The Scottish Parliament
Pàrlamaid na h-Alba

EDUCATION AND CULTURE COMMITTEE

AGENDA

26th Meeting, 2012 (Session 4)

Tuesday 23 October 2012

The Committee will meet at 9.00 am in Committee Room 2.

1. **Draft Budget Scrutiny 2013-14:** The Committee will take evidence on the Scottish Government's Draft Budget 2013-14 from—

   Michael Russell, Cabinet Secretary for Education and Lifelong Learning, Andrew Scott, Director of Employability, Skills and Lifelong Learning, Sarah Smith, Director of Learning, and Mike Foulis, Director of Children and Families, Scottish Government;

   and then from—

   Fiona Hyslop MSP, Cabinet Secretary for Culture and External Affairs, Wendy Wilkinson, Deputy Director, Culture Division, and David Seers, Team Leader, Cultural Excellence, Scottish Government;

   Myriam Madden, Director of Finance, Historic Scotland.

2. **Draft Budget Scrutiny 2013-14:** The Committee will consider the evidence taken on the Scottish Government's Draft Budget 2013-14.

3. **Decision on taking business in private:** The Committee will decide whether its consideration of draft reports on the Scottish Government's Draft Budget 2013-14 should be taken in private at future meetings.

4. **Decision on taking business in private:** The Committee will decide whether its consideration of its work programme should be taken in private at future meetings.

EC/S4/12/26/A

Terry Shevlin
Clerk to the Education and Culture Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5204
Email: terry.shevlin@scottish.parliament.uk

The papers for this meeting are as follows—

<u>Agenda item 1</u>

Written Evidence	EC/S4/12/26/1
SPICe Briefing	EC/S4/12/26/2
SPICe Briefing	EC/S4/12/26/3
PRIVATE PAPER	EC/S4/12/26/4 (P)
PRIVATE PAPER	EC/S4/12/26/5 (P)

Education and Culture Committee

26th Meeting, 2012 (Session 4), Tuesday, 23 October 2012

Draft Budget Scrutiny 2013-14: Written Evidence

Clerk's note
The Education and Culture Committee will take oral evidence from the Cabinet Secretary for Education and Lifelong Learning and from the Cabinet Secretary for Culture and External Affairs on the Scottish Government's Draft Budget 2013-14. The Cabinet Secretaries have provided the following written submissions in advance of the meeting:

The Committee has also received the following unsolicited written evidence from Age Scotland on the draft budget:

Neil Stewart
Assistant Clerk
18 October 2012

Cabinet Secretary for Culture and External Affairs

Thank you for your letter of 5 October 2012 regarding the Carbon Assessment of the Scottish Government's 2013-14 Draft Budget.

You asked how we achieved a reduction in the emissions relating to the budget for Culture compared to the assessment carried out for the 2012-13 Draft Budget. The Carbon Assessment estimates the emissions generated in the production of goods and services on which the budget is spent. While the Portfolio capital budget set out in the Draft Budget has increased in both cash and real terms, because the total Portfolio budget has reduced by £4.6m in real terms, consumption, and thereby emissions, has gone down as well.

You also asked how development of the 'Carbon Assessment of the 2013-14 Draft Budget' influenced how the draft budget was developed. The purpose of the Carbon Assessment of the Draft Budget is to provide Parliament with an estimate of the consumption-based emissions resulting from budget spending. It has not been used to support decision-making on a Portfolio level, though of course we are cognisant of the potential carbon savings that can be made when considering decisions on capital investment across the Portfolio.

In relation to your final question concerning the Report on Proposals and Policies setting out how it is proposed that statutory annual climate change targets up to 2027 will be met, the approach taken in the RPP is aimed to ensure that the most cost-effective, significant measures with high public support are implemented first. There are no measures within the RPP proposed by the Culture Portfolio, which is of course relatively small in Scottish Government terms, but the Portfolio is helping to achieve emission reduction targets through its capital improvement programme. The bodies in my portfolio are, like all public sector bodies in Scotland, subject to a set of statutory duties under section 44 of the Climate Change (Scotland) Act, including one to exercise their functions in the way best calculated to contribute to the delivery of Scotland's emissions reduction targets.

Historic Scotland published its Carbon Management Plan in 2011 which sets a 25% emissions reduction target over five years. A programme of invest to save projects has begun across its estate which will result in both carbon and financial savings. These include insulation to properties, upgrades to heating and lighting systems and controls, and climate change awareness training which is being offered to all staff. As mandated in the Energy Efficiency Action Plan, Historic Scotland is supporting energy efficiency improvements to the c.20% of buildings in Scotland that are pre-1919 in age. In September the agency published guidance for homeowners and a number of technical reports, and held a conference for professionals in the construction sector to disseminate the results of recent research.

The National Collections bodies will also receive capital budgets for storage improvements and estates maintenance which will, wherever possible, look to achieve both carbon and financial savings. The National Library is already well ahead of its target to reduce emissions by 30% by 2014-15 and is in fact almost certain to achieve this in 2013.

I look forward to seeing you and the Committee on 23rd October.

Cabinet Secretary for Education and Lifelong Learning

2013-14 draft budget scrutiny

Thank you for your letter of 5 October 2012. I set out below the information you requested in respect of draft and final college resource budgets for 2011-12, 2012-13 and 2013-14.

College Funding 2011-12	£m	Comment
FE programme	544.7	As planned at (previous) spending review; SFC budget figure
College bursaries (i.e. student support)	7.0	Added to SFC budget at ABR.
College places	4.0	Added to SFC budget at ABR.
Total	**555.7**	

College Funding 2012-13	£m	Comment
FE programme	506.9	As planned at (current) spending review; SFC budget figure
College transformation fund	15.0	Added to SFC budget at SBR in 11-12, but applied by SFC in 12-13.
Student support	11.4	Added to SFC budget at ABR.
College places	13.1	Added to SDS budget at ABR.
Total	**546.4**	

College Funding 2013-14	£m	Comment
FE programme	494.7	As planned at (current) spending review; SFC draft budget figure.
Student support	11.0	
College places	6.0	This will be transferred to SDS in-year as part of a larger transfer (totalling £24m over financial years 2013-14 and 2014-15) relating to the Employability Fund.
Total	**511.7**	

This is consistent with information previously prepared for Committee members by SPICe, albeit my analysis shows the college transformation fund in the year in which it is being deployed.

In summary, college resource funding has fallen slightly between 2011-12 and 2012-13, and is planned to increase marginally between the draft budgets of 2012-13 and 2013-14 (although it will fall when comparing 2012-13's *final* budget with the 2013-14 draft budget). However, taken alongside capital, the total budget is going from £590m to £655m.

It is important to note that estates developments valued at some £300m at Inverness, City of Glasgow and Kilmarnock colleges, funded through the Non Profit Distribution (NPD) model, are all currently in procurement. Furthermore, additional funding is allocated to colleges for capital, as part of SFC capital allocations (2011-12 : £91.0m; 2012-13 : £60.7m; 2013-14 : £45.9m).

I would like to take this opportunity to correct some errors in previous evidence, where witnesses have overstated the extent of reductions. I am certain that this has not been deliberate: it is clear from your letter, the Committee's recent Official Reports, and the recent SPICe briefing that college funding (and in particular I suggest the interplay between financial and academic years) is a complex matter. But it is nonetheless important to set the record straight.

At your 25 September meeting, Mary Scanlon MSP stated that "In the two years between 2010-11 and 2012-13, the teaching grant has gone down from £521.3m to £387m. That is not a cut of 1.5 per cent; it is a cut of 25%" (col. 1446). She repeated the figure of 25% on several occasions during the meeting. In fact, while teaching grant did reduce between those two years, the reduction on an academic year basis was from £460.5 to £387.6m, or 15.8%.

At the same meeting, Professor Jeremy Peat said that "there has been something like a 10 per cent reduction in public funding for each of the past two years" (col. 1447). The change in college resource baselines was 6.1% (between 201011 and 2011-12) and 5.6% (between 2011-12 and 2012-13).

Also on 25 September, Mr. David Belsey said that, while acknowledging that student places can be defined in a number of ways, "there is certainly a drop in the level of teaching activity" (col. 1480). In fact, planned student activity (expressed in both Weighted Student Units of Measurement and full time equivalents) has been maintained since 2011.

I will address your separate points about the Committee's objectives for its scrutiny of the draft budget, both in my opening statement when we meet and in discussion.

In respect of your questions on climate change issues, I offer the following responses (following your numbering):

1. A rise in portfolio emissions is being caused by an increase in spending on School construction. Other variances in the Education and Lifelong Learning budget allocation process are service based provision and have little impact. Because this is a consumption-based measure of emissions an increase in expenditure will lead to an increase in emissions: the more we spend the higher the emissions generated.

2. The purpose of the Carbon Assessment of the draft budget is to provide Parliament with an estimate of the consumption-based emissions resulting from budget spending. It has not been used to support decision-making on a portfolio level. For the portfolio, individual policies are assessed separately for their impacts (including their emissions consequences, where they are significant). The significant policies to reduce emissions across Scotland are captured in the Report on Proposals and Policies (RPP) where the impact of individual policies on emissions abatement is detailed.

3. The approach taken in the RPP is aimed to ensure that the most cost-effective measures with high public support are implemented first. It is important that today's spending decisions do not lock us into an unsustainable path. This is most acute in infrastructure expenditure. The portfolio invests in schools, college and university infrastructure. Whilst the impact of college and university investment remains steady, the increase in school building warrants additional mention.

The joint CoSLA/Scottish Government school estate strategy sets out the aspirations for Scotland's school estate. Among those aspirations is the desire for a sustainable school estate whose design, construction and operation is environmentally and energy efficient. The school estate should contribute directly to year on year reductions in greenhouse gas emissions introduced by the Climate Change (Scotland) Act 2009, be resilient to the impact of climate change and lead by example in matters of environmental performance. We are continuing to engage with the Carbon Trust, Eco Schools and through the One Planet Schools Working Group to realise this. Although it should be noted that this is direct responsibility for individual local authorities.

Each of the projects within the Government's £1.25bn *Schools for the Future* Programme is being designed in accordance with the Building Research Establishment's Environmental Assessment Methodology (BREEAM), which is recognised as the world's leading design and assessment method for sustainable buildings. Each project must deliver a BREEAM rating of Excellent and an Energy Performance Certificate (EPC) rating of B+ before the intervention of renewable technology.

Phase 3 of the programme, which announced the next 30 schools to be built on 26 September, contained a specific requirement that all projects to be receive funding must demonstrate that the investment will support delivery of key national policies including the Climate Change (Scotland) Act.

Building Standards Division of the Scottish Government will shortly be consulting on the creation of a sustainability label for new school buildings in Scotland, similar to that already awarded to sustainably built domestic buildings. These will build on the current standards which already enforce stringent regulations ensuring significant reduction in greenhouse gas emissions in new schools.

Naturally greener schools are welcomed. However, the higher the standards get, the greater the capital cost of buildings. There may come a point where the learning environment suffers because of the sustainability requirements and this will need to be balanced by local authorities.

MICHAEL RUSSELL

Age Scotland

Introductory Remarks

Since 2007 the Scottish Government has made supporting sustainable economic growth their principal policy objective. However sustainable growth and ever increasing GDP is by itself a poor barometer for measuring Scotland's economic, social and environmental progress as it simply measures the volume of cash, not how it is being spent, who is benefiting or whether the money has been generated by say polluting activities.

The proportion of total Scottish income going to the richest tenth is noticeably higher than a decade ago: 29% in 2008/09 compared with 25% in 1998/99. If a few individuals get incredibly wealthy it can distort figures and increase GDP even at a time where most individual's income are declining.

Policies that promote GDP at the expenses of other more meaningful measures of progress risk exacerbating this situation and contributing to greater inequality, social immobility and environmental damage. Age Scotland believes that the Scottish budget should be used to reshape the public sector so that it promotes and enhances those areas of public life which make the most significant impact on our health, well-being and happiness. These policy priorities do not necessarily conflict with sustainable economic growth, but by looking beyond economic growth and GDP and focusing on a broader set of indicators that more accurately capture both well-being and sustainability will better address the wider social and environmental problems in our society.

Employability, Skills and Lifelong Learning

	2012-13 Budget £m	**2013-14 Draft Budget £m**	**2014-15 Plans £m**
Colleges & Adult Learning	7.9	7.0	6.3
Employability	1.2	0.8	0.8
Higher Education	2.0	2.0	2.0
Office of the Chief Scientific Adviser	6.0	3.4	3.4
Youth Employability & Skills	46.9	66.6	50.0
Skills Development Scotland	176.4	187.4	185.0
Total	**240.4**	**267.2**	**247.5**

Access to appropriate classes, courses and groups can bring considerable benefits to physical and mental health and help to prevent social exclusion and isolation. For many older people the wider benefits of learning in later life are not motivated by the acquisition of academic or vocational qualifications, but are the result of a desire to stay active, develop new social networks and gain new skills and knowledge. To ensure increased enrolment into lifelong learning, courses must suit the differing learning needs of Scotland in the future and this must include opportunities to participate in part-time and full-time learning at colleges and universities.

However the Scottish Government's Budget makes notable cuts to the Colleges and Adult Learning which does not reflect the country's changing demography or consider the needs of older adult learners. The Budget instead reflects the views of the Scottish Local Authorities Economic Development Group who recently stated in evidence to the Finance Committee that only quality, sustainable employment should be the outcome of all skills and employment measures.

The International Longevity Centre UK identified low skills as one of the reasons for early retirement[i], which is likely to lead to an increase in benefit claims. Yet managers who employ older workers value their experience and knowledge, and so there are potentially substantial benefits of providing greater public funding in order to up skill older workers.

Further there is a growing body of evidence to show that engagement in learning can deliver significant benefits to health and well-being. The interim report of a National Institute of Adult Continuing Education project which investigated learning in residential care, demonstrated that participation in learning can: reduce isolation; improve both physical and mental health; reduce dependence on medication; improve recovery rates; reduce dependency on others and lead to a greater enjoyment of life.[ii] For example, in one care home that began offering learning, the use of incontinence products was reduced by about 75%. Clear benefits such as this, quite apart from improvements to quality of life, could also contribute towards significant cost savings. While there are similar benefits to increasing the provision of lifelong learning within communities and among people of all ages, quantifying the outcomes can, unfortunately, be challenging.[iii]

Recommendations

The Government's budget is critical in determining what the environment will be for older learners. Before making any cuts to the adult learning budget line, Age Scotland recommends a full evaluation of the impact of learning, particularly in terms of its health and societal benefits – and any possible savings to the wider public sector. Furthermore, any audit would benefit from an analysis of the of the third sector's role in supporting the delivery of adult learning courses.

---

[i] International Longevity Centre, The future of retirement, 2010

[ii] Enhancing informal learning in care settings, NIACE, Oct 2009

[iii] See for example Cote J, Identity capital, social capital and the wider benefits of learning, London Review of Education, (2003); or McNair S, Migration Communities and Lifelong Learning, IFLL (2009).

SPICe
The Information Centre

SPICe Briefing

Draft Budget 2013/14: Higher Education

19/10/2012

12/65

Fiona Mullen and Greig Liddell

This briefing presents the Scottish Government's Draft Budget 2013/14 for the higher education (HE) sector in both cash and real terms. It considers changes to student support funding, as well as Scottish Funding Council (SFC) allocations to Higher Education Institutions (HEIs) for academic year 2012/13. It also analyses the potential impact of the Draft Budget on a number of key policy areas, such as university places and 'closing the funding gap'.

The Scottish Parliament
Pàrlamaid na h-Alba

CONTENTS

EXECUTIVE SUMMARY

Public funding for Higher Education Institutions (HIEs) is provided by the Scottish Government through the Scottish Funding Council (SFC) and the Student Awards Agency Scotland (SAAS).

The SFC budget helps fund teaching and research in Scottish HIEs, and is granted on the condition that institutions provide an agreed number of funded places to Scottish and EU students. In the Scottish Government's Draft Budget 2013-14 document the headline figures are:

- Current funding for HEIs is set to increase from £1,002.2 million in FY 2012/13 to £1,041.6 million in 2013/14, an increase of £39.4 million or 3.9% in cash terms; or £14.0 million or 1.4% in real terms

- projected SFC capital expenditure for the HE sector is set to fall from £33 million in 2012/13 to £19 million in 2013/14, rising again to £29 million in 2014/15 in cash terms

The SAAS budget funds tuition fees for Scottish-domiciled students and EU students studying in Scotland. It also funds maintenance (living) support to students through a mixture of bursaries, grants and student loan provision. Analysis of the Draft Budget 2013-14 document shows:

- the SAAS budget will increase by £186.4 million from £558 million in financial year (FY) 2012/13 to £744.4 million in 2013/14, a 33.4% annual rise in cash terms (30.2% in real terms)

- The majority of this increase is in the 'Net Student Loans Advanced' budget line, which funds student loan payments to students. This is partly explained by the introduction of the Government's commitment to a 'minimum student income'.

The briefing includes a section looking at recent and future policy developments in the sector. This highlights the uncertainty surrounding the exact extent of the 'funding gap' between English and Scottish universities, as well as describing changes to SFC funding allocation methods resulting from the introduction of Rest of UK tuition fees.

HIGHER EDUCATION FUNDING: BACKGROUND

On average Scotland's nineteen Higher Education Institutions (HEIs) receive around 40% of their income from core public funding, although this varies greatly between institutions. In 2010/11 the income of Scottish HEIs amounted to £2.86 billion, with core public funding accounting for 37% of total income (Universities Scotland, 2012a). Other funding sources include research contracts, European funding and fees from students (the SAAS budget pays/administers fees/loans on behalf of Scottish domiciled and EU students).

The Scottish Government budget for higher education (HE) is allocated mainly through two bodies; the Scottish Further and Higher Education Funding Council (SFC) and the Student Awards Agency Scotland (SAAS).

The SFC is the non-departmental public body responsible for funding teaching and learning provision, research and other activities in Scotland's HEIs and colleges. Funding through the SFC is allocated on the basis that universities provide an agreed number of funded places to Scottish and EU students. For example, in his letter of guidance to the SFC for academic year 2012-13, the Cabinet Secretary for Education and Lifelong Learning requested 'that the total number of Scottish domiciled and European Union (EU) student places are maintained at academic year (AY) 2011-12 levels' (SFC Conditions of Grant annex 2012). SFC funding is supplemented by a student fee that is charged per place. For Scottish and EU students this is met through the SAAS 'tuition fee and student support' DEL budget line.

Over the past decade SFC revenue funding for HEIs has increased substantially, from £668.4 million in FY 2002-03 to £1,002.2 million (cash terms) in 2012/13, an increase of £333.8 million or 49.9% (Draft Budget figures). Table 1 (below) presents the Scottish Government SFC HE budget in cash and real terms for the period 2002-03 to 2014-15. The figures are those presented in the draft budgets for each year and represent *planned* spending, rather than actual spend, so they do not show the effect of any in-year budget revisions.

Table 1: SFC HE budget, (£m, cash and real)

	£m, cash			£m, 2012-13 prices		
	Resource	Capital*	Total	Resource	Capital*	Total
2002-03	668	27	695	851	34	886
2003-04	706	28	734	880	35	915
2004-05	773	10	783	936	12	948
2005-06	810	38	848	959	45	1,004
2006-07	898	55	953	1,036	63	1,099
2007-08	938	85	1,023	1,055	96	1,151
2008-09	953	87	1,040	1,044	95	1,139
2009-10	994	95	1,089	1,073	103	1,175
2010-11	992	83	1,075	1,041	87	1,128
2011-12	926	40	966	949	41	990
2012-13	1,002	*33*	1,035	1,002	*33*	1,035
2013-14	1,042	*19*	1,061	1,017	*19*	1,035
2014-15	1,062	*29*	1,091	1,011	*28*	1,038

*Capital figures for 2012-13 onwards are based on projected commitments and timings; final figures may vary

Source: previous budget documents (Scottish Government, 2012a) and personal correspondence with Scottish Government. Figures converted to real terms using HM Treasury GDP deflator (HMT, 2012) as at 13 Sep 2012

The SFC's total HE budget peaked in 2009/10 (in real terms) and fell by a total of 16% over the next two financial years. This was followed by a rise of 5% in 2012-13 and a stable budget in real terms for the remainder of the spending review period which runs to 2014-15. The capital budget has seen sharp cuts and is anticipated to fall by 73% in real terms between 2009/10 and 2014/15 (although the final split of capital spend between FE and HE may differ from these projections). Over the same period, the resource budget is set to fall by 6%.

SCOTTISH GOVERNMENT DRAFT BUDGET 2013/14

The Draft Budget for 2013/14 for HE is provided in four Scottish Government budget lines at 'Level 3' expenditure: the SAAS budget, the SFC Revenue, the SFC capital budget line, and to a far smaller extent, 'other skills and employability' funding (such as 'widening access' and funding for the 'Royal Society of Edinburgh').

Funding for Higher Education Student Support - SAAS Budget (Level 3)

SAAS is the Scottish Government agency responsible for providing financial support and advice to eligible Scottish-domiciled higher education students studying in the

UK and to EU students studying in Scotland. It allocates all fee and maintenance (living) support to students through a mixture of bursaries, grants and student loan provision. It also administers the Individual Learning Accounts (ILA) scheme in conjunction with Skills Development Scotland. SAAS is only responsible for administering higher education student support.

The SAAS budget includes funding for HE fees, grant and bursary support, all student loans and associated costs to the Scottish Government of student loan provision, as well as the running costs and capital charges of SAAS. The vast majority of the SAAS budget is demand-led, in that it is determined by the number of HE students requiring financial support in a given year. The Scottish Government controls this, to some extent, by setting the maximum number of funded student places available in Scottish institutions per year (through guidance to the SFC), in order to control the size of the overall student support budget.

Tables 2 and 3 below detail the proposed SAAS budget for 2013-14 at level 3 expenditure, in both cash and real terms. Also included are planned spending figures for 2014-15.

TABLE 2: SAAS BUDGET 2012-13 – 2013-14, LEVEL 3, CASH TERMS, £M

	2012-13 Budget	2013-14 Draft Budget	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
SAAS operating costs	8.4	8.7	8.7	+0.3	+3.6%
Student Support and Tuition fee payments	325.9	302.4	307.0	-23.5	-7.2%
Student loan administration	5.0	5.0	5.0	0.0	0.0%
Cost of student loans	88.4	134.0	181.6	+45.6	+51.6%
Net student loans advanced (AME)	241.3	408.3	468.3	+167.0	+69.2%
Student Loans sale subsidy impairment adjustments (AME)	0.5	0.5	0.5	0.0	0.0%
Student Loan Interest Subsidy to banks	4.5	4.5	4.5	0.0	0.0%
Student Loans Fair Value Adjustment (AME)	(-69)	(-69)	(-69)	N/A	N/A
Capitalised interest (AME)	(-47)	(-50)	(-52)	N/A	N/A
Total	**558.0**	**744.4**	**854.6**	**+186.4**	**+33.4%**

Source: Scottish Government (2012b)

TABLE 3: SAAS BUDGET 2012-13 – 2013-14, LEVEL 3, REAL TERMS £M (12-13 PRICES)

	2012-13 Draft Budget	2013-14 Plans	2014-15 Plans	Change 2012-13 to 2013-14 (£m)	Change 2012-13 to 2013-14 (%)
SAAS operating costs	8.4	8.5	8.3	+0.1	+1.2%
Student support and tuition fee payments	325.9	295.0	292.2	-30.9	-9.5%
Student loan administration	5.0	4.9	4.8	-0.1	-2.4%
Cost of student loans	88.4	130.7	172.8	+42.3	+47.9%
Net student loans advanced (AME)	241.3	398.3	445.7	+157.0	+65.1%
Student Loans sale subsidy impairment	0.5	0.5	0.5	0.0	0.0%
Student Loan interest subsidy to banks	4.5	4.4	4.3	-0.1	-2.4%
Student Loans Fair Value Adjustment	-69	-67.3	-65.7	N/A	N/A
Capitalised interest (AME)	-47	-48.8	-49.5	N/A	N/A
Total	**558.0**	**726.2**	**813.4**	**+168.2**	**+30.2%**

Source: Scottish Government (2012b); Using HMT deflators (HMT 2012)

It can be seen from Tables 2 and 3 that the SAAS budget has increased by £186.4 million from £558 million in financial year (FY) 2012/13 to £744.4 million in 2013/14, a 33.4% annual rise in cash terms (30.2% in real terms).

The majority of the increase over the period is in the ‘Net Student Loans Advanced’ budget line, which funds student loan payments to students. This budget line is due to increase by £167.0 million in cash terms between 2012-13 to 2013-14, an increase of 69.2%. This increase will be used to support the commitment to minimum levels of support available to Scottish Students (see Scottish Government press release from the 22nd August 2012 (Scottish Government, 2012c), and details of proposed support reforms (Scottish Government, 2012d)).

Changes to the UK government’s policy on fees and loans led to a significant consequential uplift in the Scottish Government’s ‘Cost of providing student loans’ DEL line. This enabled Scottish Ministers to introduce the minimum income commitment for Scottish students through increased access to student loans, focussing on improving access to maintenance loans rather than loans for fees. New student loan provision is Annually Managed Expenditure (AME), so the figures in Tables 2 and 3 are estimates for future years and are dependent on student response to increased loan availability. The forecasts 'will therefore be subject to revision during the Spending Review period' (Scottish Government, 2012a, P.63).

The budget line for HE 'student support and tuition fee payments' (which includes funding for HE bursary/grant support) will fall from £325.9 million in 2012-13 to £302.4 million in 2013-14, a reduction of 7.2% in cash terms and 9.5% in real terms. This is partly explained by a reduction in the amount payable in bursaries to some undergraduates, as well as a move away from postgraduate tuition grants towards postgraduate tuition fee loans (SAAS, 2012).

Funding for Teaching, Research and Strategic Investment in HE – SFC Budget (Level 3)

Tables 3 and 4 below detail the proposed Scottish Government HEI revenue and capital budget for the SFC, at level 3 expenditure, in both cash and real terms, for the next 2 years. (These include capital grants for both HEIs and colleges, as shown in the Draft Budget document. For HEI only capital projections see Table 1, page 5).

Table 3: SFC Budget for HEIs 2012-13 – 2013-14, Level 3, Cash Terms, £mill

	2012-13 Budget	**2013-14 Draft Budget**	**2014-15 Plans**	**Change 2012-13 to 2013-14 (£m)**	**Change 2012-13 to 2013-14 (%)**
Current Funding for HEIs	1002.2	1,041.6	1,061.8	+39.4	+3.9%
Capital Grants for FE Colleges and HEIs	60.7	45.9	56.4	-14.8	-24.4%

Source: Scottish Government (2012b)

Table 4: SFC Budget for HEIs 2012-13 – 2013-14, Level 3, Real Terms, £mill

	2012-13 Budget	**2013-14 Draft Budget**	**2014-15 Plans**	**Change 2012-13 to 2013-14 (£m)**	**Change 2012-13 to 2013-14 (%)**
Current Funding for HEIs	1,002.2	1,016.2	1,010.6	+14.0	+1.4%
Capital Grants for FE Colleges and HEIs	60.7	44.8	53.7	-15.9	-26.2%

Source: Scottish Government (2012b); Using HMT deflators (HMT 2012)

SFC - Current Expenditure for HEIs

Current funding for HEIs is set to increase from £1,002.2 million in financial year 2012/13 to £1,041.6 million in 2013/14, an increase of £39.4 million or 3.9% in cash terms; or £14.0 million or 1.4% in real terms. This is a result of the Scottish Government's commitment to closing the 'funding gap', discussed in more detail on page 11.

SFC - Capital Expenditure for HEIs

Table 1 (see page 5) shows that projected SFC capital expenditure for the HE sector is set to fall from £33 million in 2012/13 to £19 million in 2013/14, rising again to £29 million in 2014/15 (cash terms). Future and current year estimates were provided by the Scottish Government. These figures were attained through personal correspondence and officials were keen to stress that figures are subject to change.

SFC Allocations to individual Higher Education Institutions (HEIs) for Academic Year 2012/13

In March 2012, the SFC confirmed allocations of £1,021,923 million revenue funding to 19 HEIs in AY 2012-13 for teaching, research and knowledge transfer, and strategic funding (inclusive of £26.5 million in SFC revenue funding for capital). The SFC also allocated Scottish Government ring-fenced funding of £67 million which contributed to medical, teaching, dentistry, nursing and midwifery places. Full details of the allocations can be found in the SFC's grant letter to HEIs for AY 2012/13 (SFC, 2012a)

Indicative SFC allocations by institution for AY 2013/14 will not be announced until December 2012.

POLICY ANALYSIS

MINISTERIAL GUIDANCE

Ministerial Guidance to the SFC for the HE Sector in 2013/14

Following the publication of the 2013-14 Draft Budget the Scottish Government outlined its key priorities for the FE and HE sector in a letter of Ministerial Guidance to the SFC (Scottish Government, 2012e) released on 4 October 2012. On receiving this guidance, the SFC determines the strategic actions needed within each sector and allocates the public resource accordingly. The Cabinet Secretary for Education and Lifelong Learning is keen to emphasise Scottish universities' 'competitive settlement compared to universities elsewhere in the UK'. In return, and in line with the post-16 education reform agenda, the Government expects universities to focus on widening access to students from Scotland's most deprived areas.

In addition, during academic year 2013-14 the Cabinet Secretary expects universities to deliver the following outcomes through ‘robust outcome agreements’ which will take precedence over the existing conditions of SFC grant:

- “securing real term efficiencies of around 2% per annum which, along with the savings from Rest of UK student places phasing out, can be reinvested in additional provision;
- investment in an incentive scheme to widen access at the most selective institutions through additional targeted places;
- commissioning additional places to develop the extent to which students can transfer from college to university education through properly organised 2+2 arrangements to be delivered by universities franchising Higher National places in colleges. Ministers expect this to be part of a step change in the amount of articulation from colleges;
- targeted investment in skills priorities relating to key industries. We would expect a significant proportion of this investment to be at taught postgraduate level and be aligned with initiatives such as Innovation Centres;
- targeted investment in large items of equipment what associated with Innovation Centres, thereby further supporting this important contribution to the innovative economy.”

(Scottish Government, 4 October 2012)

The Scottish Government and SFC envisage outcome agreements will drive efficiencies, improve performance, match capacity to needs and enhance quality within the university sector. Outcome agreements provide a new approach to accountability for, and allocation of, public funding to a system of legally autonomous institutions that rely on public finance to a highly varying degree and have autonomy in how they allocate their income.

Ministerial Guidance to the SFC for the HE Sector in 2012/13 is summarised in Annex 1 (Scottish Government, 2012f).

MAINTAINING A COMPETITIVE HE FUNDING SITUATION WITH REST OF UK

The introduction of a cap of £9,000 on variable tuition fees in England, as well as a move towards the marketisation of the English HE sector, has provided a significant challenge to the Scottish Government in terms of filling the resulting ‘funding gap’ and therefore maintaining the competitiveness of teaching and research in Scotland. UK Minister for Universities and Science, David Willets MP was quoted in the House of Commons on 28 June 2011 as saying “We estimate that there could be a cash increase in funding for higher education [in England] of around 10% by 2014-15” (in terms of total funding from teaching grants, tuition fees and research grants) (House of Commons, 2011). As a result, the Scottish Government announced the formation of a technical working group (TWG) to examine the extent of any future ‘funding gap’. The working group reported that a gap could develop of between £97 million and £263 million in teaching income between Scotland and England by AY 2014-15, depending on the fee levels set by English institutions, as well as cross-border flows of students.

The technical working group set out a number of potential solutions to 'filling the funding gap' (Scottish Government, 2011a). These included: the state maintaining primary responsibility for funding (with the possible introduction of a graduate contribution from Scots-domiciled students[1]), introducing variable fees in Scotland for RUK students, potential for an EU management fee, further sector efficiencies, with the remaining estimated gap being filled by public funding. All these suggestions are considered below in more detail.

The introduction of rest of UK (RUK) fees in Scotland

In autumn 2011, the Scottish Parliament agreed to allow Scottish HEIs to set variable fees for students from the rest of the UK (Scottish Parliament, 2011b). RUK students are defined as 'students who normally live in another part of the UK outside Scotland'. However there has been some controversy (see for example the BBC Northern Ireland, May 2012) surrounding an apparent loophole which enables Northern Irish students to use their Republic of Ireland status to apply to Scottish universities as EU students, and therefore receive free tuition from the Scottish Government (EU treaties oblige the students from other member states to be treated in the same way as Scottish domiciled students). The Scottish Government intends to introduce legislation closing this loophole in time for the 2013/14 academic year. This legislation 'will require dual-national students to provide evidence that they have previously exercised their right of residence elsewhere and will prevent the use of dual-nationality solely to benefit from free tuition' (Scottish Government, 2012g).

According to the Scottish Government, introducing fees for RUK students could help bring the 'net' funding gap to £93 million per year. This is based on a 'starting point' funding gap of £155 million, calculated using average English non-indexed fees of £7,500 (see Technical Working Group final report, (Scottish Government, 2011a)). The Government then deducted £62 million from the starting point figure using estimated income raised from charging students from the Rest of the UK, assuming RUK student numbers in Scotland were maintained at 2011 levels (see Scottish Government press release (Scottish Government, 2011b). This £62 million income estimate is based on an assumed Scottish RUK variable fee of £6,375 (4 year equivalent to £8,500 in England for a 3 year degree).

Clearly a better understanding of the extent of any net funding gap will be realised once the actual income generated from the introduction of variable tuition fees for RUK students is known.

Furthermore, since the publication of the technical working group's report, the average fee at English HEIs for 2012/13 has been confirmed at £8,385 (£8,123 after fee waivers are taken into account). This figure is index linked, so recent estimates published by the Office for Fair Access in England (OFFA, 2012) show that in AY 2013/14, the average tuition fee in England is estimated to rise to over £8,507

[1] This possibility was immediately rejected by the Scottish Government. In a statement to Parliament on 16 March 2011, the Cabinet Secretary confirmed: '…we will not introduce tuition fees, up front or backdoor, or any form of graduate contribution' (Scottish Parliament, 2011a).

(£8,263 after fee waivers are taken into account). When all financial support from universities and colleges is taken into account, the estimated average fee cost is £7,898 (£7,789 in £2012-13) (OFFA, July 2012).

If these figures were used, it is highly likely that that the overall funding gap would be greater than the £155 million funding gap initially estimated (for example the technical working group estimated that with an average English fee of £8000 which is index-linked, the funding gap could be equal to £263 million by 2014-15).

From the above paragraphs it is clear that identifying an exact future funding gap figure is difficult. Such a calculation would depend on multiple variables on both sides of the border including predicting the number of students actually taking up courses in the future, which courses are taken up (some HEIs have varied fees by type of course), what bursary support English and Scottish institutions are offering and what teaching grant they are losing as a result (the net income effect of variable fees); how HEIs will change their fees in future years; and whether SFC maintains the real terms value of funding for teaching. Nevertheless in evidence to the Education and Culture Committee on the 2nd October 2012, Alastair Sim, Director of Universities Scotland, stated: 'Our view is that the spending review settlement met the teaching funding gap as best it could. We are certainly pleased to see that being perpetuated in the budget proposals' (Scottish Parliament, 2012).

For further details on changes to tuition fee arrangements across the UK, please see SPICe briefing: Higher Education: Tuition Fees and the Funding Gap. Universities Scotland have also produced a 'no nonsense guide' to the funding gap facing Scotland's universities (Universities Scotland, 2011).

Changes to SFC funding model resulting from the introduction of RUK Fees

Changes have been made to the way the SFC allocates its teaching grant from AY 2012/13, as outlined in the SFC's technical guidance (SFC, 2012a).

In AY 2012/13, as a result of the deregulation of variable RUK fees, the SFC has removed 5,787 funded student places (the estimated number of RUK entrants in AY 2012/13, based on 2009/10 HESA data) from its public funding methodology and is only providing 'funded student places' for Scottish and other European Union (EU) students.

The removal of these places has freed up £28.6 million of the HEI teaching budget in AY 2012/13 (at 2012/13 prices). The SFC will then remove the balance of 12,062 funded student places (FSPs) currently held by continuing RUK students in four equal tranches over AYs 2013-14 to 2016-17. By removing RUK students from the SFC's public funding methodology, this suggests a total reduction of RUK FSPs over 2012/13 to 2016/17 of 17,849.5 FTEs, at a total value of £96.3 million (in cash terms). The SFC has published the illustrative future amounts and values of rest of UK funded student places to be removed over the Spending Review period by institution (see Updated funding allocations to universities - technical guidance (SFC, 2012a)).

The SFC guidance states that funds released through the removal of RUK funded student places will be used firstly to provide compensation for higher cost and strategically important subjects (as the RUK fee cap of £9,000 does not cover the full cost of teaching provision for all subject price groups), with the remainder being added into the general unit of resource for teaching.

It can be seen from the SFC's illustrative table that the numbers of students studying at Scottish HEIs from the RUK varies greatly by institution. Furthermore, Scottish institutions are offering varying support packages to these students. Dependent on the total number of RUK students, the actual fees charged and the student support on offer (for example, the University of Edinburgh is charging the maximum £9000 fee, but will offer a bursary package of up to a maximum of £7000 for RUK students with household incomes of £16,000 or less), the additional income generated could impact upon some institutions more than others. The Cabinet Secretary, in his announcement to Parliament, was therefore keen to stress that any additional income generated would benefit *all* Scottish HEIs (Scottish Parliament, 2011b).

EU service charge

One of the potential funding gap solutions identified by the technical working group was to charge EU students some sort of service charge. The actual legality in terms of complying with EU law of introducing a service charge for EU students has been challenged, (see, for example, Holyrood Magazine, June 2011) and whilst the Scottish Government has been actively seeking a solution to this, progress has been limited. A Scottish Government news release in April 2012 stated that the cost of providing free tuition fees to EU students was approximately £75 million and that negotiations at an EU level have been on-going. The Cabinet Secretary for Education and Lifelong Learning was quoted saying:

> "Students from other EU countries cost us around £75 million every year and we need to resolve this. Austria finds itself in a similar situation and we have agreed to share and analyse information on the destinations of graduates. I will also continue to work with the Commissioner to try and find a suitable solution."

(Scottish Government, 2012h)

Further sector efficiencies

The Technical Working Group also cited 'sector efficiencies' as a way of reducing the funding gap, with the sector having 'a proven track record on efficiency'. Universities Scotland's 'Working Smarter: Progress Report 2012' outlines the strategy developed by the HE sector in working to deliver £26 million worth of efficiencies for each of the next three years (Universities Scotland, 2012b). Measures include encouraging universities to collaborate on procurement, shared data storage and virtual learning environments, as well as developing other shared services. The Technical Working Group acknowledges, however, that HEIs across the UK will be going through similar processes and hoping to achieve the same sector efficiencies. Hence it is difficult to argue that efficiency savings will have any net impact on reducing the funding gap between Scottish and English universities.

Acceptances at Scottish universities in AY 2012/13 by country of domicile

The Scottish Government committed itself to 'protecting places' for Scottish and EU students following changes to fees for RUK students (Scottish Government, 2012i). There has been significant recent media coverage of a potential issue surrounding Scottish universities and the 'clearing' system (for example courses being 'closed' for Scottish students whilst still open to RUK and International students (see Telegraph 17 August 2012 for an example)). However this issue is more directly related to the public funding methodology of HEIs rather than the 'clearing' system specifically. For example, in order to limit the size of the student support budget through SAAS, the number of 'funded student places' is controlled.

In AY 2012/13 the number of 'funded student places' was set at 116,330.2 FTEs (plus 8,862 FTE Scottish Government ring fenced funded places) for Scottish, EU and continuing RUK students following the removal of 5,787.4 RUK student places from the baseline (table 5 of SFC Grant letter to HEIs for AY 2012/13 (SFC, 2012a)). There are now no longer limits on the number of RUK students or international students that institutions can recruit. However it is worth noting that the SFC still sets (non-binding) intake targets for controlled subjects such as medicine and dentistry.

Latest Statistics from UCAS (14 September 2012), looking at applicants and acceptances by entry year across the UK show that

- UK and EU domiciled acceptances to the 2012-13 entry year at this point are 408,500. This is a change of -56,600 (-12 per cent) compared to acceptances into the 2011-12 entry year at the equivalent point in the previous cycle.

On the same basis, by **country of institution**:

England: 340,500, -54,200 (-14 per cent)
Northern Ireland: 9,700, +200 (+2 per cent)
Scotland: 36,700, +700 (+2 per cent)
Wales: 21,500, -3,300 (-13 per cent)

(Statistical Note: the reference point for these statistics is four weeks after the release of A level results (13 September 2012 and the equivalent point in previous cycles)).

Table 5 (below) uses the UCAS report data to show that as at 13 September 2012, acceptances to Scottish HEIs from Scottish students had risen by 1.2%, with RUK and EU acceptances rising by 5.1% and 3.3% respectively. Figures on international students are not included in the analysis. So far the introduction of RUK fees has not resulted in a reduction of the number of Scottish students being accepted onto courses in Scottish HIEs (UCAS, 2012).

Table 5: UK and EU acceptances to Scottish UCAS institutions by entry year and country of domicile of applicant

	2010/11	2011/12	2012/13	% change 11/12-12/13

Scotland	27,759	27,229	27,554	1.2%
England/Wales/NI	4,858	4,623	4,858	5.1%
EU	3,857	4,147	4,284	3.3%
ALL	36,474	35,999	36,696	1.9%

(Source: UCAS, 2012)

IMPACT OF SCOTTISH GOVERNMENT SPENDING REVIEW ON SECTOR COMPETITIVENESS

The Scottish Government funding settlement for the 2012-15 spending review period has provided universities and the SFC with some certainty on income streams for their sector. For example, in AY 2012-13, the SFC has restored teaching funding levels back to 2010-11 levels, increased funded places and increased the teaching unit of resource (£15.2 million in 2012/13, followed by uplifts in AY 2013/14 and 2014/15) with an additional £3.6 million for strategically important, high cost subjects (see SFC, 2012a).

The SFC proposes that the Scottish Government settlement, taken with the funds made available from changes to RUK student funding means that '**general teaching funding will increase by approximately 5% (cash terms) in each year and will maintain competitiveness of the Scottish system with the RUK and internationally'** (SFC, 2012a).

COMMERCIALISATION OF HE OUTPUTS AND THE RESEARCH EXCELLENCE GRANT

Research and knowledge exchange is crucial to Scotland's economy and public funding is closely tied to Scottish Government economic priorities (see Scotland Performs, National Indicator 'Knowledge Exchange'). The Scottish university research base has historically punched above its weight in terms of competing for research funding. According to the SFC the country produces 1.2 per cent of all new knowledge and is second in the world in terms of impact of its research (Scottish Funding Council, 'World Class Research' (SFC, 2012b)). It wins over 13% of UK Research Council funding and 12% of the UK sector's funding from industry commerce and public corporations, with 86% of all Research Assessment Exercise (RAE) research judged as being of international quality or better (Universities Scotland 'University research: facts and figures' (Universities Scotland, 2011b)). As with teaching, the research missions of institutions are diverse, as is their research capacity and ability to generate research income. In AY 2012/13 the SFC is allocating £258 million in research and knowledge exchange grants. The specific allocation for AY 2013/14 is not currently known.

Allocation of Research Funding

Research is publicly funded through a dual-support system, where 7 UK Research Councils provide grants for specific projects and programmes (annually allocating around £3 billion) and the SFC provides block grant funding for universities to carry out ‘ground-breaking research of their choosing’. Research grants are allocated to HEIs from the SFC, in the form of 2 key grants: the Research Excellence Grant (‘REG’ - the majority of SFC recurrent research funding) and the Research Postgraduate Grant. These are detailed in Table 7 below, from AY 2010/11 to AY 2012/13.

Table 7: Research and Knowledge Exchange Funding, AY 2010/11 to AY 2012/13

	£ millions		
	2010/11	**2011/12**	**2012/13**
Research Excellence Grant	213,027	213,028	223,026
Research Postgraduate Grant	29,669	28,168	33,167
Knowledge Transfer Grant	1,357	1,400	1,330
Total research and knowledge exchange grants	**244,053**	**242,596**	**257,523**

Source: SFC, 2012a and previous year allocations

The REG was introduced in 2009/10 and its formulaic calculation has largely been informed by the results of the 2008 Research Assessment Exercise (RAE). The RAE will be replaced in 2014 by the UK-wide Research Excellence Framework (REF), which will assess the outputs and impact of HE research across the UK. This is significant as the results of the REF exercise will be used by the SFC from 2015-16 onwards to inform its model for allocations of its two research grants.

Knowledge exchange and transfer

The Knowledge Transfer Grant (KTG), provides a baseline £70,000 to each university to fund dedicated staff to plan exchange projects and work with businesses (£1.3 million in AY 2012/13 and 2013/14) (SFC, 2012a). Other Knowledge Exchange (Strategic) funding for AY 2012-13 totals £15.4 million, which supports universities’ innovation activities. In 2012/13, it is being allocated formulaically, but the SFC intends to start using knowledge exchange funds to support larger scale strategic structural projects in future.

The Scottish Government has asked the SFC to use strategic funds to develop, in partnership with Scottish Enterprise and HIE, Innovation Centres (ICs) in the key sectors over the next three years. This follows from the successful establishment of the Technology Innovation Centre (TIC) for energy at Strathclyde University, funded from a variety of public funding sources including EU regional development funds. The intention is that ICs will provide direct industry and academia links, foster entrepreneurship and support industry level skills development. The SFC is allocating £10 million in 2012/13 and £20 million in 2013/14, which will require additional support from other income sources. The Innovation Centres will be developed through an application process, underway at present.

To provide greater strategic and cohesive support to the HE sector, Universities Scotland, SFC, Interface, SE and HIE are working together to deliver a single 'Knowledge Exchange Office' (KEO) within the next two years. This will support collaboration and commercialisation of HEI research by the business community by ‘simplifying the academic landscape for business’. The budget for this proposal will be determined for AY 2013/14 onwards once a final plan has been approved. Once the KEO is established, all institutions will be required to participate as part of their conditions of public grant.

ANNEX 1: SUMMARY OF MINISTERIAL GUIDANCE AND SFC POLICY AY 2012/13

Ministerial Guidance to the Scottish Funding Council for Academic Year 2012/13

On 21 September 2011 the Scottish Government set out more specific priorities for investment in colleges and universities over the spending review in a Letter of Guidance to the SFC. The Scottish Government provided a further Letter of Guidance on 25 January 2012, on the funding position for colleges for the academic year 2012-13. This content of this guidance is summarised for both colleges and universities below:

Higher Education

The Ministerial Guidance to the SFC stated that the budget settlement given to HEIs in Scotland, along with the proposals for fees for students from the Rest of the UK (RUK) would ensure that the sector remains competitive. The Scottish Government asked the SFC to seek improved outcomes in:

- Retention;
- Articulation from College;
- Accelerated degrees, including entry into 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 and Industry collaboration and the exploitation of research;
- The pattern and spread of provision;
- Efficiency, both in the learner journey and of institutions;
- The entrepreneurial and employability skills of graduates.

It outlined the following specific guidance for the SFC:

1. To restore the unit of resource for teaching to AY 2010-11 levels;
2. To maintain the total number of places for Scottish-domiciled and EU students that were available in Scottish HEIs in 2011-12 and to consider restoring these places to being 'fully funded' as opposed to 'fees only' places;
3. To prioritise the full funding of 'fees only' places at institutions with research strengths in science;
4. To protect subjects where changes to RUK fees do not adequately reflect the cost of provision. In this regard, the SFC should allocate additional funding to ensure that science and small specialist institutions are protected (particularly those who play a key role in the creative industries), as well as possible adjustments for subjects with a clinical component;

5. To concentrate funding for research in those institutions where Scottish Government funding will lever in the greatest additional resource from the UK Research Councils, the European Commission and other major research funders;
6. To restore the reductions in funding for research pooling made last year;
7. To remove any barriers to the exploitation of university research and work towards expanding the ‘Easy-Access’ IP model, established by the University of Glasgow, across all institutions in order to make as much intellectual property (IP) available to business and industry;
8. To work with institutions to establish a single HE sector ‘Knowledge Exchange Office’ within the next 2 years;
9. To work towards securing a more coherent spread of provision in teaching across Scotland, seeking substantial efficiency savings through changing the learner journey, collaboration and merger where an educational and financial case exists (currently there are overlaps between what some of the more ‘regional’ universities teach, in urban areas in particular);
10. Where these efficiencies are not achieved, the SFC should consider mechanisms to reflect this in future funding decisions;
11. The SFC should work with the relevant colleges and universities towards increasing provision for regional areas covered by the University of the Highlands and Islands, and in doing so should consider altering its funding method to an outcomes based method, particularly concentrating on retention;
12. The Scottish Agricultural College (SAC) should be encouraged to continue to work with its three land-based colleges with a view to merger;
13. The SFC should develop ‘widening access outcome agreements’ with financial penalties where insufficient progress on access is made (these agreements would differ by institution and the Scottish Government is consulting upon whether these agreements should be backed by statutory force);
14. To concentrate strategic funding (the Horizon Fund for Universities or HFU) on supporting structural change within the sector and on supporting projects that can demonstrably contribute to economic growth in Scotland and becoming a low carbon economy.

SOURCES

BBC Northern Ireland (2012), *Irish passport key to fee waiver in Scotland* (1 May 2012). Available at: http://www.bbc.co.uk/news/uk-northern-ireland-17900220

House of Commons (2011) *Hansard 28 June 2011, column 769).* London: House of Commons: http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110628/debtext/110628-0001.htm

HM Treasury (2012), *September 2012 deflator update*. Available at: http://www.hm-treasury.gov.uk/Search.aspx?terms=deflator

Office for Fair Access (2012) *OFFA announces decisions on 2013-14 access agreements*. Available at: http://www.offa.org.uk/press-releases/offa-announces-decisions-on-2013-14-access-agreements/

Scottish Funding Council (2012a), *Updated funding allocations to universities for academic year 2012-13*. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2012/SFC0512.aspx

Scottish Funding Council (2012b), *World-class research.* Available at: http://www.sfc.ac.uk/research/research.aspx

Scottish Government (2011a), *Expert Group Report (TWG) – Final Report*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Topics/Education/UniversitiesColleges/16640/stakeholdergroups/FinalReport

Scottish Government (2011b), *University funding* (press release). Available at: http://www.scotland.gov.uk/News/Releases/2011/02/28150040

Scottish Government (2012a), *Previous Budget documents*. Available at: http://www.scotland.gov.uk/Topics/Government/Finance/18127/Documents

Scottish Government (2012b), *Scottish Budget: Draft Budget 2013-14*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2012/09/7829/downloads

Scottish Government (2012c), *UK's best student support package.* Available at: http://www.scotland.gov.uk/News/Releases/2012/08/student-support22082012

Scottish Government (2012d), *Post-16 education reform programme.* Available at: http://www.scotland.gov.uk/Topics/Education/post16reform/student-support

Scottish Government (2012e), *Ministerial letter of strategic guidance for 2013-14 to the SFC.* Edinburgh: Scottish Government. Available at: http://www.sfc.ac.uk/about_the_council/lettersofguidance/letterofguidance.aspx

Scottish Government (2012f), *Ministerial letter of strategic guidance for 2012-13 to the SFC.* Edinburgh: Scottish Government. Available at: http://www.sfc.ac.uk/about_the_council/lettersofguidance/letterofguidance.aspx

Scottish Government (2012g), *Action on fees for dual nationality students* (press release). Available at: http://www.scotland.gov.uk/News/Releases/2012/09/EU-students14092012

Scottish Government (2012h), *Support for universities across Europe* (press release). Available at: http://www.scotland.gov.uk/News/Releases/2012/04/support-for-universities27042012

Scottish Government (2012i), *Increase in university places for young Scots* (press release). Available at: http://www.scotland.gov.uk/News/Releases/2012/08/increaseuniversityplaces15082012

Scottish Parliament (2011a), *Official Report for 16 March 2011.* Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=6188

Scottish Parliament (2011b), *Official Report for 29 June 2011..* Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=6577&mode=html#iob_59834

Scottish Parliament (2012), *Official Report for Education and Culture Committee for 2 October 2012*. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7400&mode=pdf

Student Awards Agency for Scotland (SAAS)(2012), *What financial support can I get? Postgraduate student guidance.* Available at: http://www.saas.gov.uk/student_support/special_circumstances/postgrad_support.htm

Universities Scotland (2012a), *Income and expenditure of Scotland's universities*. Edinburgh: Universities Scotland. Available at: http://www.universities-scotland.ac.uk/uploads/University%20incomeandexpenditure201011.pdf

Universities Scotland (2012b), *Working Smarter: progress report 2012.* Edinburgh: Universities Scotland. Available at: http://www.universities-scotland.ac.uk/uploads/US-WorkingSmarterProgress2012.pdf

Universities Scotland (2011), *The Funding Gap Facing Scotland's Universities*. Edinburgh: Universities Scotland. Available at: http://www.universities-scotland.ac.uk/uploads/briefings/Sizeofthegap%20%283%29.pdf
Universities Scotland (2011b), University research: facts and figures. Available at: http://www.universities-scotland.ac.uk/uploads/briefings/ResearchFF120511.pdf

University and College Admission Service (UCAS) (2012), 'Interim assessment of UCAS acceptances by intended entry year, country of institution and qualifications held'. Available at:
http://www.ucas.com/about_us/media_enquiries/media_releases/2012/20121409

RELATED BRIEFINGS

SB 12-61 Draft Budget 2013-14

SB 11-57 Higher Education Institutions: Subject Profile

SB 11-07 Widening Access to Higher Education: Admissions briefing

SPICe
The Information Centre

SPICe Briefing

Draft Budget 2013/14: Further Education

19/10/2012

12/64

Camilla Kidner

This briefing considers the Scottish Government's Draft Budget 2013/14 for the further education sector and looks at recent funding trends in the light of Government policy priorities.

The Scottish Parliament
Pàrlamaid na h-Alba

CONTENTS

SPICe
The Information Centre

EXECUTIVE SUMMARY

Funding for colleges is provided by the Scottish Government mainly to the Scottish Funding Council (SFC) with a small amount of provision delivered through Skills Development Scotland (currently 4%). Funding reached a ten year peak in 2010-11 and is now falling. Although there is a small cash terms increase in the draft budget for 2013/14 compared with the 2012/13 draft budget, the overall trend is one of reduced resources.

While student support funds are being maintained, funds for teaching have been reduced from £469m in academic year 2010/11 to £396m in academic year 2012/13.[1] Staff numbers have been falling. In quarter 2 of 2012, staff numbers were down 8.2% from the same time the previous year.

Although the Scottish Government draft budget 2013/14 shows the SFC draft revenue budget for further education as £511.7m, Ministerial guidance to the SFC issued on 4th October stated that it would be reduced to £496.8m. The money will however still be ringfenced for colleges, but is being transferred to SDS (see below).

The SFC translate financial year allocations to academic years. The Government has asked the SFC to secure £18m efficiency savings in academic year 2013/14 rising to about £33m in academic year 2014/15. These falling budgets are happening at a time of considerable change as colleges are being re-organised into 13 regions. However the SFC expects mergers to produce cash savings which can be used to fund student places.

The Scottish Government has a target to maintain student numbers. In 2012/13, the volume of learning activity that SFC was asked to fund was reduced to 96% of the initial level in 2011/12. In consequence £13.1m was transferred to SDS to secure the remaining 4% of provision through short employability courses for young people. They have a target to get 5,800 students on this scheme, although it is difficult to identify whether this is equivalent to 4% of learning activity funded by the SFC as the two organisations use different ways of counting learning provision. Since the publication of the draft budget 2013/14 the Government has announced that it will be transferring £24m from the SFC to SDS. In consequence, the SFC target has been reduced to 91.5% of the 2011/12 baseline, suggesting that SDS will be providing the remaining 8.5% of provision.

[1] see annex 1. Refers to teaching and fee waiver grant, plus Scottish Government contribution to ESF project, plus £8m extra funds provided in 2012-13.

The Scottish Parliament
Pàrlamaid na h-Alba

SCOTTISH GOVERNMENT PRIORITIES FOR FURTHER EDUCATION

Colleges are currently undergoing a significant period of transition in terms of funding and governance arrangements. The Government's proposals for post 16 reform were first outlined in Putting Learners at the Centre (Scottish Government, 2011a). Further detail was provided in Proposals for Implementing Putting Learners at the Centre (Scottish Government and Scottish Funding Council, 2011). At the same time, the Scottish Government had commissioned a review of further education governance by Professor Russel Griggs (June 2011 to January 2012). The main outcome of these developments is the reorganisation of colleges into 13 regions and an increased focus on employability for young people. In some regions colleges will merge, but in others, they will form federations or other structures to enable close collaboration. This process is expected to be completed in most regions during 2013/14 (Russell, M. letter 4th October 2012). The associated governance changes will require legislation and a bill is expected to be introduced soon.

In 2012/13 colleges started producing outcome agreements, specifying what they would provide for the public funding they receive. Guidance issued in January 2012 asked that these: “set realistic but challenging targets on both restructuring and delivery” (Russell, M. Letter 25 January 2012). The Cabinet Secretary is looking for “significant improvements” in the process and agreements for 2013/14 are expected to be completed by the beginning of 2013 (Russell, M. Letter 4 October 2012). The table below compares the key points from the last three years of Ministerial guidance which illustrates continuing themes of employability, particularly for young people, and generating efficiencies through mergers and collaboration.

Table 1: Ministerial Guidance to SFC, 2011/12 to 20113/14

Guidance for 2011/12	Guidance for 2012/13	Guidance for 2013/14
Maintain volume of activity		Refers to commitment on student numbers
Protect student support budget	Protect student support budget	
Greater collaboration between colleges	“Substantial savings” to be achieved through mergers, collaborations and more coherent planning.	Continue regionalisation process
Prioritise 16-24 yr olds	The guarantee for 16-19 year olds is ‘paramount’, with a similar offer ‘where possible’ to 20-24 year olds.	Delivering Opportunities for All
Focus on skills for the labour market Reduce school/college partnership activity by focusing on older pupils	Reduce non-recognised qualifications and ensure those that remain focus on progression towards employment. Focus on retention rates, early	industry linked vocational provision with a focus on employment ensuring improved progression in access

	leavers "unacceptably high" Improve joint working with SDS, schools, local authorities etc.	level provision

source: Ministerial guidance letters:17 Nov 2010, 21 Sept 2011, 25 Jan 2012, 4 Oct 2012.

The guidance for 2011/12 was presented in the context of a one year budget that required significant cuts from 2010/11. In presenting the Government's objectives for the sector, the Minister: "recognise(d) that meeting these priorities will be a difficult task" (Russell, M. letter 17th November 2010). The guidance for 2012/13 set out the planned budgets for the current spending review and reflected: "ambitious, radical proposals" for the reform of post 16 education. It recognised that: "the spending review settlement for colleges is unquestionably a tough one" (Russell, M. letter 21st September 2011).

Additional guidance in January 2012 stated that the reduction in the teaching budget for 2012/13 should not exceed 8.5% for any individual college and that student support should be protected in cash terms (Russell, M. letter 25th January 2012). While the previous year's guidance had stated that the 'standard unit of resource' (a measure of funding for student places) should be maintained, the 2012/13 guidance stated that: "any reductions […] should be kept to a minimum" and asked for efficiency gains "in the order of 1% in cash terms." Student places were however to be maintained, despite the reduction in resource.

Guidance for 2013/14 emphasised the need to: "strike a balance between raising ambitions of colleges while providing stability." (Russell, M. letter 4th October 2012). It asked for 1% of funding to go towards the 'growing regions' continuing the move towards a 'needs-based' funding model. As in previous years it asked for closer alignment to Government priorities but also asked for efficiency savings of up to 6% in academic year 2013/14 with further savings expected in 2014/15. In addition the Minister announced a transfer of £24m to SDS for college places and referred to the Government's commitment on student numbers.

Opportunities for All

The contribution of colleges to providing employment focused training for 16 to 19 year olds has been a key theme in Ministerial guidance over the last three years. Opportunities for All is a guarantee of an opportunity for a place in education or training for every young person aged 16 to 19. Many will obtain this through the traditional way of staying on at school, going to college, training or moving into employment. The specific focus of this policy is therefore those young people who are at risk of not being in education, employment or training. As such it builds on previous policies of More Choices More Chances and 16+ Learning Choices.

The specific 'Opportunities for All' 'brand' became operational on 1st April 2012 and includes funding of £13.1m for college places to be provided via SDS. 74% of these will go to 16 – 19 year olds. Other 'Opportunities for All' funding is available through Community Jobs Scotland to provide opportunities in the voluntary sector for young unemployed people. The college sector is therefore an important part, but not the totality, of provision under 'Opportunities for All.'

Focus on recognised qualifications and improving retention

Ministerial Guidance in 2012/13 asked colleges to focus on improving student retention. In 2010-11, (the latest year for which statistics are available), 73% of full time students completed their course. The Guidance also asked for focus on courses that carry SCQF[2] recognised qualifications. Enrolments on programmes not leading to a recognised qualification had already fallen by 24% between 2009-10 and 2010-11(SFC,2012a). From 2010/11 the SFC stopped funding very short courses (SFC, 2010a) and in 2011/12 cut school/college partnership provision by £26m (SFC council paper 10\86) which tended to be short, non-certificated activity.

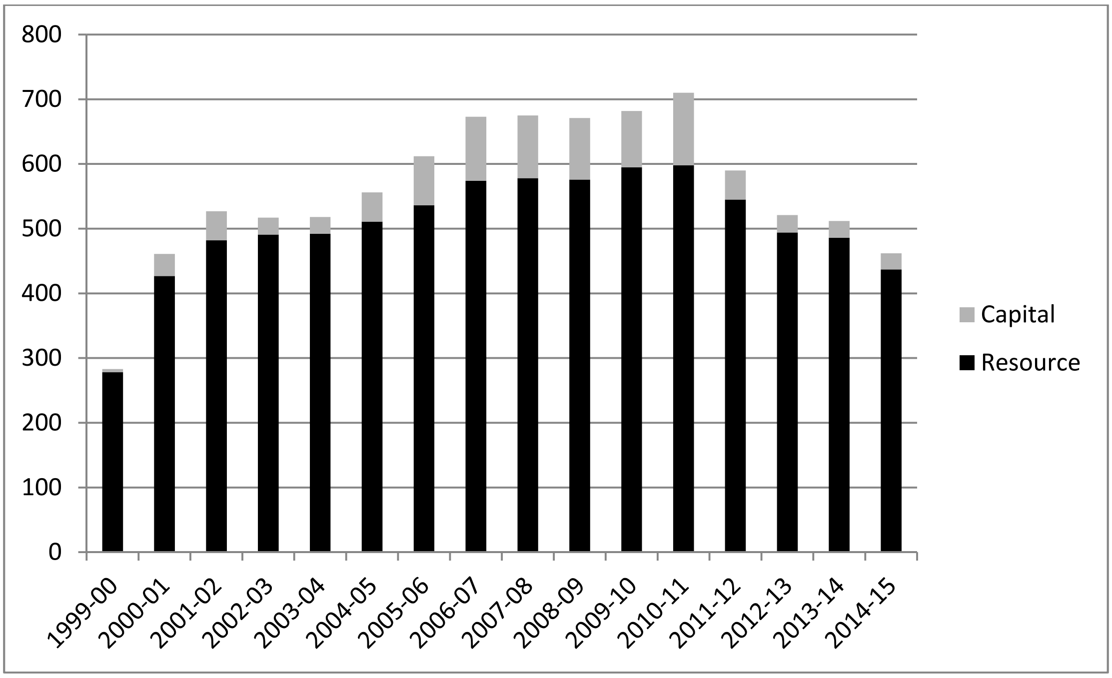
SCOTTISH GOVERNMENT BUDGET

This section looks at the funding provided to the Scottish Funding Council and to Skills Development Scotland to support further education. Later sections consider how this is passed on to colleges.

SCOTTISH GOVERNMENT ALLOCATION TO SFC

Funding for colleges increased substantially in real terms in the ten years from 1999, reaching a peak in 2010-11. It has since decreased substantially and by the end of the spending review period in 2014/15 it is expected to be at a similar level, in real terms, to the draft budget for 2000/01 (see annex 1 for cash figures).

Chart 1: Funding to SFC for Further Education, draft budgets 1999-2014. £m. 2011/12 prices



source: personal communication Scottish Government, September 2012. Updated for 2013-14 to reflect published budget. See annex for figures, including cash terms figures.

Comparing 2012/13 and 2013/14 budgets

---

[2] Scottish Credit and Qualifications Framework http://www.scqf.org.uk/

In the spending review, the planned SFC further education revenue budget for 2013/14 was £494.7m, (Table 9.06, Scottish Government 2011b). However, the Cabinet Secretary for Finance announced an extra £17m on budget day this year (Scottish Parliament 2012a), taking the draft budget for 2013/14, as published in September 2012, to £511.7m (Scottish Government, 2012b). This additional money comprises £6m for college places and £11m for student support (SFC, 2012b). Therefore the draft budget for 2013/14 (as published) shows a small cash increase of £4.8m in cash terms compared with the draft budget for 2012/13 (table 2).

An extra £11.4m had been added to the SFC FE budget in 2012/13 resulting in a revised budget of £518.3m. As mentioned, the draft budget for 2013/14 is £511.7m. However in the Ministerial letter of guidance, issued on 4 October, the Cabinet Secretary indicated that he would be transferring £24m from the SFC to the SDS budget (£14.9m in 2013/14 and £9.1m in 2014/15). This money would still be ring-fenced for college places, but would be administered by SDS in a similar way to its college places scheme in 2012/13. This suggests that the published draft budget of £511.7m for 2013/14 will be reduced to £496.8m during the year.

This creates a cash terms reduction from the revised budget of £518.3m in 2012/13 to £496.8m in 2013/14 (table 3). These in year revisions are not reflected in the draft budget publication and have yet to receive parliamentary approval through the budget revisions process.

Changes over the spending review

Over the spending review period as a whole from 2012/13 to 2014/15, even without taking revisions into account, there is a clear reduction in further education funding. In real terms there is a drop over the spending review period of £59m or 11.6% in the Scottish Government's draft budget allocations to the SFC for further education revenue funding (table 2). The draft budget allocation in 2011/12 was £544.7m which was increased during that year to £570.7m. This drops to a proposed budget of £461.6m in 2014/15 (table 3). The changes in the draft budgets are set out in the table 2 in cash and real terms. The in-year revisions are shown in table 3 in cash terms.

Table 2: Changes in draft SFC revenue budget for further education before revisions, over 1 year and 2 years. Cash and real terms.

	Draft Budget			12/13 to 13/14change		12/13 to 14/15change	
	2012/13	2013/14	2014/15	£m	%	£m	%
Cash terms	506.9	511.7	470.7	4.80	0.9%	-36.20	-7.1%
Real terms	506.9	499.2	448.0	-7.7	-1.5%	-58.88	-11.6%

Table 3: Revisions to SFC further education revenue, 2011/12 to 2014/5 cash £m

	Draft budget	Revisions and proposed revisions	Revised
2011-12	544.7 [a]	15 [c] + 11 [d]	570.7
2012-13	506.9 [a]	11.4 [e]	518.3
2013-14	511.7 [b]	*- 14.9 (to SDS)*[f]	496.8
2014-15	470.7 [a]	*- 9.1(to SDS)*[f]	461.6
change	**-74.0**		**-109.1**

Sources: (a) table 9.06. Spending Review 2011, (b) table 5.06, Draft budget 2013/14, (c) 2011/12 budget spring budget revisions, January 2012 (d) package of budget measures, 10th February 2011, (e) 2012/13 budget stage 3 debate, February 2012 (f) Ministerial letter of guidance 4th October 2012, para 15-16 and Scottish Government personal communication 18th October 2012.

The extra £26m for 2011/12 is made up of:

- £15m for the college transformation fund. Announced 7th December 2011 and added to the 2011/12 budget through Spring budget revisions to 2011/12 budget, schedule 3.4 (Scottish Government, 2012c). This money was allocated to the budget in 2011/12 but deployed in 2012/13.
- £7m for student bursaries announced as part of the 2011/12 budget on 10th February 2011 (Scottish Government, 2011c)
- £4m for college places announced as part of the 2011/12 budget 10th February 2011 (Scottish Government, 2011c).

In February 2012 an extra £11.4m for student support was announced by John Swinney in the Stage 3 debate on the 2012/13 (Scottish Parliament, 2012b) and confirmed in SFC circular 09/2012 (SFC, 2012b).

The proposed reduction to the 2013/14 and 2014/15 draft budgets are a £24m transfer to SDS. This money will still be ringfenced for colleges. The money will be removed from SFC in two tranches, £14.9m in 2013/14 and £9.1m in 2014/15 (Russell, M. letter of 4 October 2012). Table 3 therefore shows the money going to SDS in the same two tranches.

SKILLS DEVELOPMENT SCOTLAND BUDGET

SDS is playing an increasing role in procuring college places as well as co-ordinating the delivery of national training programmes such as modern apprenticeships. Through the New College Learning Programme the Scottish Government provided £13.1m for SDS to secure 4% of college provision in 2012-13. In 2013/14 and 2014/15 they will be given a total of £24m from the SFC budget for a similar scheme. This is discussed further at p. 14

Modern Apprentices

SDS delivers National Training Programmes which includes co-ordinating the Modern Apprenticeships scheme. While much of this is delivered through private training providers, colleges contract directly with SDS to provide around 11% of Modern Apprenticeships. In addition, a number of colleges are sub-contractors to private training providers to deliver some elements of the modern apprenticeship (Mullen, F. 2012). The Scottish Government is on track to deliver 25,000 new Modern Apprentice starts in each year of the Parliament. Latest SDS statistics show that in the first quarter of 2012/13, 4,306 modern apprenticeship starts were delivered. The 2013/14 budget for SDS was increased by £11m from £176m to £187m (Scottish Government, 2012d)in order to cover a shortfall in funding created by the termination of European Social Funds, some of which supported Modern Apprenticeships (SDS personal communication, 18th October 2012).

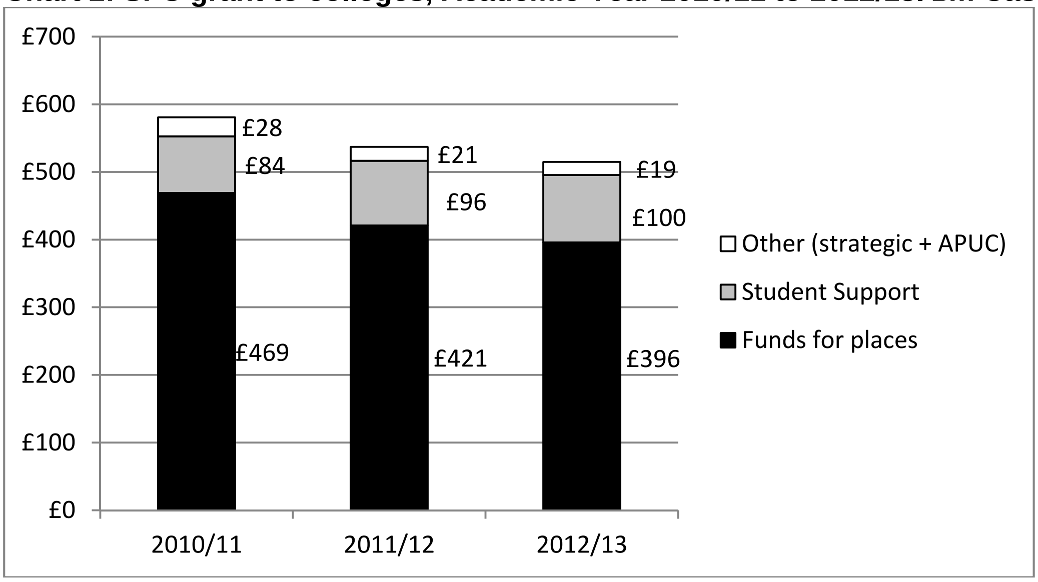
SFC ALLOCATIONS TO COLLEGES

The further education Scottish Budget allocation discussed above is provided mainly to the SFC who distribute it to colleges. The SFC allocates funds to individual colleges on an academic year basis (August to July) and in doing so, takes into account the letter of Ministerial Guidance.

Revenue grant to colleges

Over the last three years, total revenue funding allocated by the Scottish Funding Council has fallen from £581m in academic year 2010/11 to £515m in 2012/13 – a reduction of £66m (11.3%). Within this, student support has been maintained (largely as a result of additions made after initial allocations were announced). The majority of the decrease has been in funds for student places. In chart 2, the total funds for places is made up of the teaching grant, fee waiver grant and extra funds provided for targeted places.

Chart 2: SFC grant to colleges, Academic Year 2010/11 to 2012/13. £m Cash



Scottish Funding Council 2010a, 2010c, 2011, 2012c, 2012d

Notes: Tables in annex. Funds for places includes £8.4m in each of the three years from ‘economic downturn/ ESF money’ and a further £8m in 2012/13. Does not include money for student places distributed via Skills Development Scotland. Figures for 2012/13 student support includes extra £11.4m allocated during the year and £3.9m for childcare for higher education college students which was previously provided by SAAS.

In academic year 2013/14 the Scottish Government is looking for about £18m efficiency savings from the SFC rising to £33m in 2014/15. All college regions are expected to contribute, but none should be expected to make efficiency savings of more than 6% in2013/14 (Russell, M. letter 4th October 2012). For comparison, in 2011/12 the SFC delivered 4.8% efficiency savings - representing a cut of £22m to college budgets. At that time the SFC advised the Scottish Government that: “more than a 5% efficiency gain would be likely to damage quality of provision” (p. 7 SFC, 2010b).

Capital Funding

Capital grants to colleges increased substantially between 2000 and 2010 and as a result, nearly one third of the total building space in Scotland's colleges has been built since 2000. For substantive new build projects, the Scottish Government is now using revenue funded NPD[3] to invest in the college estate including £200m in Glasgow, £50m in Inverness and £50m in Kilmarnock. These projects are now in procurement and will be financed through charges to colleges' future revenue budgets. However, colleges are expected to fund preparatory costs for these projects through their current capital budgets. Ministerial guidance asks the SFC to: "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." (Russell, M. letter 4th October 2012).

Capital funding for colleges has fallen from a peak of £109m in financial year 2010/11 (SFC, 2010a) (SFC/14/2010) to a joint universities and colleges allocation of £46m for 2013/14. This is likely to provide around £27m for colleges (personal communication Scottish Government, 13 September 2012).

Funding Regionalisation

The Scottish Government's consultation Putting Learners at the Centre: Delivering Our Ambitions for Post-16 Education (2011) set out the need for regionalisation and suggested that it could create savings:

> "Work by the SFC shows there is too much duplication and unnecessary competition within colleges and regional universities. Very often different colleges and universities are competing for the same students and similar programmes are being run by institutions within a few miles of each other. Moreover, evidence from recent mergers shows money can be saved and service to students sustained and improved by the creation of larger efficient colleges".

Outcome Agreements for 2012/13 include seven mergers and the creation of two federations. These are set out in table 4 below:

Table 4: College regionalisation

Region	Change by	Merger or Federation	Outcome
Edinburgh& Lothians	Oct-12	Merge Telford, Stevenson and Jewel&Esk	1 college
Rural University College	Oct-12	Merge Barony, Elmwood, Oatridge and Scottish Agricultural College	1 college
Lanarkshire	in 2012-13	Federation of Coatbridge, Cumbernauld, Motherwell and South Lanarkshire	4 colleges
Ayrshire	Aug-13	Merge Ayr, Kilmarnock and James Watt (Kilwinning)	1 college

[3] Non Profit Distributing. Capital projects paid for over 20 to 30 years through revenue budgets after they are built.

West	Aug-13	Merge Clydebank, James Watt (Inverclyde) and Reid Kerr.	1 college
Fife	Aug-13	Merger Adam Smith, Carnegie and part of Elmwood	1 college
Glasgow	Aug 2013 or soon after	Merge Anniesland, Cardonald and Langside. Merge Stow, North and John Wheatly. City of Glasgow college is the result of a recent merger.	3 colleges
North East	not specified	Federation of Aberdeenshire and Banff and Buchan	2 colleges
Tayside	not specified	Merger of Angus and Dundee Colleges	1 college
Highlands&Islands		Currently nine colleges working in partnership (five SFC funded)	9 colleges
Borders		Already single college region	1 college
West Lothian		Already single college region	1 college
Dumfries&Galloway		Already single college region	1 college
Central		Already single college region	1 college

Source: Outcome Agreements 2012-13, SFC online.

The SFC also fund Newbattle Abbey College and Sabhal Mor Ostaig. Taken together, this suggests that the number of SFC funded colleges will be reduced from 40 to 28[4]. A £15 million college transformation fund is being provided in this academic year primarily to fund mergers, collaborations and redundancies. In addition, £18.4 million strategic funding is being provided, some of which will be used to support mergers and federations. Mark Batho (SFC) told the Education and Culture Committee that:

> "regionalisation and restructuring of colleges can deliver, and is delivering, quite significant savings across the piece. For example, the City of Glasgow College […] has indicated that the savings from the merger are in the order of £6m a year. […] Edinburgh College projected £9m of savings as a direct result of restructuring." (Education and Culture Committee, 2012b).

He was therefore confident that, by re-investing these kind of savings into college provision, student places could be maintained:

> "we are clear that there will be sufficient resource within the system in the academic year 2013/14 to deliver the amount of teaching that the Government seeks [..] if the projections are right, there will be resource to spare." (Education and Culture Committee, 2012b)

Audit Scotland, while recognising the efficiency savings generated by the Glasgow merger, has stated that regionalisation will have cost implications for individual colleges, "although these are not fully clear at this stage" (Audit Scotland, 2012 para 36). It recommended that:

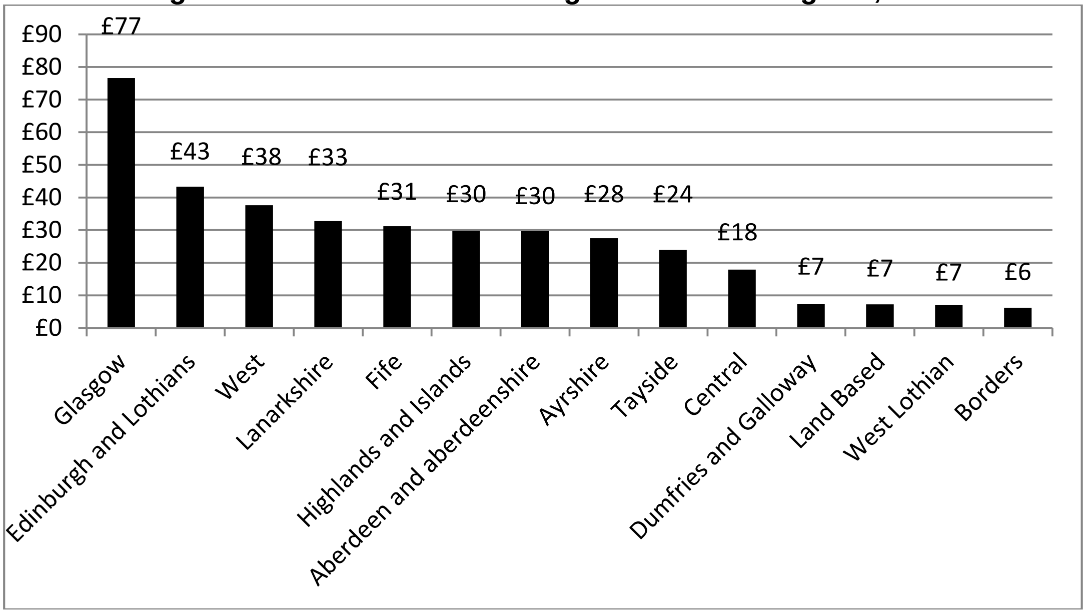
[4] The Highlands and Islands region includes Shetland and Orkney colleges which are funded by SFC but are unincorporated and Argyll and West Highland colleges which are not SFC funded. Table 4 also includes the new Rural University College, although it is technically not one of the 13 regions.

> "the Scottish Government should provide a clear assessment of the expected benefits an costs of regionalisation including structural change, how these benefits contribute to its reform objectives and how costs are to be funded"

Regionalised Funding

Funding for 2012/13 was provided to individual colleges, but presented in the new regional groupings. Funding for academic year 2013/14 will be provided to the new regions rather than to individual colleges. Chart 3 below shows the 2012/13 allocations of teaching funds according to the new college regions. Allocations by individual college are show in annex 2. This shows that there is one very large region (Glasgow) which is ten times the size of the smallest regions.

Chart 3: Regional allocations of teaching and fee waiver grant, 2012/13. £m.



Source: SFC, 2012e (circular 09/2012)

COLLEGE PLACES

In spite of considerable budgetary pressures, the intention over recent years has been to maintain the number of college places through a mixture of efficiencies and targeted funding. The extra funds that have been made available have generally been targeted at young people, particular those at risk of unemployment.

Places provided by Scottish Funding Council

In evidence to the Education and Culture Committee, the SFC wrote that:

> "70% of the activity secured through regional outcome agreements will be for young people aged 16 to 24" (Education and Culture Committee, 2012a)

This appears to be an acceleration of a recent trend. In 2010/11 £8.4m was provided for 4,100 extra college places for 16-24 year olds at risk of unemployment (SFC, 2010a). Similar provision was made in 2011/12 and 2012/13[5] (SFC 2010c,

[5] This is an ESF project which therefore also attracts EU funding. In 2012/13 it is focusing on 20-24 year olds.

2012c). Also in 2012/13 an extra £8m was targeted at regions with particularly high levels of unemployment (SFC 2012c) and an extra £13.1m was provided for employability courses provided through SDS(Russell, M. letter 9th February 2012). Latest statistics on college students are for 2010/11 and at that time 66% FTE (38% headcount) college students were aged between 16 and 24 (SFC inFact database). The funding since targeted at this age group suggests that this may be increasing.

The Scottish Government has a commitment to maintain student numbers. This has been described as 116,000 FTE (Scottish Government, 2012a). Rather than using student places, the SFC allocates its teaching and fee waiver grant using Weighted Student Units of Measurements or WSUMs. The calculation of WSUMs can be thought of as equivalent to around 40 hours of teaching or 1 SCQF credit (eg a Higher is 24 credits and an HND, 240). In January 2012, the Cabinet Secretary wrote to the SFC to set the student number target. He said:

> "I am asking the SFC to set the sector an overall student number target of 2,109,958 WSUMs for academic year 2012/13 representing 96% of the baseline figure you announced in December 2010 for academic year 2011-12. As I said in my recent letter to college principals, I am developing proposals though which we shall secure the remaining 4% of student numbers jointly through colleges and SDS" (Russell, M. 2012a).

Maintaining student places would therefore appear to mean provision equivalent to 2.2m WSUMs. In 2010/11 colleges had been given a target of 2.3m WSUMs. (SFC, 2010a, 2010c). In 2011/12, they were given an initial target of 2.2m (SFC, 2010c). During the year, an extra £6.6m was made available for student places which converted into around 35,000 WSUMs. This extra provision was not targeted, but distributed on a pro-rata basis and does not form part of the baseline (SFC, 2011).

In 2012/13, the colleges were given an initial WSUMS target of 2m to fund 93% of places. Another 1% is being created through efficiency saving and 2% is being funded through £8m 'brought forward' from 2013/14 and 2014/15. This 2% is being targeted at the following regions: Ayrshire, Borders, Dumfries and Galloway, Highlands and Islands and Lanarkshire (SFC, 2012c). As mentioned, SDS were contracted for 4% of provision.

Table 5 summarises the funding and WSUMs targets for 2012/13. It shows that there was £414m available to fund 2.2m WSUMs in 2011/12, but there is only £400m available across the SFC and SDS to fund provision in 2012/13. This implies that even if student places are being protected, they are being provided with less funding.

Table 5: WSUMS targets and college funding 2012/13

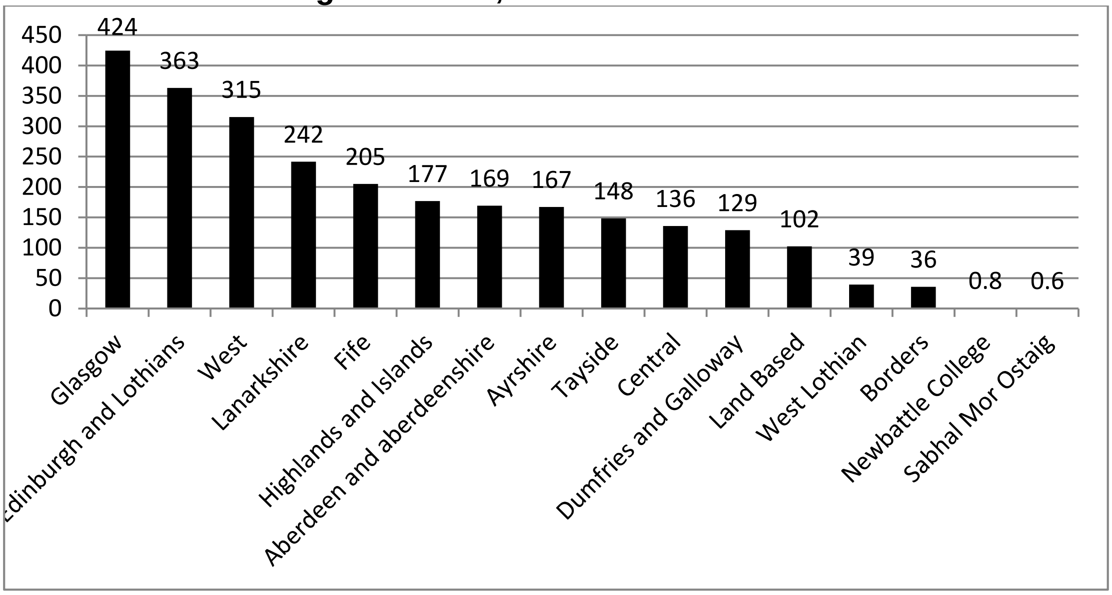
	WSUMs	**Funding Academic Year £m**
Baseline from 2011/12	2.19m	£414.3 initial allocation for 2011/12
2012/13 allocations:		
93%	2.04m	Teaching and fee waiver £379.5
1%	0.02m	Funded through efficiencies
2%	0.04m	Targeted to certain regions £8.0
Total SFC 96%	***2.10m***	***£387.5***
(provided via SDS) 4%	0.09m[a]	Targeted to 'employability' £13.1

100%	2.19m		£400.0m

source: SFC figures from SFC, 2012c (SFC/02/12) notes: in addition, the SFC provides £8.4m towards an ESF project focused on 20-24 year olds. This provides around an extra 50,000 WSUMs on top of the 2.1m provided through the main teaching grant. This is funded through an SFC contribution of £8.4m and funds from the ESF of around £5m. (a) SDS do not use the WSUMs methodology, so this assumes 4% of provision = 4% of WSUMs.

Chart 4 below shows the baseline target for WSUMs for the new college regions for 2012/13.

Chart 4: Baseline target WSUMS, 2012/13. 000's



Source: SFC, 2012e (SFC circular 09/2012). Certain regions will have increases due to the allocation of an extra £8m providing 2% of college places.

In 2013/14, colleges are being asked to provide 2m WSUMS with the balance provided by SDS (Russell, M. Letter 4th October 2012). (91.5% of the baseline).

SDS college places

In 2012/13, was asked to procure 4% of what had previously been funded by the SFC. The Scottish Government provided £13.1m for this. Places are commissioned by SDS from colleges and consist of 'short employability' courses mainly for 16-19 year olds. These include 192 hours of learning in the classroom (employability) and 192 of work experience (vocational). Students will get a certificate of employability or 'work-readiness.' The focus is on young people not in full time employment. The vast majority (74%) of places are for 16 to 19 year olds, 20% are for 20-24 year olds and 6% are for those aged 25 plus (Education and Culture Committee, 2012a). The exact focus of the SDS provided places in future years has yet to be determined (Scottish Government personal communication 12th October 2012).

If SDS were to secure 4% of provision, this suggests they might provide places equivalent to around 88,000 WSUMs (4% of the baseline WSUMs target of 2.19m). However, SDS do not use WSUMs. They have a delivery target of 5,800 new starts (Education and Culture Committee, 2012a) but they do not have a target for the amount of learning activity or number of full time equivalent places that this would represent (SDS, personal communication). This raises the issue of how the Scottish Government will ensure that the equivalent of 4% of the learning activity previously delivered via the SFC is secured.

In 2013/14 SDS will have £24m transferred to them from the SFC budget as part of a new ‘Employability Fund’. As a consequence, the SFC are being asked to provide only 91.5% of the baseline WSUMs target of 2.19m. In order to maintain the same volume of learner activity, this leaves 8.5% to be provided outwith SFC funding. The Ministerial guidance letter of 4th October stated:

> “I am arranging for £24m to be transferred from your (the SFC) FE funding line to SDS” […] “against this background your student number target for academic year 2013-14 will be 2,011,000 WSUMS. The remaining provision necessary to meet our commitment on student numbers will be secured through the Employment Fund. Your financial year budget for 2013-14 will therefore be £496.8m and for 2014-15 £461.6m”

It might therefore be expected that in 2013/14 SDS would secure college provision equivalent to 8.5% of the SFC baseline WSUMs target.

STUDENT AND STAFF NUMBERS

Although student numbers (measured as FTE) remained relatively steady up to 2010-11 (which is the latest published data), staff numbers (measured as headcount) reduced and have continued to reduce. Table 6 shows that the college sector lost 8% of its staff between 2011-12 and 2012-13. The Cabinet Secretary has noted that he is “encouraged” that compulsory redundancies have been avoided “in the vast majority of cases” (Russell, M. Letter 4th October, para 4).

Table 6: Changes in student and staff numbers since 2006/07

	Students		**Staff**	
year	students (FTE)	% change	staff (headcount)	% change
2006-07	123,627	n/a	16,600	n/a
2007-08	125,158	1.2%	16,700	0.6%
2008-09	126,285	0.9%	16,900	1.2%
2009-10	127,943	1.3%	16,900	0.0%
2010-11	126,939	-0.8%	16,000	-5.3%
2011-12	n/a	n/a	15,900	-0.6%
2012-13	n/a	n/a	14,600	-8.2%

Sources: student numbers from SFC inFact database, staff numbers for Scottish Public Sector employment statistics. Scottish Government 2012e. **Note:** not all college places attract public funding. Staff figures are for quarter 2 of the relevant year starting with quarter 2 of 2006.

STUDENT SUPPORT

While there has been pressure on funding for student places, the student support budget has been maintained over the last few years, largely due to announcements of extra funds after initial allocations were provided.

At stage 3 of the budget process in February 2011 an extra £15m was announced for student support. This provided an extra £5m to the 2010/11 academic year budget and an extra £10m to the 2011/12 academic year budget (SFC, 2011). Similarly, at stage 3 of the budget process in early 2012 an extra £11.4m was announced for student support. This was provided in two equal tranches in academic year 2012/13. The first £5.7m was simply added to the initial student support allocation of £84m, but the second tranche was reserved for the 2% of places that were being targeted at specific regions and also for places under the SDS college places scheme (SFC 2012d). This is summarised in the table below:

Table 7: Changes in student support, 2010/11 to 2012/13. Cash terms £m

academic year	initial allocation	additions	final	explanation of additions
2010/11	£78.9	£5.0	**£83.9**	part of an extra £15m announced during budget process, the balance going to 2011/12
2011/12	£84.2	£11.4	**£95.6**	£1.4m was part of an extra £8m, the balance going to student places, £10m was part of an extra £15m, the balance going to student support in 2010/11.
2012/13	£84.2	£11.4 £3.9	**£99.5**	Two tranches of £5.7m, one targeted at SDS scheme and the places provided by the extra £8m 'brought forward' and targeted at certain regions. The other, distributed pro-rata to all colleges. An extra £3.9m for childcare for higher education college students.

Source: SFC 2012b, 2012d

In the draft budget 2013/14, the Cabinet Secretary announced an extra £17m for colleges, £11m for student support and £6m for places (Scottish Parliament, 2012a). It is yet to be seen how this will translate into academic year allocations from the SFC although the letter from the Cabinet Secretary to the Education and Culture Committee of 18th October 2012 states that the £6m will form part of a larger transfer of £24m to SDS relating to the Employability Fund.

In addition to these funds, young college students from low income families can access the Education Maintenance Allowance. Latest statistics are for 2010/11 and show that 13,600 young college students received EMA payments at a total cost of £9.3m (Scottish Government, 2012f).

ANNEX 1: FIGURES FOR CHARTS

Figures for chart 1: SFC FE draft budget

	£m, cash			% change on previous year		
	Resource	Capital	Total	Resource	Capital	Total
1999-00	213	4	217	..	..	..
2000-01	329	26	355	54%	550%	64%
2001-02	378	35	413	15%	35%	16%
2002-03	395	21	416	4%	-40%	1%
2003-04	404	21	425	2%	0%	2%
2004-05	432	38	470	7%	81%	11%
2005-06	464	66	530	7%	74%	13%
2006-07	510	88	598	10%	33%	13%
2007-08	526	88	614	3%	0%	3%
2008-09	539	89	628	2%	1%	2%
2009-10	565	83	648	5%	-7%	3%
2010-11	584	109	693	3%	31%	7%
2011-12	545	45	590	-7%	-59%	-15%
2012-13	507	*28*	535	-7%	-38%	-9%
2013-14	512	*27*	539	1%	-4%	-0.70%
2014-15	471	*27*	498	-8%	0%	-8%

Real terms: SFC FE draft budget (£m, 2011-12 prices)

	£m, 2011-12 prices			% change on previous year		
	Resource	Capital	Total	Resource	Capital	Total
1999-00	278	5	283	..	..	..
2000-01	427	34	461	54%	546%	63%
2001-02	482	45	526	13%	32%	14%
2002-03	491	26	517	2%	-41%	-2%
2003-04	492	26	517	0%	-2%	0%
2004-05	511	45	556	4%	76%	7%
2005-06	536	76	612	5%	70%	10%
2006-07	574	99	673	7%	30%	10%
2007-08	578	97	674	1%	-2%	0%
2008-09	576	95	671	0%	-2%	0%
2009-10	595	87	682	3%	-8%	2%
2010-11	598	112	710	1%	28%	4%
2011-12	545	45	590	-9%	-60%	-17%
2012-13	494	*27*	521	-9%	-39%	-12%
2013-14	486	*26*	496	-1%	-6%	-5%
2014-15	437	*25*	462	-10%	-2%	-7%

shows Scottish Government draft budget for SFC FE college funding. Capital figures from 12/13 are based on projected commitments.

Figures for chart 2: SFC allocations to colleges, 2010-11 to 2012-13

£000's Cash terms	2010-11	2011-12	2012-13
GENERAL FUNDS			
Funds for college places			
Teaching and fee waiver	460,440	420,967	379,537
Funds brought forward	n/a	n/a	8,000
economic downturn/ESF	8,400	8,400	8,400
Total funds for places	**468,840**	**429,367**	**395,937**
APUC (procurement project)	**0**	**1,023**	**1,000**
Student support			
Bursary	69,006	78,697	78,708
FE discretionary fund and childcare fund	14,856	16,892	20,798
Total student support	**83,862**	**95,589**	**99,506**
TOTAL GENERAL FUNDS	***552,702***	***525,979***	***496,443***
STRATEGIC FUNDS	**28,105**	**19,521**	**18,411**
OVERALL TOTAL	***580,807***	***545,500***	***514,854***

Notes: Figures do not include capital or the College Transformation Fund and are based on figures in SFC main grant circulars. Figures are adjusted slightly during the year. The £8.4m in each year and the £8m ‘brought forward’ funds have been placed within ‘funds for places’ as they fund college places. The APUC line has been separated as it doesn’t fund college places (Advanced Procurement for Universities and Colleges). However, the presentation in the SFC circulars is slightly different. Total student support for 2012/13 includes extra £11.4m allocated during the year and higher education childcare which was provided previously by the Student Awards Agency Scotland (SAAS).

Sources: *SFC Circulars:14/2010, 35/2010, 09/2011, 02/2012, 15/2012*

ANNEX 2 : COLLEGE FUNDING BY REGION

Regions	**Colleges**	**Teaching grant 2012/13**
Aberdeen & Aberdeenshire	Aberdeen	£22,875,569
	Banff and Buchan	£6,870,918
Ayrshire	Ayr	£8,849,455
	James Watt (Kilwinning)	£9,808,261
	Kilmarnock	£8,878,596
Borders	Borders	£6,232,961
Central	Forth Valley	£17,971,134
Dumfries and Galloway	Dumfries and Galloway	£7,364,668
Edinburgh and Lothians	Telford	£18,696,799
	Jewek & Esk	£10,415,114
	Stevenson	£14,216,918
Fife	Adam Smith	£20,037,000
	Carnegie	£8,890,651
	Elmwood (non-land based)	£2,271,203
Glasgow	Anniesland	£7,999,863
	Cardonald	£11,830,939
	Glasgow	£27,480,001
	John Wheatley	£6,471,073
	Langside	£8,644,757
	North Glasgow	£7,538,318
	Stow	£6,699,884
Highlands and Islands	Inverness	£7,074,154
	Lews Castle	£2,161,858
	Moray	£4,804,481
	Perth	£5,897,379
	North Highland	£7,111,207
	Orkney	£1,259,874
	Shetland	£1,475,580
Lanarkshire	Coatbridge	£6,675,630
	Cumbernauld	£5,691,660
	Motherwell	£14,339,888
	South Lanarkshire	£6,042,496
Land Based	Barony	£1,985,127
	Elmwood (land based)	£2,821,180
	Oatridge	£2,427,728
Tayside	Angus	£6,954,842
	Dundee	£16,959,337
West	Clydebank	£9,457,617
	James Watt (Inverclyde)	£15,149,146
	Reid Kerr	£13,017,143
West Lothian	West Lothian	£7,102,465
Newbattle College		£474,746
Sabhal Mor Ostaig		£608,971

SOURCES

Audit Scotland. (2012) *Scotland's Colleges: current finances, future challengers*. Edinburgh: Audit Scotland.

Griggs, R. (2012) *Report of the review of further education governance in Scotland* Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Topics/Education/UniversitiesColleges/17135/CollegeGovernanceReview/FEGovernanceReport

Mullen, F. (2012) *Youth Unemployment: Policy*. SPICe Briefing 12-20. Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/49310.aspx

Russell, M. (2010) *Letter from Michael Russell, Cabinet Secretary for Education and Lifelong Learning to Scottish Funding Council.* Letter dated 17 November 2010. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/web/FILES/About_the_Council/Scottish_Government_Guidance_Letter_17_11_2010.pdf

Russell, M. (2011) *Letter from Michael Russell, Cabinet Secretary for Education and Lifelong Learning to Scottish Funding Council.* Letter dated 21 September 2011. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/about_the_council/lettersofguidance/letterofguidance.aspx

Russell, M. (2012a) *Letter from Michael Russell, Cabinet Secretary for Education and Lifelong Learning to Scottish Funding Council.* Letter dated 25 January 2012. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/web/FILES/About_the_Council/Letter_from_Scottish_Government_with_additional_12-13_guidance_re_college_sector.pdf

Russell, M. (2012b) *Letter from Michael Russell, Cabinet Secretary for Education and Lifelong Learning to Scottish Funding Council.* Letter dated 04 October 2012. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/about_the_council/lettersofguidance/letterofguidance.aspx

Russell, M. (2012c) *Letter from Michael Russell, Cabinet Secretary for Education and Lifelong Learning to college principals.* Letter dated 09 February 2012.

Scottish Funding Council. (2010a) *Circular 14/2010. Main grants for 2010/11*. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2010/SFC1410.aspx

Scottish Funding Council. (2010b) *SFC Paper 10/86 provided to council meeting, 10 December 2010.* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/about_the_council/council_board_committees/Councilpapersandmeetingdates/2010/Councilmeeting10December2010.aspx

Scottish Funding Council. (2010c) *Circular 35/2010. Indicative grants for 2011/12* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2010/SFC3510.aspx

Scottish Funding Council. (2011) *Circular 09/2011. Main grants for 2011/12* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2011/SFC0911.aspx

Scottish Funding Council. (2012a) *College performance indicators 2010-11*. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/web/FILES/Statistics_FE_PIs/College_performance_indicators_2010-11_chart14updated_14.03.12.pdf

Scottish Funding Council. (2012b) *Paper 12/87. Scottish Government draft budget 2013/14* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/web/FILES/CNP_Councilmeeting28September2012_28092012/SFC12_87_SG_Draft_Budget_FY_2012__13.pdf

Scottish Funding Council. (2012c) *Circular 02/2012*. *Indicative college financial decisions for 2012/13.* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2012/SFC0212.aspx

Scottish Funding Council. (2012d) *Circular 15/2012. Final allocation of student support funding for AY 2012/13.* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2012/SFC1512.aspx

Scottish Funding Council. (2012e) *Circular 09/2012*. *Confirmation of student support funding for AY 2012/13.* Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Circulars/2012/SFC0912.aspx

Scottish Funding Council. *Outcome Agreements*. Available at: http://www.sfc.ac.uk/collegeoutcomeagreements [Accessed 12 October 2012]

Scottish Funding Council. *In Fact Database.* Available at: http://www.sfc.ac.uk/statistics/further_education_statistics/infact_database/infact_database.aspx [Accessed September 2012].

Scottish Government (2011a) *Putting learners at the centre*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2011/09/15103949/0

Scottish Government. (2011b) *Scottish Government spending review 2011 and draft budget 2012-13.* Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2011/10/04153155/0

Scottish Government. (2011c) Budget 2011-12: Package of Measures. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Topics/Government/Finance/18127/budget2011-12

Scottish Government. (2012a) *College numbers maintained for 2012/13*. News release 10 September 2012. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/News/Releases/2012/09/college-funding10092012

Scottish Government. (2012b) *Scottish draft budget 2013/14*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2012/09/7829

Scottish Government. (2012c) *Scotland's Budget Documents. Spring budget revisions 2011-12*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2012/01/3837/0

Scottish Government. (2012d) *Level 4 figures for draft Budget 2013/14*. Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/17534.aspx

Scottish Government. (2012e) *Public sector employment in Scotland. Statistics for quarter 2, 2012*. Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2012/09/8779

Scottish Government. (2012f) *Education Maintenance Allowance 2010-11.* Edinburgh: Scottish Government. Available at: http://www.scotland.gov.uk/Publications/2012/01/6891/downloads2

Scottish Government and Scottish Funding Council (2011) *Proposals for implementing putting learners at the centre*. Edinburgh: Scottish Funding Council. Available at: http://www.sfc.ac.uk/news_events_circulars/Consultations/2011/Consultations_jointconsultation.aspx

Scottish Parliament. (2011) *Official Report 9th February 2011*. Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7133&mode=pdf

Scottish Parliament. (2012a) *Official Report 20 September 2012.* Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7368&mode=pdf

Scottish Parliament. (2012b) Official Report 8th February 2012. Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7164

Scottish Parliament Education and Culture Committee. (2012) *Official Report 25th meeting 2012, Session 4, 2nd October 2012*. Edinburgh: Scottish Parliament. Available at: http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7400&mode=pdf

Scottish Parliament Education and Culture Committee. (2012) *Papers, 25th meeting 2012 (Session 4) 2 October 2012. EC/S4/12/25/1*. Available at: http://www.scottish.parliament.uk/S4_EducationandCultureCommittee/Meeting%20Papers/Papers_20121002.pdf

RELATED BRIEFINGS

SB11-55 Scotland's Colleges

SB12-20 Youth Unemployment: Policy