The Scottish Parliament
Pàrlamaid na h-Alba

Education Children and Young People Committee

Shirley Anne Somerville MSP
Cabinet Secretary for Education and Skills
Scottish Government

By email only

T3.60
The Scottish Parliament
Edinburgh
EH99 1SP
Direct Tel: 0131 348 5222
Fax: 0131 348 5600
ecyp.committee@parliament.scot

3 November 2022

Dear Cabinet Secretary,

Pre-budget scrutiny 2023/24

The Education, Children and Young People Committee focused its pre-budget scrutiny for 2023/24 on three key areas within its remit: colleges, universities and early learning and childcare.

The Committee's findings are set out in the annexe of this letter. I look forward to receiving your response after the publication of the budget.

Yours sincerely

Sue Webber MSP
Convener

Annexe

Colleges

At its meeting on 5 October, the Committee took evidence from Colleges Scotland and the Scottish Funding Council to inform its pre-budget scrutiny.

The Committee recognises the importance of the contribution that colleges make to building the future workforce of Scotland and to delivering the Scottish Government's economic plan.

Key themes that emerged from the evidence session included the significant funding challenges facing colleges, and the constraints on colleges to be able to generate additional income, as well as concerns about the level of capital investment in the college estate.

Funding

In a report published in March 2022, the SFC expressed concerns about the financial outlook of colleges. The sector forecast adjusted operating position is expected to deteriorate to a deficit of £5.7 million in 2021-22, followed by a deficit of £2.7 million in 2022-23, before returning to a surplus of £2.0 million in 2023-24.

Funding per full time equivalent student in 2022/23 was £5,054 per annum at college, compared to £7,558 per place at university. The Improvement Service Benchmarking framework shows the average gross spend per pupil per annum in Scotland in 2020/21. For pre-school education it was £9,273 per child, primary school education on average was £5,916 per place and funding for secondary pupils was £7,657.

In May 2022, the Scottish Government published the first multi-year resource spending review in Scotland since 2011. The spending review announced flat-cash spending plans for further and higher education until 2026-27.

Audit Scotland published a briefing 'Scotland's colleges 2022' in July 2022. In this, they noted that the 'healthier than expected' financial position of colleges in 2020-21, in which Covid funding was a factor, is due to change in the current and following academic years presenting challenges for the delivery of high-quality learning, achieving government priorities and remaining financially sustainable.

In its submission, the SFC noted that the Scottish Government has not, as yet, provided a more detailed breakdown on the funding allocation across the portfolio. Without such detail, the SFC said that it would be unable to provide further specific narrative on AY 2023-24 budgets.

The SFC did note, however, that:

> "At this point, the sector is forecasting an underlying operating deficit of £8.2m for AY 2021-22 which is projected to decline further in 2022-23. Cash and equivalent reserves are also forecast to reduce significantly by July 2023. Colleges have indicated that non-staff cost efficiencies have been exhausted

> and in order to reduce the cost base and maintain a sustainable trajectory, there will be a need to restructure their staffing."

Although the detail of the funding for further education for 2023-24 is not yet available, Colleges Scotland did note that, due to inflation, the flat cash settlement laid out in the spending review in May, for further and higher education, will be an effective cut.

In a follow-up written submission, the SFC highlighted that the sector is forecasting an underlying operating deficit in each of the academic years from 2022-23 to 2026-27.

The SFC further highlighted that, given that staff costs make up a high proportion of colleges' overall costs (around 68% based on 2021/22 and 2022/23 figures), the sector is projecting staff restructuring costs and significant staff reductions of around 200-300 FTEs in each of the five years over the planning period. The SFC stated that these are expected to arise through a combination of vacancy management, voluntary severance schemes and, in some instances, through compulsory redundancy.

Office for National Statistics (ONS) classification

During the session, it was highlighted that colleges are constrained in their ability to generate other funding due to their ONS classification which means that they are treated as part of central government for budgeting purposes.

As a result, colleges have to operate within an annual budget reflecting their income and expenditure and "avoid creating a surplus or deficit within Scottish Government budget control limits." This puts restrictions on colleges' scope to build up financial reserves and has led to the creation of arm's-length, independent foundations to protect college financial reserves. Colleges are required to submit funding applications to these foundations in order to access funds; however, there is no guarantee that these applications will be successful.

During the session, these financial constraints were highlighted by both Colleges Scotland and the SFC, although the SFC noted that the current arrangements ensured that colleges are at lower risk and therefore less likely to suffer significant financial losses. SFC further noted that, under these arrangements, colleges have access to funds with which to manage their cash flow.

In a follow-up submission, Colleges Scotland explained that it is seeking some flexibilities within the ONS classification, including:

- To borrow and hold reserves, allowing colleges to put money into building maintenance, make campus and infrastructure improvements, and invest in improving the student experience;

- Ability to reinvest surpluses, allowing colleges to plan with greater flexibility around budgeting and strategic decisions, to help maximise efficiencies; and

- Change in rules to allow carry forward of monies between years, which will assist colleges in raising additional commercial income, including from international activity. This will also allow colleges a greater ability to create a culture of entrepreneurial activity with businesses and organisations, who often do not wish to be constrained by training provision within a strict academic year.

In their evidence, both Colleges Scotland and the SFC highlighted that the decision to reclassify colleges as public sector bodies has placed constraints on the ability of colleges to "speculate business-wise and to seed and grow investment in different international markets and products." Being classified as a public body also means that colleges can no longer hold reserves or borrow, and they must balance their budgets.

The SFC has recommended that the Scottish Government "explore giving colleges more flexibility or that it push the boundaries of those flexibilities where it can." During the session the SFC highlighted the possibility of flexibilities around the March financial year end, so that it could support more reprofiling towards the end of July.

The Committee notes the SFC's evidence that colleges are at lower risk, and less likely to suffer significant financial losses as a result of their current ONS classification. However, the Committee recommends that the Scottish Government consider how it could give colleges some flexibility, which could allow them to provide seed money for projects, invest in capital, manage the challenge of the college academic year being out of sync with the end of the financial year and carry forward surplus.

Capital investment

Audit Scotland's report, Scotland's Colleges 2022, highlights that capital funding from the Scottish Government/SFC has consistently fallen short of the level needed for both regular lifecycle maintenance of the college estate and to address the level of backlog maintenance identified in a SFC condition survey in 2017.

The Audit Scotland report states that in 2017, £363m of investment in backlog maintenance was required over the 5 years to 2022-23 and £110m in lifecycle maintenance. Since 2018-19, college capital funding has fallen £321m short of the amount required for lifecycle and backlog maintenance. As this is based on the 2017 figure, the backlog is likely to have increased. In a follow-up submission, the SFC stated that the 2017 survey showed that one-third of the college estate required backlog maintenance.

In his evidence to the Committee, Andrew Witty of Colleges Scotland stated that the backlog maintenance identified in 2017 was "to make buildings wind and watertight." He also explained that life-cycle maintenance "is, in essence, that which is needed to maintain a building in its current condition."

Acknowledging that the last survey was conducted in 2017, Karen Watt said that the SFC was:

> “working with colleges...to refresh that information across the board, so that we do not just have the information on backlog maintenance but know what might be required for the next five to 10 years to bring college estates to the level of what a student walking through the doors should expect to get, in terms of being digitally enabled and the net zero strategy.”

Audit Scotland’s report noted that, in February 2021, the college sector published its commitment to tackling the climate emergency. This included an ambition to achieve net zero by 2040, five years earlier than the national target of 2045. Audit Scotland stated that individual colleges are taking a range of actions to reduce their environmental impact but achieving net zero will require large and sustained capital investment in the sector over time.

The Committee welcomes the work that the SFC and the sector are undertaking to identify the extent of the backlog and life-cycle maintenance currently required, as well as developing an investment strategy to upgrade campuses to meet future challenges but would like more detail.

Given that the level of maintenance required has almost certainly increased since 2017 and the ability of colleges to raise funds is limited, the Committee is concerned that colleges will not be able to meet their net zero targets by 2045.

The Committee also notes that the Scottish Government did not announce any additional capital funding for colleges in its multi-year spending review in May 2022.

The Committee therefore believes that the assessment of the current position and the investment strategy should be completed as a matter of urgency.

Statement of intent

In its review Coherence and Sustainability: A Review of Tertiary Education and Research the SFC recommended that the Scottish Government should set out more clearly its overall strategic intent for tertiary education and research.

The Committee recognises that the Scottish Government is currently undertaking a process to establish a Statement of Intent. However, the Committee notes that the final draft of the Statement of Intent is not due to be published until Summer 2023. In its evidence to the Committee, the SFC stated that its Coherence and Sustainability review was quite detailed and based on insights that it gathered from colleges and universities.

The SFC said it was not waiting for the Scottish Government’s broader policy and principles work to be done before it continues to implement the review recommendations, particularly those that do not require the steer from the Scottish Government’s statement. The SFC did note, however, that “it would be good to have that intention sufficiently quickly for it to influence spending decisions within the spending review period.”

The current timetable indicates that the Scottish Government will publish the purpose and principles statement in Spring 2023. However, the Committee believes decisions to underpin the financial sustainability of colleges and to provide possible flexibilities, and a strategy to lever in capital investment, are required as soon as possible. As a result, the Committee urges the Scottish Government not to wait until the publication of the statement to begin to address these issues.

Universities

In March 2022, the Committee agreed to hold a one-off session on universities and further agreed to include pre-budget scrutiny in that session. The Committee heard from witnesses that universities are a vital part of Scotland's economy, employing 40,990 FTE directly and contributing £15.3 billion to the UK economy. Universities make a key contribution in terms of skills, research and innovation.

Funding

The Resource Spending Review 2022-2027 set out flat cash spending plans for higher education and student support, representing a reduction in spending values in real terms. Universities Scotland told the Committee that by 2024/25, universities' teaching grants will have been cut by 37.4% in real terms over ten years. They also said that the funding gap in 2022/23 between the cost to a university to teach a Scottish domiciled student and the level of funding they receive from the Scottish Government is £4,000 to £7,000 per student. Universities Scotland also told the Committee that by 2024/25, universities' research budgets will have been cut by 41% in real terms over ten years.

The Committee notes the results of the Research Excellence Framework (REF) 2021, which showed that each of Scotland's universities presented research judged to be of 'world-leading' or of 4* quality. The Committee heard from Universities Scotland that the recent REF results reflect work done and funding that was available in previous decades. They have concerns about whether the funding will continue to be sufficient to support the production of world-leading research. The SFC Review of Coherent Provision and Sustainability found that historically Scotland has performed disproportionately well in winning UK Research Council funding. Scotland has consistently won a percentage share of the funding that is above its relative population size when compared to other UK nations. While Scotland's share remains good, the trend indicates that Scotland's research base is increasingly being out-performed by other nations of the UK in terms of Research Council funding share. The SFC Review questioned whether Scotland is positioned appropriately to win new types of funding from UK Research and Innovation.

The Committee asks the Scottish Government to closely monitor Scotland's share of Research Council funding in relation to other nations of the UK and to consider what actions can be taken to ensure that Scottish universities are well positioned to continue to produce world-leading research.

The Committee heard that Scottish universities have increasingly looked to international students and fee-paying students from elsewhere in the UK to cross-subsidise both research and Scottish domiciled students' undergraduate education.

Scotland's funding model is now structurally reliant on international fees, with this source of revenue forecast to overtake Scottish Government funding as a percentage of the sector's total income in 2023/24.

The Committee notes the level of geopolitical and economic risk associated with this funding model, curtailing universities' abilities to plan for the long term. The Committee also notes that although the Resource Spending Review provided an indication of multi-year funding, this sets out high level parameters but is not granular enough to enable the SFC or other institutions to plan beyond one year.

The SFC described the current situation as 'dynamic and fluid' given that further information is expected on how the Scottish Government will respond to the current range of financial pressures.

The Committee recognises the key role played by universities in developing skills and contributing to the Scottish economy. The Committee asks the Scottish Government how it plans to ensure long-term sustainability and mitigate the risks of reliance on income from international student fees and to allow longer-term planning within the sector.

In terms of financial health, the Committee notes that some institutions hold large reserves. SFC said that cash and equivalent reserves are forecast to increase to £2.381bn by the end of July 2022, with the overall picture skewed by the two largest institutions which account for 63% of the sector cash balances. When asked about this, Universities Scotland said that universities hold reserves 'as a buffer against a rainy day' and referred to operational spending that was held back during Covid, as well as money borrowed for big capital projects which has not yet been spent. When asked whether they monitor reserves, the SFC said that they do not means test individual universities as they felt that this would be 'extremely complex' to achieve and would lack transparency in how funds are allocated.

Widening access

The Committee notes that universities have achieved the 2021 interim target that 20% of entrants to universities are from 20% of the most disadvantaged backgrounds; this is to be welcomed.

In evidence, the SFC recognised that there are additional costs in supporting students from more deprived areas when they get to university; they stated that they had maintained 2021/22 funding levels for the Widening Access and Retention Fund (£15.6m). Universities Scotland highlighted the need for extra resource to ensure that those students progress, continue and complete their degrees successfully.

Without adequate support widening access students are especially at risk of not completing their studies. It is vital that students from the most disadvantaged backgrounds are supported to complete their studies. The Committee would welcome further information from the Scottish Government on how universities will be funded through the forthcoming budget to support and monitor students from SIMD20 areas.

It is important to acknowledge that 43% of entrants from SIMD20 came through a college route and any funding, monitoring and budgetary considerations relating to SIMD20 students should encompass both the college and university sector.

Pay and conditions

The sector has witnessed successive industrial action and disputes over staff pay and pensions. The Committee heard that staff pay has declined by 20% in real terms since 2009 and that one third of all academics are employed on a fixed-term contract. For those on teaching-only contracts, this rises to almost half (44%), and over two-thirds (68%) for research-only staff. When asked about the prevalence of casualisation, Universities Scotland said that 'more stability in the revenue arrangement would make it easier for us to plan further ahead in the knowledge of what our funding would be.' The NUS told the Committee that working conditions for staff are inextricably linked to student learning conditions.

Cost of living and housing

The number of students attending Scottish universities continues to rise, with latest figures from the Higher Education Statistics Agency showing an 11% rise in students attending universities in Scotland from 253,475 in 2018/19 to 282,875 in 2020/21. While the number of students being offered a place at university has increased, the accommodation offered by universities has not kept pace. The Committee heard that 12% of students in Scotland have been homeless at some point during their studies. The Committee also heard evidence that the average rent in Scotland for a student is often higher than the finance available through student support packages. The SFC said:

"there is a constant need to balance housing supply, housing demand and place in a city. That is why universities are so integral to regional planning, which needs to be much broader than the discussion about Scottish students getting a place."

In evidence, the NUS referred to the Scottish Government's review of purpose-built student accommodation.

The Committee would welcome clarification from the Scottish Government on where the responsibility lies to ensure students have access to housing. The Committee also asks the Scottish Government to provide a timescale for the completion of its review of purpose-built student accommodation.

The Committee was told that student finance packages alone do not meet the cost of living for students. The Committee heard evidence that 35% of students surveyed by the NUS had considered dropping out of their studies because of their financial situation; 64% said that they had experienced mental ill health as a result of financial pressure; and 31% had to rely on commercial loans and credit cards.

Similarly, the Committee heard from UCU that, in terms of their teaching responsibilities, postgraduate researchers are often 'in a vague space in which they are not entirely students and are sometimes also not considered to be staff.' The

UCU currently has a campaign to get postgraduate researchers recognised as members of staff, enabling them to access the same benefits and protections of staff.

Mental health

The Scottish Government's 2018-19 Programme for Government included a commitment to 'provide more than 20 additional counsellors in further and higher education over the next four years with an investment of around £20 million.' The Committee notes that this funding is due to finish at the end of this financial year. Despite progress to increase counsellor numbers, universities continue to see considerable demand for mental health support services. Research published by the Mental Health Foundation, Universities Scotland and the Robertson Trust in November 2021 surveyed over 15,000 across Scotland and found that 74% of students reported low well-being, 45% of students experienced a serious psychological issue that they felt needed professional help and 36% of respondents reported either moderately severe or severe symptoms of depression.

The Committee asks the Scottish Government to provide an update on the funding of additional counsellors in colleges and universities. The Committee also notes the forthcoming Student Mental Health plan and asks that the Scottish Government provide a timescale for its publication.

Early Learning and Childcare.

On 25 May 2022, the Committee undertook an evidence session on the expansion of funded early learning and childcare (ELC). On 26 October 2022, the Committee undertook a further session as part of pre-budget scrutiny. August 2021 marked the introduction of the statutory duty on local authorities to secure 1140 annualised hours of ELC for all 3 and 4 year-olds and eligible 2 year-olds. The introduction of the statutory duty was delayed by 12 months due to the pandemic. The expansion was phased in over several years and different local authorities were in different stages of their expansion at the point the pandemic intervened in 2020. In August 2021, each local authority confirmed that they were able to offer a place to all eligible children who applied for funded ELC up to 1140 hours. The Committee notes that the 1140 hours policy has now been rolled out despite the challenging circumstances of the pandemic. In evidence, the Committee explored a number of issues relating to the policy and these are set out below.

Funding

The Committee notes that the expansion of funded ELC from 600 to 1140 hours will have continuing costs of over £500m per year (the total spend on ELC is around £1bn). In 2018, COSLA and the Scottish Government agreed a multi-year capital and revenue funding settlement to the end of 2021-22. At this time, the statutory expansion was planned for August 2020. The Committee notes that the Scottish Government ringfenced revenue funding for the expanded hours of funded ELC decreased in cash terms by £15m between 2021-22 and 2022-23. In May 2022 the Committee received written evidence from COSLA which stated that the Scottish Budget 2022/23 represented a 4% reduction in the Specific Revenue Grant funding available to local authorities to fund the expansion to 1140 hours of ELC.

The Scottish Government told the Committee that there were 7.5% or 8,500 fewer three-and four-year-olds eligible for the universal offer than was projected in 2018. Based on this finding, the Scottish Government's revised modelling estimated that there was capacity of at least £39m within the ELC 1140 budget. COSLA stated that whilst the rationale for the reduction in funds was based on a national reduction in the number of eligible children, local authorities have significant fixed costs which are rising faster than anticipated owing to inflationary pressures. In giving an illustrative example, COSLA said: 'a reduction of a small number of children at an individual setting level will not allow for any reduction in costs relating to staffing, or costs relating to the building such as heating and cleaning.'

Local authorities and the private voluntary and independent sector

Local authorities are responsible for securing the funded ELC for families. Local authorities have a dual role of being an ELC provider and a commissioner of ELC services from private voluntary and independent (PVI) nurseries and childminders. The Committee notes that the latest progress report on the expansion to 1140 hours, published by the Improvement Service, found that '30% of provision was being accessed in private settings, compared to 69% in local authority settings, with the remainder being accessed with childminders.'

The Committee heard that providers in the PVI sector have faced significant difficulties in recruitment and therefore a loss of capacity in some areas. For instance, the Scottish Childminding Association said that during ELC expansion the sector has lost 1400 childminders or to put it another way, 8000 childminding places.

The Committee heard from the National Day Nurseries Association in May that there is 'currently a crisis in the ELC workforce' caused by the expansion in local authority employment and the pandemic. The Committee notes that the rates paid to providers differ across local authorities and that the Scottish Government guidance for local authorities in setting sustainable rates does not set out a particular rate local authorities ought to pay.

The Committee heard in evidence from Argyll and Bute Council that there are commercial opportunities for the PVI sector to generate additional income to supplement the rates they receive from local authorities. The Committee notes, however, that as the 1140 hours policy beds in, this will erode the capacity to benefit from such opportunities.

At its meeting on 26 October, the Committee took evidence from officials from Fife, Scottish Borders and Argyll and Bute Councils. Whilst the Committee heard examples of good practice during that session, the Committee recognises that engagement with the PVI sector is not uniform across the country.

There is a need to better understand the cost pressures and relationships between local authority providers and the PVI sector, including the movement of staff from one sector to another. Given the variation in approach, it is challenging to get an overall picture of the position across the country.

The Committee recommends that a mapping exercise is carried out to establish: hourly rates paid to staff across both local authorities and the PVI sector; the extent to which staff are moving from jobs in the PVI sector into local authorities and the monetary value of in-kind support provided to the PVI sector. This would allow the Scottish Government to establish whether there is a risk to the delivery of the 1140 policy due to staff capacity in the PVI sector.

Differential rates

The rates paid for PVI and childminding sectors vary across local authorities. For 3-5 year-olds, rates paid range from £5 per hour (Orkney) to £6.40 per hour (West Lothian). Different rates apply for 2 year-olds and (for some local authorities), different rates are paid to childminders. The Committee is aware that a small number of local authorities do not provide an uplift in funding to the PVI sector for 2 year-olds. In May, the National Day Nurseries Association told the Committee that underfunding is an ongoing concern for many in the sector, a number of whom are now operating at a loss.

In its submission, the Scottish Government said:

> “from our regular discussions with childcare sector representatives, we understand that providers continue to have concerns about the sustainability and transparency of funding rates in some areas; and/or the extent to which their experience of local engagement has been meaningful. In our Strategic Childcare Plan, we therefore committed to undertake a review of the overall process for setting rates. This is with the intention of learning lessons to identify where the process can be improved further from both a sector and local authority perspective.”

The Committee asks the Scottish Government to provide an update on when it expects to publish the results of its review of setting rates outlined in its recent Strategic Plan.

Uptake

The eligibility for funded ELC for 2 year-olds is on three grounds: passported benefits, when the child is care-experienced, or if the parent has experience of care. The proportion of the population of 2 year-olds taking up funded ELC places was reported in the annual census to be around 13% in 2021, this is an increase on 2018 (10%), 2019 (11%), and 2020 (9%).

A key issue with the take up of eligible 2 year-olds has been that local authorities have been unable to identify the eligible families. The ELC grant letter to local authorities relating to the ring-fenced spend set out three joint priorities for delivery in this financial year, including increasing uptake among eligible 2 year olds.

In its submission, the Scottish Government said that it is committed to ensuring that the families of all eligible 2 year olds know the benefits of the ELC offer and are able to access it if they wish to do so. The Committee notes that regulations to enable data sharing between local authorities and HMRC and DWP were made on 25 October 2022 and were commenced the following day. These regulations are intended to support local authorities to identify and contact households in Scotland with two-year olds eligible for funded ELC.

The Committee notes that the new data sharing arrangements will allow local authorities to target information about eligibility to households with 2 year-olds eligible for funded ELC. The Committee asks the Scottish Government to set out how this data sharing will work in practice and what further measures will be put in place to improve uptake among eligible 2 year-olds.

Flexibility

The Committee heard that the choice of where and when children access funded ELC was of upmost importance to parents and caregivers. This is reflected in the policy intention which takes a ‘Funding Follows the Child Approach.’ The Committee heard that private providers were able to offer greater flexibility than local authority run settings in terms of hours of provision. This flexibility is important to all parents and caregivers but it is essential to those who work outwith traditional office hours, such as healthcare workers. The Committee notes that cross-border provision is available between a small number of local authorities, such as Argyll and Bute, and that this flexibility has been helpful for parents who may live and work in different local authority areas.

The Committee asks the Scottish Government how it is monitoring the extent to which 1140 hours is achieving the flexibility for parents and carers that the policy envisioned, and how they will ensure, whilst recognising geographical and regional variations, that best practice is achieved across Scotland.

Outcomes

In its submission, COSLA referred to the recent publication of the Scottish Government’s Best Start: Strategic early learning and school age childcare plan for Scotland, 2022-26. This plan sets out how the Government intends to “embed the benefits of our transformational investment in 1140 hours of high quality funded early learning and childcare”. It also sets out the Government’s approach to expanding the childcare offer over the next four years.

The strategic plan reiterates the aims expected from the ELC expansion and identifies these as outcomes for the broader childcare policy. These are:

- Children’s development improves and the poverty-related outcomes gap narrows;
- Family wellbeing improves; and
- Parents’ and carers’ opportunities to take up or sustain work, training and study increase.

The Scottish Government published its evaluation strategy of the expansion programme on 6 October 2022, which seeks to determine whether the three main aims or outcomes above are achieved and to “assess the longer term economic costs and benefits” and to set out the data required support the effectiveness of the policy.

The Committee notes the publication of the evaluation strategy and asks the Scottish Government to provide an update and a timeline on how it is working with local authorities to support local assessment of ELC's contribution to outcomes under the three aims of the programme.