

Universities Scotland’s evidence to the Education and Culture Committee’s examination of the spending decisions made, and outcomes delivered by, the Scottish Funding Council

Universities Scotland is pleased to offer evidence to the Committee in its examination of the spending decisions made, and outcomes delivered, by the Scottish Funding Council (SFC).

The Funding Council, as a Non Departmental Public Body (NDPB), can play an important role in delivering the success of Scotland’s universities. As an NDPB the Council delivers a vital role in the relationship between autonomous universities and government. The Council supports institutions’ accountability for the use of, and outcomes from, public funding thereby supporting a system where institutions can play their important role in public life whilst, importantly, remaining outside Ministerial direction or control.

In doing so, the Council can bring significant expertise within its Board and executive to address strategic issues and funding methods, working to long term strategic horizons where appropriate.

The Council’s role should encompass:

- providing expertise and long term strategic vision to present constructive challenge to both government and the sector.
- the design and transparent implementation of complex funding decisions – both formulaic and strategic – that drive and support successful outcomes;
- playing its role in the delivery of regulatory mechanisms, giving public confidence in the use of, and outcomes from, public investment;
- helping to build partnerships between the sector and across government to deliver successful outcomes, for instance in supporting the sector in securing major inward investments or in helping to ‘join-up’ solutions, for instance with the college sector; and
- working innovatively and in partnership to create policy that delivers strategic advantage, for example research pooling and Scotland’s quality framework.

The Council’s recent consultation on its forward strategic plan¹ speaks to much of this potential contribution, working in partnership “to care for and develop the whole system of colleges and universities and their connections and contribution to Scotland’s educational, social, cultural and economic life”. That draft strategy sets out a 10 year ambition for Scotland to be “the best place in the world to learn, to educate, to research and to innovate” and the sector has responded to the plan consultation to urge the Council to consider what actions it can take itself to further this ambition alongside the diverse and substantial impact of institutions themselves.

As a NDPB SFC pursues this strategy in the context of Ministerial Guidance. The focus and specificity of that guidance has varied over time, both reflecting and shaping the policy and funding environment. Guidance in recent years has focused on the development of the Outcome Agreement process and has provided some detail on how the Council should approach decisions about adjustments to the major funding streams for teaching and research.

Our evidence provides an overview of how the Council has worked with the sector to pursue key objectives in the context of guidance. Reflecting on recent developments, we have acknowledged a number of operational and funding challenges. We have also pointed to how the Council might develop or reprioritise its role and operation to make a fuller contribution to the success of the

¹ <http://www.sfc.ac.uk/communications/Consultations/2015/SFCCN012015.aspx>

sector in seeking to meet the ambition of its new draft strategy. In particular, the Council might usefully explore:

- the development and fuller utilisation of its expertise and policy-making capacity within existing resources to meet its ambition;
- how it might develop and offer advice proactively to government on how to meet this ambition in the face of strong international competition;
- how to further develop a shared strategic context across government, and operational agility, to support the sector in securing major inward investments – delivering major economic, cultural and societal benefits through the success of institutions; and
- new mechanisms for working in partnership with the sector to secure the strongest outcomes whilst maintaining the rigor of accountability that is rightly sought by all partners.

Finally, the Committee may wish to note that Audit Scotland is commencing a performance audit of the Scottish Government's investment in higher education with a report likely in summer 2016.

The extent to which Outcome Agreements with universities are improving the way SFC allocates funding and secures high quality learning provision

The introduction of outcome agreements (OA) in 2012-13 was a major innovation in the relationship between institutions and the Council. At the time the Council stated:

The SFC will use outcome agreements with each university as the instrument to deliveroutcomes and the differentiated funding that will reflect the diversity of the sector.

The agreements have offered a new approach to discussing priorities, to focus funding (for instance additional places for widening access), to capture evidence of outcomes and to present this at the national level².

All parties recognised that there would be a need to evolve this new system. The system is still evolving and it is early to judge its impact overall. To illustrate the evolution of the system to date, over the last 3 years the Council and sector have:

- enhanced the OA process itself - for instance in moving to three year agreements;
- balanced differentiated discussions with institutions with a need for transparency of funding decisions and a recognition that, whilst institutions have distinct and diverse missions, all have a mission that covers the local, national and international;
- sought to maintain mechanisms for the development of collaborative solutions whilst OAs are focused strongly on the Council's relationship with individual institutions.

Outcome agreements have encapsulated important elements of the Council's funding system, for instance the main teaching and research grants, allowing for a dialogue on how institutions are tackling allied priorities, for example graduate employability and gender equality in research. Established and important mechanisms for assuring and enhancing quality – the Quality Enhancement Framework – are referenced within the OA process. However, in the case of quality this, importantly, remains a distinct process.

² <http://www.universities-scotland.ac.uk/uploads/publications/Universities%20Scotland%20Outcome%20Agreements%20Summary%20014.pdf> and http://www.sfc.ac.uk/web/FILES/Funding_Outcome_Agreements_2015-16/Universities_Progress_and_Ambitions_Summary_2015-16.pdf

The introduction of outcome agreements is a strong illustration of how Ministerial Guidance sets the strategic context and, sometimes, parameters for Council's decisions. Their development was instigated by Ministerial Guidance and OAs are now the primary vehicle through which the Council responds to new strategic issues identified in Guidance. As OAs are focussed on the Council's relationship with individual institutions, the risk that they are inadequate to address shared strategic opportunities has been discussed between the sector and the Council and is addressed later in this submission.

Recent allocations of funding in the context of Ministerial Guidance

The introduction of OAs also saw a shift in funding policy in light of Ministerial Guidance. The Letter of Guidance in October 2012 sought the introduction of additional places funded, in part, through not pursuing the Council's earlier commitment following the spending review to uplift the unit of resource for teaching by 2.5% in 2013-14 and 2014-15. These additional places have been welcomed and delivered by the sector as an element of the institutions' response to strategic issues such as access, articulation, STEM provision and meeting rising demand. As discussed below, the future funding of these places has not been confirmed. However, the Council's decisions in these years, and further real terms reduction in funding per student in subsequent years, mean that the teaching funding system is now at a point where, according to the Council's costing data (TRAC), institutions are only funded to 96% of the full economic costs of teaching Scottish and EU students³.

Similarly, the Council's research funding policy, in particular the Research Excellence Grant (REG), has been shaped by Ministerial Guidance. In 2012-13 the Council stated:

"We plan to increase REG by 2.5% for AY 2013-14 and a further 2.5% for AY 2014-15 and plan to provide a premium for STEM subjects. Whilst this was fulfilled in 2013-14, however in line with subsequent Ministerial Guidance the REG was increased by 0.9% rather than 2.5% in 2014-15".

In November 2014 the Council received Ministerial 'advice' "to make firm spending plans on the basis of £1041 million for HE Resource in financial year 2015/16", a cut of £21m in the SFC HE budget presented to Parliament. The advice pointed to implementation of this cut through the removal of global excellence funding (which had previously been incorporated in the REG) and through real terms reductions in the teaching and research grants. The net effect of this was to reduce the REG in 2015-16 by 5.3% (£12.9M) in cash terms just at the point of the sector returning excellent REF outcomes.

The effectiveness of the SFC in securing an internationally competitive research base, and building collaborations between university and industry

Taken together, the Council's funding for research (the Research Excellence Grant (REG)) and UK Research Council funding form the 'dual support system' for research. The Council has had a constructive dialogue with the sector in shaping the UK Research Excellence Framework (REF) system, the outputs of which drive the Council's REG funding.

Institutions' work to develop their research base, supported by the Council through REG, Research Postgraduate Grant and strategic investment such as pooling, secured success in the 2014 REF exercise:

- 77% of the research submitted by Scottish universities was independently judged to be 'internationally excellent' or 'world leading', outperforming the UK as a whole.

³ http://www.sfc.ac.uk/web/FILES/Effective_Institutions/TRAC_2013-14.pdf

- 86% of research submitted by Scottish universities was found to have ‘very considerable’ or ‘outstanding’ impact – again clearly outperforming the UK as a whole and demonstrating universities’ commitment to seeing the broader benefits of research.

REG is a vital element in supporting universities to draw in over £675m of research funding into Scotland, won on the basis of competitive excellence. Each £1 of Scottish Government funding for research therefore attracts over £2.50 of external funding, placing Scotland on the map with additional strong inward investment and broader economic outcomes.

Research excellence is also the essential foundation for the sector’s success in knowledge exchange. Alongside the sector’s ‘impact’ outcomes in the REF, it also works successfully with many thousands of Scottish companies and drives significant inward investment. The sector is also a major source of entrepreneurship in the Scottish economy, with staff and student start-up companies, and the new thinking within companies that graduates bring. The SFC’s Knowledge Transfer Grant, driven by the value of work with industry (weighted for work with SMEs), is a vital element of support for these outcomes. It provides a stable platform for institutions’ capacity to engage with the breadth of Scottish businesses. Outcomes are strong:

- The Scottish Government’s Performance Framework includes the national indicator, “Improve knowledge exchange from university research”. The latest data for this indicator shows that “in 2012-13, the knowledge exchange index is estimated to have been 16.2 per cent above the previous year and 11.1 per cent above the baseline year of 2007-08”.
- The sector works with around 19,000 Scottish organisations each year (including 13000 SMEs) across a range of activities such as research and consultancy;
- Five of the top ten UK universities active in the creation of spinouts over the three years 2010-12 were Scottish. Over the past ten years, Scotland has been the UK region most active in the creation of new spinouts – 20% of the total (as many as 26% in 2012). London and the South East follow with 15% and 12% respectively, with no other region accounting for over 10%.

Institutions are keen to enhance their offer further and the sector is pursuing its own national 5 point action plan for knowledge exchange to this end.

The creation of Innovation Centres exemplifies a process of co-creation between the Council, government more broadly, the sector and industry. Eight Innovation Centres have been created, to enhance innovation and entrepreneurship across Scotland’s key economic sectors, create jobs and grow the economy. The Council has committed £120 million of core funding for the Innovation Centre programme over five years (2013-18) and each Centre is expected to lever further investment from industry and other sources of public funding.

How successful the SFC is in helping universities to—

- widen access without displacing prospective students with sufficient qualifications
- produce skilled graduates who are capable of sustaining a career or creating new jobs

The Council has an important role in supporting access. Its partnership with the HE and college sector is key, alongside its work across the education system and government. Both the sector and the Council are represented on the Widening Access Commission and the sector has welcomed the

Commission's holistic, joined-up approach. Universities Scotland's submission to the Commission⁴ sets out five barriers to widening access, and the Council is already working in partnership with the sector on a number of these:

- differential educational attainment;
- information, advice and guidance;
- availability of places;
- school subject choice; and
- funding for widening access.

The Council's contribution is most evident in:

- its strategic role: The Council's Access and Inclusion Committee and the Council's Learning for All strategy which includes the issuing of definitive statistics on access and school attainment;
- strategic funding for important infrastructure and activity;
- funding additional places for access and for articulation through the Outcome Agreement process.

The acceptance by the Council in 2014-15 that the Scottish Index of Multiple Deprivation (SIMD) was an insufficient means to target and fund widening access was appreciated. Following work by Universities Scotland, the Council is working in partnership with the sector to develop and implement a broader set of measures that ensure widening access resources are more clearly targeted at communities who will benefit.

Scotland's graduates are highly valued, highly paid and in demand; 85 per cent of employers judged Scottish graduates to be well prepared for work in the latest UKCES Employers Skills Survey, the mean average graduate starting salary was £22,500 in 2014, and employment data shows 90% of graduates from Scottish universities were in work or further study with 73% of those in work in professional jobs. Scotland's graduates are also starting companies, often with the support of institutions through mentoring and incubation. The Council has worked closely with the sector on employability and entrepreneurship. Again, a partnership approach from the Council has delivered the strongest outcomes, working with the sector and employers and across government to provide:

- strategic debate through the Council's Skills Committee;
- the innovative enhancement-led approach to quality that has seen a major focus on employability and on the '21st Century Graduate';
- strategic investment, particularly through the Learning to Work programmes; and
- targeted additional places, eg. for STEM, 'skills for business' and taught postgraduate provision in specific disciplines.

For both access and employability, the Council's capacity to introduce a fourth cohort of additional places in 2016-17 is in question as, if the Council's budget remains at £1041m, it will have insufficient funds to meet existing commitments and introduce these places. This would be a retrograde step at a time when the Widening Access Commission is working to promote a step change in access to university for learners from disadvantaged backgrounds.

⁴ <http://www.universities-scotland.ac.uk/uploads/Universities%20Scotland%20CoWA%20evidence%20submission%20July%202015.pdf>

This funding has been a factor in the current positive trajectory in widening access. Admission from students living in Scotland's most deprived 20 and 40 per cent of neighbourhoods, (Scottish Index of Multiple Deprivation SIMD20 and SIMD40) is up 10.1 per cent and 8 per cent respectively on last year. Retention rates of students from SIMD20 and SIMD40 neighbourhoods are also improving. The retention rate for students from SIMD20 neighbourhoods now sits at 87.3 per cent, up from 85.5 per cent last year and 84 per cent four years ago. A particular funding challenge is created due to the Council having to meet the SAAS fee and bursary costs of these additional places through a budget transfer (at a predicted cost of £24m next year). The current budget also means that the Council has no capacity to make further strategic investments, as discussed below.

The capacity the SFC has to provide leadership and added value to universities, for example—

- *specific initiatives it supports that the sector would otherwise be unable or less likely to provide*
- *how it helps Scottish universities to monitor and respond to challenges from international competitors*

In the past the Council has worked in partnership with the sector to make strategic interventions on the basis of an evidence-based consensus on emerging opportunities and threats. Examples include research pooling, and the Learning to Work programmes. This approach has, in the past, positioned the Scottish sector well and other countries have sought to mimic Scotland's resultant policy and funding solutions. Recent years have seen a lesser focus on this type of engagement. The move to Outcome Agreements has given a strong focus on the relationship with individual institutions and on outcomes at the local or regional level. Whilst the sector is in direct competition with institutions across the globe, the Council's focus on working with partners across government to support the sector's success in this international context has arguably lessened. Operationally, the Council has refocused many senior policy roles to Outcome Agreement management. The Council's capacity to invest has also been diminished. In its last funding announcement the Council noted that:

"Given the pressure on our strategic funds in AY 2015-16, we are limited in our capacity to develop and invest in any new proposals from the sector."

In fact, going forward we understand the Council to be over-committed in funding strategic projects.

This situation is also reflected for capital investment. SFC HE capital funding is now at an historic low following a 75% cut over recent years, and the Council is now using reduced programme budgets to meet existing capital commitments. The Council's capacity to play its part in the partnership funding that secures major investments for Scotland is therefore constrained significantly.

Nations across the world are investing significantly in their universities meaning that standing still risks falling far behind. Last year saw Scotland move from having 5 institutions in the world's top 200 to 4. A renewed focus from the Council on ambition for the sector's success in the context of international competition would be welcomed by the sector. The Council has a role to play in working with other agencies and partners who are supporting the sector. This could be complemented by the Council's role in analysis and advice as discussed below.

How the SFC balances its roles in—

- *supporting the sector and providing a challenge function to Scottish Ministers*
- *helping to deliver Scottish Government priorities.*

The Council is positioned uniquely to provide a range of evidence and advice. With a budget of £7.9m, over 100 staff and operational focus on policy, finance and statistics, the Council has the potential to work with the sector and across government in evidence-based policy development and to offer advice to government. Alongside this, the Council can be at the heart of the formation of collaborations across the sector, government, agencies and the wider public sector, to deliver major successes. This has been the foundation of some of the Council's strongest outcomes and is evident in some elements of continuing work: Learning for All; the development of Innovation Centres; and shaping the Research Excellence Framework with UK partners.

The Council has always offered informal advice to Scottish Government on request. Arguably however, its strategic and operational focus on analysis and resultant strategic debate has diminished in recent years. Rather, the Council has focused strongly on the implementation of outcome agreements with a particular focus on a limited number of important outcomes. Operationally, the Council's role in implementing change in the college sector, and the funding implications of ONS reclassification of colleges, have also made significant operational demands.

The Council could usefully now re-extend its work on analysis and advice as a foundation for a broader strategic dialogue with the sector and government. The last such debate took place in with the 'New Horizons' process⁵ in 2007/8.

Such analysis and debate can pose challenges to all – Council, sector and Government – but are necessary elements of maintaining our higher education sector's success. Success that maps strongly onto Scottish Government priorities. Immediate issues include:

- the financial sustainability of the sector, ensuring competitiveness in the face of increasing UK and global competition;
- the place of universities, and in particular science and innovation, in a revised national infrastructure plan;
- informing the ongoing work of the widening access commission;
- building and supporting further and wider partnerships to support innovation and entrepreneurship; and
- the place of universities in supporting and benefitting from a new trade and investment strategy, including partnership across government agencies to support the success of the sector, as a key sector of the economy in its own right, in international markets.

⁵ <http://www.gov.scot/resource/Doc/82254/0061979.pdf>