1. Today, the Scottish Government has set out its spending plans for financial years 2012-15 and, therefore, the funding for colleges and universities over this period. Together with my ambitious and radical proposals for the reform of all post-16 education, as set out in Putting Learners at the Centre which I launched last week, the context within which the further and higher education sectors must operate over the next few years is clear. The Scottish Government's Programme for Government and our revised Economic Strategy show how the role of our colleges and universities, and our investment in them, will contribute to achieving the Government's Purpose.

2. Over the course of the next few months, the Budget Bill will go through the annual process of Parliamentary scrutiny with the aim of achieving an agreed budget for financial year 2012-13 no later than the end of February 2012. The Scottish Funding Council's planned allocation over the Spending Review (SR) period is:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>College Programme Funding (£m)</th>
<th>University Programme Funding (£m)</th>
<th>College and University Capital (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>506.9</td>
<td>1002.2</td>
<td>60.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>494.7</td>
<td>1041.5</td>
<td>45.9</td>
</tr>
<tr>
<td>2014-15</td>
<td>470.7</td>
<td>1061.7</td>
<td>56.4</td>
</tr>
</tbody>
</table>

3. This letter of guidance to the Scottish Funding Council (SFC) sets out the Government's priorities for investment in colleges and universities over the SR period so that you may provide indicative allocations for academic year 2012-13 across teaching, research, knowledge exchange, learner support and capital spending budgets before the end of 2011. Should these priorities change following the end of our period of consultation on Putting...
Learners at the Centre I will provide you with additional guidance early in 2012. This will allow you to make any adjustments required before you confirm final allocations.

4. For the avoidance of doubt, this advice supersedes previous guidance.

Further education

5. Putting Learners at the Centre – our ambitious proposals to reform post-16 learning in Scotland – makes clear the role colleges play in the pursuit of economic growth; our Programme for Government and refreshed Economic Strategy also draw attention to the priority we afford learning and skills in achieving our strategic objectives. But our reform proposals also signal the need for radical change on the college sector if we are to deliver the three objectives we have set: a sharper focus on jobs and growth; improving people’s life chances; and ensuring a sustainable post-16 sector for the years ahead. This will demand high quality leadership, ambition and resilience from Chairs and Principals and their staff in all of our publicly funded colleges. But the challenge is not one we can ignore. We have made clear we want to work with the sector in realising our ambitions of radical reform in which we produce better outcomes for learners. I therefore invite the Council to support us in that endeavour.

6. The SR settlement for colleges is unquestionably a tough one. It is set against the background of a consultative period in which we want to invite views on the proposals in Putting Learners at the Centre. Nonetheless, the Spending Review has forced us to look hard at the existing system to see what immediate efficiencies and other changes should now be made. We have therefore concluded four adjustments that should be made with effect from academic year 2012-13, notwithstanding the outcome of the consultation period currently underway.

7. First, our guarantee that every young person aged 16 to 19 should have an appropriate place in learning is paramount. Colleges have a central part to play in this and have, we acknowledge, been working towards this through implementation of 16+ Learning Choices over the last couple of years. I should therefore like the Council to ensure that colleges play a full part in this and are resourced to be able to do so.

8. I should additionally like the Council to work with the colleges in ensuring that along with other sectors a similar offer of learning is available where possible to 20-24 year olds. You should also give priority in your decisions on resourcing colleges to those looking for jobs, and those with low or out of date skills.

9. Creating this kind of joined-up system of learning will require much better joint working between the Council, Skills Development Scotland, Jobcentreplus, local authorities, schools, Community Learning & Development, colleges, universities and third sector learning providers than has happened in the past. I know that the Council is committed to this kind of working, but it now needs to move beyond small scale projects, into systemic change and aligning of core activity. Effective data-sharing between colleges and SDS in support of young people’s transitions – and rapid response to drop-outs, remains a high priority for Government. I therefore expect the Council to play a leadership role in making this happen.

10. Second, our proposals for post-16 reform lay a heavy emphasis on meeting learners’ needs and improving their employment prospects. Improved retention rates in colleges are a central part of that theme, and, while I recognise the range of factors that sit beneath early leavers, the levels reported recently (in the SFC publication College Performance Indicators 2009-10) are unacceptably high. I should therefore like the Council to act in improving levels
of retention in colleges. I should make clear this should not result in colleges screening out applicants they consider might compromise our ambitions for improved retention; rather we expect to see greater emphasis on improving the match between learners and the courses they are enrolled on, based on high quality career information, advice and guidance and support for students once they have enrolled.

11. Third, our reforms also lay heavy emphasis on the need for courses and qualifications to be fit for purpose, not least in the credibility they carry with employers and the extent to which they have been tested against national standards for employer/vocational needs and embedded within SCQF. I recognise, however, that some non-recognised qualifications have value as an access route, as taster courses for school-age pupils or to meet the needs of people with disabilities and I want to you to protect such provision. But the purpose for such learning needs to be more clearly stated than previously – to help people progress towards employment – and it needs to be better targeted.

12. Finally, our reform proposals make clear our wish to move to a planning, funding and delivery model that makes better use of necessarily reduced resources, and which holds colleges to account for outcomes. This will require the Council to take account of emerging social, economic needs and changing demography in its allocation of resources both for teaching and for student support; and it will mean, as we have signalled in Putting Learners at the Centre, that the SFC needs to take a lead, working with the Government and the college sector, in developing the most efficient arrangements for delivery of provision in regional groupings, including mergers, and college/university collaborations and mergers, and to reflect such restructuring in its funding arrangements. Through these means you should seek to achieve substantial savings and more coherent planning of provision, whilst always working closely with the sector, striving to avoid compulsory redundancies and improving governance and accountability. As you do so, you should ensure that your funding methods incentivise and deliver the maximum possible efficiencies. All of this will require a paradigm shift in your funding and how SFC operates. I expect you to make this change as rapidly as possible. We expect to see regional funding in place from AY 2012-13.

Higher education

13. The SR settlement for universities, when taken together with our proposals for fees for students from the rest of the UK, will ensure that the sector remains internationally competitive and that access is based on the ability to learn, not the ability to pay. I believe that with this additional investment the Council must ensure that improved outcomes across the following areas are delivered:

- Retention;
- Articulation from college;
- Accelerated degrees, including entry into the second year of the undergraduate degree programme from school;
- Access to university for people from the widest possible range of backgrounds;
- International competitiveness in research;
- University/industry collaboration and the exploitation of research;
- The pattern and spread of provision;
- Efficiency, both in the learning journey and of institutions; and
- The entrepreneurial and employability skills of graduates.
14. I have always believed that the main strength of our university sector lies in its diversity. I now expect this diversity to be reflected in a more differentiated set of funding allocations over this SR period. My priorities for the higher education sector now reflect this and are set out below.

Teaching funding allocations

15. You should restore the unit of resource for teaching to the level equivalent to academic year 2010-11.

16. I would like the university sector to maintain the total number of places for Scottish-domiciled and EU students that were available in 2011-12. I recognise that this figure was only possible because universities agreed to take an increased number of their students as ‘fees only’ students in 2011-12. You should consider what scope there is within this funding package to restore some or all of these ‘fees only’ places to being fully funded. Given the importance of research and teaching in science to the delivery of the Scottish Government’s refreshed economic strategy it is important that we maintain a steady stream of science graduates. Prioritising the full funding of ‘fees only’ places at institutions with research strengths in science would help ensure that we have the capacity to meet the likely future demands of our economy.

17. With regard to our proposals on fees for students from the rest of the UK (RUK), it is important that the Council protects those subjects where changes to RUK fees do not adequately reflect the costs of provision. In line with what I say above, I would therefore ask that you allocate additional resources to ensure that we protect (i) science and (ii) our small specialist institutions, particularly those which play a key role in Scotland’s creative industries. You should also consider what adjustments may be needed for subjects that have a clinical component.

18. The higher education sector is still in the process of finalising its RUK fees. Once that process has been completed I may provide you with supplementary guidance on this issue.

Research, knowledge exchange and innovation

19. To ensure that Scotland’s research remains internationally competitive you should continue to focus on world-leading and internationally excellent research. Additionally, I would wish to see our funding of research concentrated in those institutions where Scottish Government funding will lever in the greatest resources from the Research Councils, the European Commission and other major research funders.

20. Research pools are a distinctive Scottish success. Our institutions ability to attract and retain leading researchers in 2012-13 will be crucial to success in the 2014 Research Excellence Framework. You should therefore restore the reductions in research pooling made last year. I leave the Council to decide which pools should benefit in this regard. You should also take note of the additional funding I announced last week which is intended to incentivise the reach of the pools internationally.

21. The Government Economic Strategy sets Scotland the challenge of stimulating innovation and building on existing investments in research and in knowledge exchange. That requires a step-change in the engagement of business and industry with our higher education institutions. Therefore, any barriers to the exploitation of research for economic and wider societal benefit must be removed, so that the people of Scotland can benefit directly from the Government’s sustained and generous support for research in our
institutions. There has been some progress in recent years with flagship initiatives like Interface but I believe more can be done. Specifically, I believe there is merit in the model of ‘Easy-Access’ IP, established by the University of Glasgow, being adopted by all institutions in receipt of SFC support for research and knowledge exchange, so that as much intellectual property as possible generated by the sector is readily available to business and industry, particularly to Scottish small and medium sized businesses. I would like you to work towards this goal with the sector.

22. The harmonisation of systems and approaches to establishing linkages between academia and industry across the whole of the sector will help simplify the academic landscape for business, and so I propose that you work with our institutions to deliver this through the establishment of a single ‘Knowledge Exchange Office’ for the sector within the next two years.

23. It is essential that the Scottish Government’s diverse investments in research, knowledge exchange, commercialisation and innovation are aligned to ensure all aspects of the pipeline from basic research through to product design, development and marketing are supported effectively and efficiently. I expect your investments in knowledge exchange to be used strategically to support the research intensive and post-92 institutions. You should work in conjunction with the economic development agencies and other bodies, such as the Technology Strategy Board, to develop proposals to stimulate and exploit innovation through initiatives such as Interface, ‘Fraunhofer’ Institutes and the University of Strathclyde’s Technology Innovation Centre. Technology Innovation Centres (TICs) offer an effective way of linking academia with industry, so with our institutions you should support the development of this model of engagement at different scales across the Scottish Government’s key economic sectors including the transition to a low carbon economy, as set out in our Economic Strategy.

Provision across Scotland

24. Putting the Learner at the Centre establishes the case for a more coherent pattern of provision in the higher education sector. Around the urban areas of Scotland in particular there are often overlaps between what some of the more ‘regional’ universities teach. You should now begin to take steps towards securing a more coherent spread of provision across Scotland. As you do so, the SFC should seek to achieve substantial efficiency savings through changes in the learning journey, collaborations and, where the educational and financial case exists, mergers. You will therefore wish to consider mechanisms for ensuring that where these efficiencies are not achieved, this is reflected in future funding decisions. I would ask, however, that in developing your plans that they are: consistent with my plans set out in Putting the Learner at the Centre; and are discussed with the sector before reaching any final decisions.

25. The University of the Highlands and Islands remains at an early stage of development. I know the Council has supported and assisted its development in many ways and would wish you to continue to do so. It has, however, a more limited range of core higher education courses than many other universities with a regional mission but plays a vital role in offering provision to the local population. The Crichton Campus serves the Dumfries and Galloway region but participation remains low relative to the population. You should seek ways to grow provision for these areas working with the relevant colleges and universities. In doing so, I would encourage the Council to adopt a more differentiated and outcomes based approach, particularly on retention, to its funding rather than its traditional formulaic approach.
26. I make mention of small specialist institutions (SSIs) earlier in this letter in relation to RUK fees. As part of a more differentiated approach I would want the Council to ensure that its resourcing of the Royal Scottish Conservatoire and Glasgow School of Art is sufficient to maintain their excellence. Our major investment of £50m in a new building for Glasgow School of Art is an example of how SFC and the Scottish Government has supported these institutions, and I wish to be confident that this kind of specialism is able to flourish in the future. In return for this, you should continue to demand and expect the very highest standards of management and economy in their operations and delivery. With regard to The Scottish Agricultural College it should be encouraged to continue its work with its partners the in the three land-based colleges, with a view to a merger that would strengthen specialist rural and environmental provision.

**Widening Access**

27. You should continue the development of outcome agreements with specific universities, broadening their scope and increasing the amount of your funding they cover to become widening access outcome agreements with financial penalties where insufficient progress is made. We would expect these agreements to differ from institution to institution so that, for example, local circumstances and sectoral needs are taken into account. As set out in *Putting the Learner at the Centre* we have sought views on whether such new arrangements should have statutory force. You should note that this paper proposes that any widening access agreements should be subject to consultation with the NUS before they are finalised.

**Controlled subjects**

28. In line with usual practice, we will write to you separately about intake targets for the controlled subjects: nursing and midwifery; dentists; doctors; and teachers. In relation to medical students, you will be aware that colleagues in the Directorate of Health Workforce and Performance have been working with stakeholders to look at future medical undergraduate numbers in Scotland, with particular emphasis on the level of intake to Scottish medical schools for the next academic year. These groups have now concluded their deliberations. Once the Cabinet Secretary for Health and Wellbeing and I have considered their conclusions, we will write to clarify the position for 2012-2013.

29. I will also write to you shortly on consolidation limits for academic year 2012-13, to set an overall limit that maintains opportunities for Scottish domiciled students at current levels, and takes account of our proposed changes on fees for students who come from other parts of the UK.

**Strategic funds for both sectors**

30. For the Council’s strategic funding in both sectors – the Horizon Fund in Universities and the college equivalent – I expect the Council to prioritise support for the structural change that this letter of guidance advocates and, in universities, supporting projects that can demonstrably support economic growth in Scotland and our ambition to become a low carbon economy.
31. Capital investment is crucial to sustainable economic growth, and is central to the Government’s Economic Strategy. During a challenging period for public finances, and capital in particular, the SFC must deliver maximum value for money from the funding available. Your capital investments must also be consistent with the strategic vision set out in Putting Learners at the Centre.

32. In delivering your existing and strategic capital commitments, you should maximise the use of loan support to manage effective delivery of these projects within your SR allocation. This will be particularly important in allowing you to continue your initial investment of 2011-12 in Strathclyde University’s Technology and Innovation Centre.

33. I expect your distribution of maintenance allocations in both the further and higher education sectors to reflect the strategic and capital requirements of individual institutions, while maintaining the value of previous investments.

34. Good progress has been made on developing projects at Inverness, City of Glasgow and Kilmarnock for NPD investment. To support these your capital allocation includes funding to meet preparatory costs for these projects; which will be subject to Ministerial approval. You must exercise rigorous scrutiny and challenge on those preparatory costs, including requiring the colleges involved to make as full a contribution to them as they can.

Scottish Funding Council

35. Your administration budget has been reduced across the SR period as follows: £7.9m (12-13); £7.9m (13-14); and £7.9m (14-15).

36. I am aware that there is already work underway across your organisation to identify efficiencies and savings, as well as capping headcount and restricting external recruitment. I believe there is more you can do to bear down hard on the level of bureaucracy associated with the SFC’s operations, eliminating and simplifying this in every way possible. At the same time, there is no greater priority than our programme of reform across post-16 education, so you should ensure that the Council’s resources are arranged and prioritised in such a way as to support and subsequently give effect to the changes that will be necessary. Ensuring the Council has the capacity and capability in this respect are vital. The detailed process of change management which this implies should be reflected in your forthcoming corporate plan. It is my intention that we will discuss your progress towards achieving the Government’s post-16 reforms on a regular basis, perhaps monthly, so that I can be assured that momentum is maintained.

37. This will be a year of considerable change for some across both sectors. The landscape of post-16 education will be transformed as our proposals are developed and implemented over the course of the next few years. Proper planning will be important so you should aim to provide the sectors with planning assumptions for AY 2012-13 before the end of December. We would hope to be able to confirm the financial year settlement once a Budget Bill is passed in the New Year. As I said earlier, should the priorities in this letter change following the end of our period of consultation on Putting Learners at the Centre I will provide you with additional guidance early in 2012. This will allow you to make any adjustments required before you confirm final allocations.
38. I look forward to working with you on our exciting and ambitious proposals which will help to take Scotland forward.

Copy to:

Stewart Maxwell MSP, Convenor, Scottish Parliament Education and Culture Committee
Graham Johnston, Chair; John Henderson, Chief Executive: Scotland's Colleges
John Spencer, Convenor of Scotland's Colleges' Principals' Convention
Professor Seamus McDaid, Convenor; Alastair Sim, Director: Universities Scotland
Robin Parker, President, National Union of Students Scotland
Grahame Smith, General Secretary, Scottish Trades Union Congress
Mary Senior, Scottish Official, University & College Union
Ronnie Smith, General Secretary, Educational Institute for Scotland