

Annex B: Funding, outcomes and conditions of grant

Introduction

1. Outcome agreements and associated conditions of grant aim to deliver a funding system that supports institutions in pursuing ambitious but realistic goals that are complementary to their strategies, agreed by their Court / Board and deliver progress toward Scottish Government priorities.
2. Performance and progress towards agreed outcomes is the responsibility of higher education institutions (HEIs) as autonomous institutions. In allocating funding to achieve specific outcomes, the Council expects institutions to comply with the conditions attached to that funding.
3. Within their outcome agreements institutions will set out their objectives across the full range of Council funded activity. The significant majority of that funding is the subject of existing conditions of grant and levers that will continue to be available to the Council to secure the best outcomes from the investment of public funds.
4. For example, the overwhelming majority of SFC funding in relation to teaching, research and knowledge exchange will continue to be based on formulae that drive performance and outcomes. Funding under these streams therefore has its own understood system of funding recovery and penalties.
5. This document sets out the way that the Council will monitor progress and decide whether to apply a funding recovery and / or financial penalty within the outcome agreement process for specific aspects of outcome agreements, specifically:

- Outcome agreement funded incentive mechanisms
 - Other objectives agreed in outcome agreements that are aligned to Scottish Government priorities but not governed by specific funding or conditions of grant
6. Specific strategic projects for which the Council has chosen to use outcome agreements as the vehicle for monitoring of performance and has notified the funded institutions of this.

Process

7. It is the Council's aim through outcome agreement discussions to support the university sector to meet Scottish Government priorities effectively. The Council recognises that managing funding decisions in relation to progress against outcomes will take account of the existing system of performance drivers and conditions of grant.
8. Whilst the subject of discussion between the Council and an institution, where outcomes are related to formulaic funding that either is directly linked to performance and / or has its own system of funding recovery and penalty, the Council will rely on these established mechanisms.
9. The Council recognises that consideration of progress towards agreed outcomes under new funded incentive mechanisms, within specific funded projects, or towards other objectives aligned to Scottish Government priorities that are not governed by specific funding or conditions of grant, will be a complex process that will need to consider a range of contextual matters.
10. When considering progress, the Council will establish evidence of under-delivery from a combination of the statistical data available, from the progress reported by institutions and by the information available from the outcome manager and key stakeholders. It will be the responsibility of an institution to make its case in relation to its progress, so that the decision making process is informed by a full and accurate agreement of the progress submitted by the institution.
11. Concern over under-delivery would be highlighted if and when it is identified. As is currently the case, action to reduce funding, funding recovery or apply a penalty would only be taken once statistical evidence was established.
12. If there is evidence of under-delivery, Council will take as its starting point the relationship between the scale of under-delivery, the duration of under-delivery and the relative strategic importance of outcomes that have not been delivered. Typically, an outcome of high strategic performance would relate to a Scottish Government priority, or to a priority highlighted within SFC guidance and or might relate to a significant challenge faced either by the sector, a particular group of institutions or by an individual institution.

13. The Council may then take four types of action which are not mutually exclusive:

- Establishing an improvement plan in relation to specific areas of under-delivery with no impact on funding
- Reducing funding in future years commensurate to the level of under-delivery
- Applying funding recovery
- Applying a penalty where it is necessary.

Responding to under-delivery

High Priority	Council will consider reducing future funding	<p>A penalty could be applied</p> <p>A proportion of funding is recovered commensurate with scale of under-delivery</p> <p>Council will consider reducing future funding</p>
Low Priority	Performance monitored Improvement plan discussed	Council will consider reducing future funding
		Small under-delivery Large under-delivery

14. Where there is evidence of under-delivery the Council would work within the principles set out at Annex 1 and would calibrate its decision against the framework set out above. Recognising that performance needs to be considered over the short, medium and longer term, the Council would apply the principles of the framework as follows:
- Where there is **small under-delivery in a low priority** outcome in a single year Council would continue to discuss strategies for improvement and so there would be no impact on funding
 - Where there is **multi-year, small under-delivery in a low priority** outcome Council would continue to discuss strategies for improvement with a possible impact upon funding
 - Where there is **multi-year, small under-delivery in a high priority** outcome, Council would consider reducing funding and reconsider an institutions commitment to this priority which, would have implications for receipt of additional strategic incentive investment where it relates to the area of under-delivery
 - Where there is **large under-delivery in either a low or a high priority** in a single year Council would consider funding recovery and or reduce future funding
 - Where there is **multi-year large under-delivery in a low priority** outcome then Council would consider reducing funding and reconsider an institutions commitment to this priority which might have implications for receipt of additional strategic incentive investment where it relates to the area of under-delivery
 - Where there is **multi-year large under-delivery in a high priority** outcome Council would consider funding recovery, and in particular circumstances the application of a penalty. Future funding would also be reduced.
15. For illustration, a number of scenarios, setting out how the Council would apply the framework, are set out at **Appendix 2**.
16. A key element in the Council's decision making process will be the information on progress submitted by institutions. Institutions' progress reports would be submitted in November each year. In addition, Council

would also systematically look at performance across all institutions in early Spring when outcomes are aggregated at sector level.

17. Decisions relating to under- performance would be taken by Council and discussed through dialogue with outcome managers in order to inform funding recovery / future funding allocations. The following indicative timeline summaries this process:

Indicative Timeline

Date	Action
Oct	Progress reports submitted by institutions to inform Council’s funding allocation decisions
Jan	Council makes indicative funding allocation decisions
Jan – March	SFC review progress made within outcome agreements and within strategic projects – combining institutional reporting with available statistical data. National, regional and institutional progress established
March	Council make decisions in relation to funding recovery Institutions are informed of decisions
June - August	Appeals If necessary funding recovery applied before end of academic year
September	Negotiations commence

18. When considering the application of funding recovery/reduction of future funding Council will be mindful of its impact on an institution, particularly in relation to small specialist institutions. Council will also be mindful of its consequence on the achievement of its broader policy aims. For example, a decision to funding recovery funding and reduce the future funding of an institution which has under-delivered on articulation places has implications for the associated college partners and their ability to promote articulation in subsequent years. Therefore, funding recovery would be considered and applied, mindful of the impact of a loss of funding on other partner institutions and on the Council’s wider policy aims.

Monitoring & Funding recovery

19. Decisions on funding recovery in relation to progress would be taken by Council at a meeting in May each year.
20. Where there are cases of under-delivery Council would consider funding recovery and reducing future funding as part of a programme of action to support an institution to rescale its activity and its targets.
21. Where there is repeated under-delivery Council will consider whether funding recovery should be applied. Funding recovery would continue to operate on the same basis as is currently the case, for example, when an institution fails to recruit its student number target.
22. More specifically, we would consider funding recovery:
 - Where an institution has not spent funds or where there are unspent funds arising from insufficient progress with a strategic project
 - Where funds have not been spent in accordance with conditions of grant
 - Where an institution fails to fill its allocated funded student places we will funding recovery the funding for these places.
23. Funding recovery will be commensurate to the level of under-delivery. In those cases where there is no specific element of funding associated with a specific outcome, a commensurate proportion of an institution's funding could be at risk of funding recovery.
24. In such instances, Council would ensure that funding recovery operated in a way which supported universities in setting stretching ambitions for what they will achieve in return for SFC funding. Council would, therefore, take full account of the degree of ambition and stretch in a university's intended outcomes, and would ensure that universities are not penalised for setting and working towards ambitious outcomes.
25. As is currently the case, in all instances where funding recovery is applied, the Council's starting assumption will be to reduce the target number of places / funding the following year.

26. In particular extreme circumstances the Council will also consider the application of penalties.
27. In addition to penalties for breaches of consolidation, therefore, the Council would also consider the application of penalties in those instances where an institution recruits non-priority students for places that have been prioritised for Scottish Government priority groups. For example, where an institution recruits non-priority students onto places targeted at those from the 40% most deprived postcodes. In such instances, the Council would apply a fine to recoup the SAAS costs for the non-priority students recruited.
28. Progress against particular outcomes would be published each year to enable the sector obtain a clear picture of the impact being made.

Appeals

29. Where an institution has a complaint about the outcome agreement process, this would be dealt with through the existing SFC complaints procedure. Further details can be found at:

[http://www.sfc.ac.uk/web/FILES/About the Council Our Conduct/SFC complaints procedure.pdf](http://www.sfc.ac.uk/web/FILES/About%20the%20Council%20Our%20Conduct/SFC%20complaints%20procedure.pdf)

30. Where an institution wished to appeal the decision reached by Council, either with regard to the rationale for funding recovery or its scale, the process for appeal would operate as is set out on the SFC website at the following link:

[http://www.sfc.ac.uk/about the council/our conduct/about conduct funding.aspx](http://www.sfc.ac.uk/about%20the%20council/our%20conduct/about%20conduct%20funding.aspx)

Further information

31. Contact: Paul Hagan, Director, tel: 0131 313 6632; email: phagan@sfc.ac.uk or John Kemp, Director, tel: 0131 313 6637; email: jkemp@sfc.ac.uk.

Principles

32. To inform its approach and support universities to secure the best outcomes from the investment of public funds, Council has adopted the following set of principles.
33. Council will:
 - **Adopt a learner centred approach:** Recognising that every learner has the right to a high quality learning experience, funding decisions will prioritise the interests of the learner. Council will, therefore, aim to ensure funding follows the learner, such that, in an instance where an institution does not meet its target of places, for example in relation to articulation, Council will wish to see the funding made available to another institution to ensure the opportunity for progression for the learner is maintained
 - **Establish expectations and potential consequences at the outset:** Council wants institutions to know what the conditions of funding and the consequence of under delivery are. In determining this, Council will be mindful of the importance of particular outcomes and each institution's role in achieving the progress Scottish Government wants for Scotland
 - **Consider a range of factors when assessing performance, such that, Council will not penalise institutions that set ambitious targets:** In managing funding, Council will recognise context and will be informed by the progress reported by institutions and evidence of the existence of systems necessary to deliver particular outcomes
 - **Ensure that, where there is under-delivery, a reduction of future funding or funding recovery will be commensurate with the level of under-delivery**
 - **Recognise where an institution is starting from and consider a pattern of performance:** Council will support institutions to make an appropriate contribution. The Council will be consistent and fair in its approach such that if and when incidences of under-delivery do occur they will be considered relative to an institution's pattern of progress.

Appendix 2

Scenario 1	Response
<p>According to its college partners a university looks very likely that it will under deliver on articulation by more than 50 places of the total 150 places awarded</p> <p>The university has told the outcome manager that they are operating in ‘exceptional’ circumstances and their plans have been disrupted by the lateness in employing project staff.</p> <p>As we approach the sign-off date of next year’s outcome agreement, despite ambitious targets, partner colleges suggest there might be further under delivery as they claim nothing has been done to develop partnership structures.</p> <p>In its annual report, the information provided by the university of progress against its planning milestones shows little evidence of improvement.</p>	<p>In this example, the outcome manager would raise the issue of the risk of funding recovery when under-delivery is first suspected.</p> <p>Funding recovery would be applied if and when the statistical return confirmed the under-delivery. This is because the under-delivery is relatively significant and in a high priority area, and there is little evidence of planned activity and little has been done to develop project structures.</p> <p>Council may also reduce a proportion of the institution’s future articulation funding depending on the detail contained in the progress report produced in November and the feedback from the college partners.</p> <p>If funding reduces, Council will want to make the saving available to another institution to deliver better outcomes for this particular group of college students. If that’s not possible it would be made available to deliver more places elsewhere to ensure the sector as a whole continues to make progress.</p> <p>The outcome manager would agree a plan to oversee progress with the relevant team in the institution.</p>

Scenario 2	Response
<p>An institution fails to meet around half of its agreed targets in relation to an additional investment programme.</p> <p>This is the second year there has been under-delivery.</p> <p>The outcome manager says that discussions on this issue with the university are very productive and significant investment in planning has been made throughout the project, including detailed plans for corrective action. This information has been captured within the institution's progress report.</p> <p>The outcome manager reports that college and employer partners (including a major Scottish employer) remain very supportive of the progress being made.</p>	<p>Council will not apply a shopping list approach and will consider a range of factors before applying funding recovery.</p> <p>Council will consider the progress reported by the institution along with the information provided by the outcome manager and partners.</p> <p>In this example, Council will not apply funding recovery as a result of the failure to meet targets. This reflects the progress against milestones reported by the institution along with the positive feedback from the outcome manager, the support from key partners and the evidence of planned activity.</p> <p>Council would not take any action.</p>

Scenario 3	Response
<p>Previously the Council applied funding recovery on the funding of an institution in relation to significant under delivery of a key sector skills project.</p> <p>Another institution has now underperformed to a similar level.</p> <p>However, in this case the institution has reported that exceptional circumstances need to be considered given the fact that the institution is still in the process of restructuring the department in question.</p>	<p>Council will take a sector wide over-view and will be consistent in how they apply funding recovery.</p> <p>In this example, Council will start from the point of view that funding recovery should be applied.</p> <p>In arriving at its final decision Council will consider the case for the exceptional circumstances and consider to what extent these issues could have been planned for from the outset.</p>

Scenario 4	Response
<p>A university in receipt of additional access investment monies has made little progress in increasing the numbers of students from the most deprived 40% postcodes in the last two years.</p> <p>The university argues that such change takes time and the SFC needs to wait to see demonstrable change.</p> <p>From the information reported there is little evidence of a planned approach to recruitment and outreach.</p> <p>In the last six months, though, better progress has been reported by the institution on the achievement of key milestones toward outcomes.</p> <p>The Access Committee remains concerned about the commitment of the institution based on its track record but want to support it to do more.</p>	<p>When Council applies funding recovery it will be commensurate to the level of under-delivery.</p> <p>The application of funding recovery does not mean Council will not continue to support and fund an institution to improve.</p> <p>If the places have been used for students who reside out with the 40% most deprived postcodes then a penalty would have to be applied in order to recoup SAAS costs for these students.</p>