the development of truly outcome-based (as opposed to activity or outputbased) commitments;
- improve measurement of colleges' alignment with employer need and contribution to economic growth;
- better understand the way in which the sector engages with industry regionally and nationally as an integral part of their planning processes;
- strengthen performance monitoring to provide assurance that government priorities are being delivered.

SFC has published guidance on outcome agreements for 2013/14 (<http://www.sfc.ac.uk/colleqeoaguidance>), including a robust framework for measuring impacts. The next step is to set up joint working groups with the sector to further develop this approach.

SG clearly articulates its priorities for the college sector and the available funding in its annual letter of guidance to the SFC. The most recent letter can be found at <http://www.sfc.ac.uk/quidance/quidance.aspx>. SFC will determine the level of funding available to each region.

SFC has appointed Outcome Managers, who will work with regions to negotiate an outcome agreement. They will act as the central point of contact between a region and SFC on matters directly related to the detail in outcome agreements, and will additionally ensure that the proposed outcomes are complementary to those sought by others, such as local authorities, community planning partnerships, Skills Development Scotland (SOS), Enterprise agencies and student associations. SFC will also be responsible for monitoring progress through ongoing dialogue with regions.

College Regions are responsible for achieving structural reform and the efficiencies required across the sector and are accountable to the SFC in doing so. In developing their Outcome Agreements they should plan collectively to develop ambitious outcomes which meet SG priorities and must engage with partners, including employers, to determine and address regional need. The achievement of an outcome agreement is the responsibility of a regional grouping of colleges and SFC has a role to play in supporting the colleges in their progress.

Funding for colleges will be negotiated annually. Funding is on condition that an outcome agreement meets the required standard, particularly in terms of the:

- impact the college will deliver;
- ambition and appropriateness of its outcomes and outputs; and
- partnership support for its work.

Future funding will be dependent upon delivery against outcomes and negotiations in relation to past performance will be used to adjust funding. The SFC will take a holistic judgement on the performance of each institution. Evidence will be gathered on performance across the region. Each year as part of the monitoring of progress, SFC will use consistent measures to aggregate the impact of the outcome agreements and will discuss this progress with the sector. Any decision to reduce funding would be proportionate and based on holistic considerations of a region's performance rather than a mechanistic or formulaic reduction.

#### *Universities/HEIs*

The Scottish Government recognises that in the first iteration of outcome agreements in the Higher Education sector much has been achieved. However, as with any new process, there are valuable lessons which can be taken forward into the development of future outcome agreements to ensure that they are as effective process a process as possible and in line with the evaluation work already done with the sector.

In the development of these agreements, SFC's role is to work with universities to develop their outcome agreements in line with agreed priorities. It is the role of outcome agreements to secure public value for money and to drive forward progress on priorities, such as widening access, and to ensure ultimately that the priorities are met to deliver the best education for our young people and maximise the benefit to our economy. Outcome agreements are a condition of grant and where incentivisation schemes are developed, compliance is a requirement prior to fund release.

#### **5. The university funding gap**

There is no funding gap. In England, the UK Government announced that it would raise the cap on variable tuition fees charged by English HEIs from £3,375 to £9,000 *per annum* in AY 2012-13. Loans were made available to students to cover both course and living costs for all first-time undergraduate full-time students in England. These tuition fees in England have provided very little additional investment in the sector, rather they have replaced public investment (reduction in teaching grant) with private fees. This resulted in a drop of 54,000 students accepted to English institutions in 2012-13 compared to 2011-12.

## **6. Higher Education Student Support**

Every pound spent by the Scottish Government on bursary support puts one pound in student pockets. Every pound spent by the Scottish Government on loan support puts 3 pounds in student pockets. Accordingly, the shift from bursary to loan enabled support allows us to meet budgetary pressures while also meeting the request of students to put more money in pockets.

Student debt is cheaper to service than normal commercial lending, it is only repayable beyond a certain income threshold, and it can be written off after a period of time. We should also remember that because our students do not have to personally bear the cost of tuition, debt levels are substantially less for Scottish students studying here than they are for students studying in England.

## **7. University Research Funding**

In our Green Paper - *Building a Smarter Future: Towards a Sustainable Scottish Solution for the Future of Higher Education* (2010) - it was acknowledged that research undertaken in Scotland had a significant impact world wide. However, it was also acknowledged that not all of this has been as well reflected in terms of growing the Scottish economy as we might have wished. Our challenge has been to explore how we could sustain an environment in which Scotland's basic and applied research continued to be internationally competitive and its impact maximised for the benefit of national and international businesses, local companies in Scotland and Scottish society as a whole.

My recent letter of guidance to the SFC set out my priorities for the higher education sector, including protection of excellence in research. In 2012-13, despite the challenging economic climate, the SFC will increase the total level of Research Excellence Grant (REG) to £223 million in cash terms - a rise of 5% - which forms part of a £301 m investment in research and knowledge exchange. This includes £10m to establish the first tranche of Innovation Centres in 2012-13. An increasing focus on excellence will result in world-leading or internationally excellent (3\* and 4\*) research benefiting from a removal in funding for research recognised internationally (2\*). This approach is accepted by the sector and will help ensure Scotland remains internationally competitive in research.

Support from SFC for research is intended to enable institutions to provide the facilities and environment to undertake research of the highest quality. The funding for the actual research should be secured on a competitive basis from other sources, including the Research Councils, major charities and the European Commission. Institutions should not be dependent solely on the SFC for research funding.

## **8. Opportunities for All**

In order to ensure sufficient provision across the learning system, Ministers have asked Colleges to prioritise their provision for young people. As colleges evolve as part of the Post-16 Reform, they will develop Regional Outcome Agreements that will outline how they will contribute to *Opportunities for All* and work with partners to engage young people seeking learning or training opportunities.

As part of the college regionalisation agenda, the Scottish Funding Council (SFC) is repurposing the funding for colleges, via outcome agreements, to ensure that colleges are better placed to respond to the needs of young people and better supported to fulfil their major role in the delivery of Opportunities for All. The SFC has appointed outcome managers to work alongside colleges and their local partners so that available courses offer what young people want and what employers need. By supporting regional structures, the SFC and the college sector will enable young people to become better qualified and progress through the education system in an efficient and flexible manner. At the same time, colleges will be better able to respond to the needs of the local, regional and national economy to equip young people with the skills and knowledge needed to get and sustain employment.

Colleges have committed to prioritise opportunities for young people and will make available a range of full-time course informed by both the needs of local employers and the national key industry sectors. Colleges and other providers will deliver pre-employment training aimed specifically at 16-19 year olds who have little or no formal qualifications and who face significant barriers to employment.

The move to outcome based funding is a major cultural change for both SFC and colleges and it is recognised that this new approach will take time to become embedded. The new approach should be fully embedded by the Regional Outcome Agreement negotiations planned for Autumn 2013 which will influence provision in the following Academic Year 2014-15.

The Scottish Government will not specify the number of young people who will receive their OFA support through a college as learning should be appropriate to the individual and not driven by government target in order that progression towards and into employment is effective. That may mean that young people learn in a number of different settings or progress from their first post-16 learning setting directly into employment - as is appropriate for that individual young person.

There is no separate funding provided to colleges to deliver OFA as delivering opportunities to young people is a key component of colleges core offer. This is reflected in college regional outcome agreements. Specific *Opportunities for All* funding includes:

- £1.5 million over 3 years to support 1,000 of the most disadvantaged young people, including, care leavers, young carers to enter the labour market. £0.5 million in 2012/13;
- £6 million to support Community Jobs Scotland;
- £2.5 million challenge fund to third sector to provide support to young people and youth unemployed - supporting 24 beneficiaries across Scotland; and
- £9 million for 6 local authorities to tackle youth based on those facing greatest challenge. Nearly 3,500 young people will benefit from a range of programmes across these councils, including Modern Apprenticeships, subsidised jobs, graduate placements, volunteering opportunities and employability training.

In our guidance to SFC we have made it clear that 16-19 year olds are the top priority for colleges. As SFC works with colleges on regional outcome agreements they will ensure that sufficient college places are allocated to this age group. We will

also aim to increase completion rates so that young people move forward as a result of their engagement with colleges.

Provision should be accredited where that is appropriate to the needs of the young person and where it helps improve their prospects to progress.

The commitment of *Opportunities for All* is open to all young people, between the ages of 16 and 19 - that is, up to their 20th birthday - who are not currently in education, employment or training. Keeping young people in post-16 learning is the best means of improving their long-term employability. *Opportunities for All* guarantees every 16-19 year-old, who doesn't already have one, an offer of a place in education or training.

There is no particular outcome, or level of qualification that every young person must achieve, and we look to support all young people to progress through learning or training towards and into employment

*Opportunities for All* will be delivered through the provision in place across the post 16 education system. We are prioritising young people in colleges, consistently offering a record number of apprenticeships and are supporting a wide range of tailored provision to meet needs right across the employability pipeline. Therefore, it is not feasible to include all 'OFA provision' within a single funding stream. Effectiveness of provision across the whole post-16 education system will be monitored through existing monitoring processes.

## **9. Equalities**

Equalities issues are being taken into account as part of our ongoing programme of Post 16 reform. In addition, as you may be aware, we published alongside the draft budget on 20 September an Equality Budget Statement. Chapter 4 of the statement (available at the link below) contains further information

[http://www.scotland.gov.uk/Publications/20 12/09/5 750/9](http://www.scotland.gov.uk/Publications/20%2012/09/5%20750/9)

I trust that this further information is helpful in allowing you to conclude your scrutiny and report on the draft budget.

**MICHAEL RUSSELL**

**Cabinet Secretary for Education and Lifelong Learning**

## College Transformation Fund - Further Information

### Purpose

1 The purpose of the College Transformation Fund (CTF) is to support colleges as they move towards delivering education in regional groups. It is intended primarily to fund voluntary severance (VS) schemes to deliver the staffing changes needed for mergers (or strong federations), and realise the associated efficiency gains. The fund can also be used to support innovation. Merging partners are expected to contribute to merger costs where it is clear they have the resources to do so.

### Funding

2 £15m was made available by the Scottish Government to support the CTF. This is supplemented by £10m of SFC strategic funding, taking the total available to support mergers in to £25m.

### Mergers and Federations

3 Eight college mergers have now been agreed. The Edinburgh colleges merger and the landbased and Scottish Agricultural College merger have both completed, with vesting for the new Edinburgh College and the Scottish Rural University College taking place on 1 October this year. Of the remaining six, colleges in Ayrshire, the West, Glasgow South, Glasgow North, and Fife will merge during the course of 2013. The vesting date for Tayside has not yet been formally agreed.

4 The College Transformation Fund (CTF) is also available to help support the two planned federations in Aberdeenshire and Lanarkshire.

### Analysis of Bids

5 As part of the bidding process colleges must demonstrate how any funding will deliver clear financial benefits within a year as well as how they will meet regional needs and deliver outcomes consistent with post 16 reform.

### Payments

6 With the exception of Dumfries and Galloway, all of the payments made to date from the CTF have been in support of merger implementation or preparation. In Dumfries and Galloway the award supported an innovative learner journey project. The table below breaks down the awards which have been made by the SFC to date from both the CTF and SFC strategic funds.

Region	CTF	SFC Strategic	Total
SRUC		5,000,000	5,000,000
Edinburgh	3,500,000	4,200,000	7,700,000
Ayrshire	180,000	0	180,000
Glasgow S & W	0	0	0
Glasgow N & E	0	300,000	300,000
West	0	0	0
Fife	342,000	0	342,000
Tayside	0	0	0
Dumfries & Galloway	197,000	0	197,000
Total Total	4,219,000	9,500,000	13,719,000

Additional small amounts of funding have been provided by SFC to support the initial stages of merger preparation. These payments were made from the SFC's Invest to Save fund.

Negotiations are ongoing with the West, Glasgow South and West and Ayrshire, regions and SFC is close to agreeing packages of funding to support the implementation of the mergers. It is likely that these will account for a substantial proportion of the remaining CTF funding, which amounts to approximately £10m.

## **Annex B**

### **Innovation Centres**

#### **Innovation Centres**

Innovation Centres (ICs) will be sustainable communities of universities, businesses and others around sectors of importance to the Scottish economy. These Centres will provide solutions to demand-led problems facing industry in Scotland by supporting innovation for future growth. The IC programme represents a novel approach to linking indigenous and international businesses with Scottish universities on a national scale. It will also greatly enhance the industry relevance of the learner experience.

An open call for proposals for ICs was announced by the SFC in April 2012 and thirty proposals were received by the deadline. A second process is planned for early 2013. The number of ICs we create from either process will depend on evidence of significant demand and potential impact and quality. Successful ICs will benefit from an initial SFC funding stream of £10M in AY 2012/13.

#### **Progress**

The IC Assessment Panel selected six proposals for advancement to the second stage of the competition. These proposals offer high potential for demand-driven, collaborative KE and research activity that will fuel innovation and lead to a step-change in academic-industry collaboration to support Scotland's key and other important sectors.

The Panel will meet again on 30 October 2012 to review the business plans, to interview the academia-industry bidders and to recommend to SFC, SE and HIE which of the bidding teams should be supported to establish ICs.

#### **Targeted process**

SFC will launch a further targeted process to develop sectors/areas where stage one proposals had demonstrated the need for an IC but had not fully met the assessment criteria.

SFC, SE and HIE are working with sector leads, industry and the universities to help shape this, particularly towards influencing more strategic and demand-led responses from applicant HEIs and industry partners. The development of the process will be informed by learning from the first call and will be launched by early 2013.

### **The Innovation Centre programme**

ICs will be fully integrated into the Scottish innovation landscape. The development of the programme, therefore, takes place in parallel with the development of a single knowledge exchange office for Scotland and the alignment work regarding the innovation support mechanisms of SFC, SE and HIE. ICs will also be complementary to and synergistic with the UK Catapults and EC initiatives such as Knowledge Innovation Communities.

Successful ICs will be part of a 'family' of Centres operating as a single brand under a shared vision regarding the contribution each will make to Scotland's future economic and wider prosperity. This will also help articulate to new industry partners what ICs are and how collaboration can help grow their business.