

Consultation Paper

COLLEGE REGIONALISATION: PROPOSALS FOR IMPLEMENTING PUTTING LEARNERS AT THE CENTRE

Introduction

1. This consultation paper is issued jointly by the Scottish Government and the Scottish Funding Council. It represents the next step in the Government's plans to reform post-16 learning in Scotland, building on the pre-legislative paper *Putting Learners at the Centre*, published in September 2011. In that paper, the Government makes plain its ambition to refocus provision so that it is more sharply aligned with employer needs - and thus its ambitions for jobs and growth. It also emphasises an unwavering focus on the needs of learners. All this implies a different approach to college structures and funding where:
 - there is a much sharper focus on outcomes;
 - planning, funding and delivery is focused on a regional approach, responding to the economic needs of that region; and
 - funding is simpler and needs-based.

This paper seeks views on how best to address the challenges of moving to the new vision for college education in Scotland set out in *Putting Learners at the Centre*.

2. Until now, funding from the SFC has been provided to individual colleges on a largely historical basis. In future, we think investment in the sector should be focused on the needs of a region – with those needs defined by the region's socio-economic characteristics. We will expect colleges in a region to work together rather than independently to meet that need. We will make clear our expectations in an outcome agreement to be negotiated with the colleges in a region, with this agreement acting as the key mechanism for accountability. This approach represents a fundamental shift: from historically-based to needs-based funding; from individual colleges to regional groupings; and from activity to outcomes.
3. Our consultation on these issues takes place against the background of a clear commitment from the Cabinet Secretary for Education and Lifelong Learning for deep and meaningful engagement with college representatives as reform is pursued. To this end, a wide range of consultative visits and events have taken place, and are planned. In this paper, we have set out our thoughts in some detail, to allow for full debate. But it is important to stress that the only fixed points are the high-level commitments to a regional approach, and the need to maintain pace on the journey to reform. The rest of the proposals in this paper can be developed as we work with colleagues to take them forward. We note though that Professor Russel Griggs's Review of College Governance is relevant to many of the topics included in this consultation, particularly regionalisation, regional structures and monitoring performance

4. One important aspect will be the extent to which transitional arrangements are applied as we move to a new system; the far reaching implications of what we have proposed in *Putting Learners at the Centre* means we need to allow time for them to be fully realised by institutions. We have also listened to requests that we make clear as soon as we can the financial settlements that will apply for academic year 2012/13. To that end, we will provide as much certainty as possible about funding and activity levels in December including the nature of the transitional arrangements (see para 55).

How to let us have your views

5. A copy of this consultation document and information on how to submit your response can be found at www.sfc.ac.uk/jointconsultation. In line with *Putting Learners at the Centre*, the deadline for responses is 5pm on **Friday 23 December 2011**.

Planning further education provision regionally

6. Our vision is for strong regional groupings of colleges, acting strategically to improve skills in their areas and across Scotland as a whole: identifying the needs of learners and employers in their region; planning provision with partners (for example, employers, universities, local authorities, Skills Development Scotland and other community planning partners); and allocating resources across their region for delivery of high quality learning. We will ask these regions to ensure there is a reasonable range of provision available locally to all communities across their region.
7. This approach offers distinct advantages compared with the current system:
 - it will create college groupings of scale, able to plan regionally and deliver locally across Scotland. Currently, in many areas, planning of provision is fragmented;
 - it will help every community of a reasonable size - and every young person - access appropriate college education;
 - it will enhance the capability to plan and deliver part-time learning, particularly for adults in employment;
 - it will provide a stronger basis further to develop provision for employers;
 - our expectation is that, where major campuses currently exist, they will remain. But in some regions there will be communities that are not currently well served; here, the colleges will be required to consider how they make adequate provision;
 - it will create opportunities for colleges in many regions to work more cost-efficiently (for example, through the sharing of services, mergers or collaboration), freeing resource to redirect towards learners;
 - it will strengthen the role and contribution of colleges as important partners within regional networks of agencies and services; this is to the benefit of

learners, communities, employers and the wider development of regions;
and

- it will provide a framework for joint working between the school, college and university sectors to ensure more coherent provision and – in line with our commitment in *Putting Learners at the Centre* - improved articulation between college and university.

We would value comments on the role we should expect other partners (e.g. universities, employers, local authorities, SDS and other community planning partnerships) to play in meeting regional need.

Defining the regions

8. We need to strike a balance between creating regions that are large enough to be efficient; recognising existing geographical, administrative and planning boundaries; reflecting how far students are able to travel; and taking advantage of the natural, existing relationships between colleges and an identifiable geography.
9. To that end, these proposals consider the geography of areas and patterns of college attendance in each local authority; and the number of colleges and amount of provision in each area. Where there is a strong link between adjacent regions, we expect to see those links recognised in the planning that takes place within and between those regions.
10. On this basis, and building on the proposals in *Putting Learners at the Centre*, we propose the following regions.

Region	Predominant local authority areas	College(s) serving the region
North East	City of Aberdeen, Aberdeenshire	Aberdeen College and Banff & Buchan College of Further Education
Fife	Fife	Adam Smith College and Carnegie College
Tayside	Dundee City, Angus	Angus College and Dundee College
Glasgow	Glasgow and parts of East Dunbartonshire and East Renfrewshire and in some subjects a wider regional and national coverage	Anniesland College, North Glasgow College, Stow College, John Wheatley College, Cardonald College, Langside College and City of Glasgow College

West	Renfrewshire, Inverclyde, parts of East Renfrewshire, West Dunbartonshire and parts of Argyll and Bute	Reid Kerr College and James Watt College (Greenock campus) and Clydebank College
Ayrshire	East, South and North Ayrshire	Ayr College and Kilmarnock College and James Watt College (Kilwinning campus)
Dumfries & Galloway	Dumfries & Galloway	Dumfries & Galloway College (with a possible HE/FE link through the Crichton campus)
Lanarkshire	North and South Lanarkshire, parts of East Dunbartonshire	Coatbridge College, Cumbernauld College, Motherwell College and South Lanarkshire College
Borders	Scottish Borders	Borders College – with a possible link to Edinburgh and the Lothians
Edinburgh and Lothians	Edinburgh, East and Mid Lothian, West Lothian,	Jewel & Esk College, Stevenson College, Edinburgh's Telford College and West Lothian College
Forth Valley	Falkirk, Stirling, Clackmannanshire	Forth Valley College – with a possible link to West Lothian College
Highlands & Islands	Highland, Perth and Kinross, Moray, parts of Argyll and Bute, Western Isles, Orkney, Shetland	Perth College, Lews Castle College, Orkney College, Shetland College, Inverness College, Moray College, North Highland College, Argyll College and West Highland College (with a possible HE/FE link to UHI)

11. We welcome views on any of these regions. But there are a few, particularly in the central belt, where we recognise there may be more than one option. For example:

- in Glasgow, we think it is important that provision is planned for the whole region, but there are several ways that college provision could be structured, ranging from one entity serving the whole region to three separate entities consisting of North, South and City of Glasgow college, to a federal model based on the Glasgow Federation. We welcome views on the optimal arrangement;

- Clydebank College could arguably be part of a Glasgow region, or part of a West region as we have proposed;
 - some have argued that the Kilwinning Campus of James Watt College should remain aligned with James Watt, serving the same region. But a model predicated on needs-based regional funding allocations demands that Kilwinning supports delivery in Ayrshire. We think it is possible to identify a structural model that allows Kilwinning to operate in Ayrshire, but to do so while maintaining its existing 'parentage';
 - West Lothian College could arguably be part of a wider Forth Valley region rather than, as we propose, Edinburgh & Lothians; and
 - mainland Highlands where there could be a number of alternative solutions given the geographical scale of the region and the diverse economic circumstances of different localities.
12. As we note in the final bullet of paragraph 7, in some of these areas a regional approach would allow for improved collaboration with universities and schools. For example, in Dumfries and Galloway, a partnership for post 16 provision around the Crichton campus and all the players involved in that might offer significant benefits. Similarly, in the Highlands and Islands, there is scope for the regional approach to build on and strengthen the partnership between UHI and the colleges – we will want to see developments in the UHI and in the regional college approach complementing and supporting each other.
13. We think some colleges may not fit with the regional model, and need a slightly different national approach, for example:
- Newbattle Abbey College;
 - Sabhal Mor Ostaig (SMO); and
 - the land-based colleges.
14. It would be inappropriate to resource these colleges on the same basis as others since they have a national role rather than a regional one. So we would propose to work with Newbattle Abbey College and SMO, and collectively with the land-based colleges, to identify the most appropriate way to resource them - based on their capacity (particularly in the case of the first two, which are small and specialist) and to develop an evidence-based analysis of need that recognises their national role. This will take time, although there is some existing evidence on which some estimates could be based. In 2012-13 we therefore propose to resource these colleges on a historical basis. The means of accountability will be the same for these colleges as for others, that is, through an appropriate outcome agreement. We recognise, however, that there may be other views on this question – for example, could Newbattle Abbey and SMO build on their existing links to the Edinburgh and Lothian colleges and to the UHI to benefit from the regional approach. In the case of

the land-based colleges, we would expect them also to work with the regions in which they have major campuses to ensure that provision remains coherent.

We would value comments on:

- **the proposed regions;**
- **the key criteria that we have used to define each region (paras 8 and 9); and**
- **if you agree that five colleges (Newbattle Abbey College, SMO and the three land-based colleges) should not be funded on a regional basis.**

Ensuring regional boundaries are invisible to students

15. We do not expect all students within a region to attend a campus there, and colleges should not turn students away because they are from another region. For some specialisms, and in areas where transport links mean that travel to another region is relatively easy, students may want to travel; those specialisms focused on cross-regional economic need should be open to a wide range of learners in the form of both part- and full-time provision. We will, however, expect colleges to market their courses to students in their own region and prioritise need within that region.

16. Indeed we recognise that colleges within certain city regions (Glasgow, Edinburgh and Dundee) attract students from other regions for a variety of reasons; these include work, specialist courses, links to HE, or simply because of transport links or lifestyle choices. We address this issue in the following section as part of our proposals for estimating regional need.

We would value comments on:

- **how we capture national specialisms within a model;**
- **if travel to study data is the best available proxy for taking account of cross region student flow.**

Estimating regional need

17. *Putting Learners at the Centre* proposes that regional planning and funding of college provision makes sense for most of the country – and that, in future, SFC’s funding for colleges should be based on the needs of a region, taking into account the demographics and economy of the region in question. We propose to estimate regional need for provision by basing these estimates on socio-economic data and propose the following indicators:

- the number of the S3-S6 age group in school education. This reflects the Scottish Government’s commitment to the senior phase of the Curriculum for Excellence, including school-college activity;
- the numbers of 16-19 year olds not in school or university education and not participating in a national training programme;
- the numbers of 20-24 year olds who are unemployed;
- the numbers of people of all ages with low qualifications in a region; and¹

¹ We would propose to use the number of people of any age in a region with no qualifications above SCQFF level 5 (standard grade) as an indicator.

- travel to study/travel to work data – though this is relevant more for some regions than for others.
18. These indicators align allocation of college resources with the priorities the Government has identified. They will ensure that regions where there is greater need for further education – whether because of low school staying-on rates, fewer people going to university, or a legacy of low skills – get additional places compared with those areas with, for example, higher levels of school educational attainment. It will also ensure that, as demography and socio-economic circumstances change, allocation of resource responds.
 19. We propose to include travel to study/travel to work data to take account of the fact that significant numbers of learners will wish to study outwith their region because of transport links, to reach specialist courses, work or lifestyle or learning choices. We expect local learning opportunities at access or lower SCQF levels to be available nearer to home, but that people may have to travel for higher level courses or more specialist provision. In practice, of the regions set out above, North East, Tayside, Forth Valley, Glasgow, Edinburgh and Lothians currently have a net inflow of students. These regions would be allocated additional places to recognise that role. Outcome agreements for such regions would require them to demonstrate they are not duplicating provision better provided in neighbouring regions, that they are co-operating with those regions to ensure coherent provision for students and that, where appropriate, they continue to provide nationally important specialist provision.
 20. We propose to rebase regional allocations periodically as new data becomes available, and in response to changing Scottish Government priorities. We recognise the need to strike a balance between responsiveness to changes in economic and social circumstances and medium term planning for colleges. We also recognise that there is a lag in some indicators: this is less of a problem for the relatively predictable ones like population, but could be problematic for more volatile ones. Our assumption is that we would rebase annually on the basis of the most up to date data and Government policy priorities, but, we would welcome views on this point.

We would value comments on:

- **the proposed indicators;**
- **other indicators of regional needs that we should consider;**
- **whether an annual rebasing of regional allocations is an appropriate review period.**

Courses

21. Consistent with the policy direction articulated in *Putting Learners at the Centre*, the purpose of our investment in colleges will be to provide people with the skills they need to get a job, keep a job or get a better job and develop a career. All courses the SFC funds must demonstrably meet this purpose, and we propose to reflect this in outcome agreements. However, this does not exclude courses that support progress to further learning, provided such courses demonstrate progress towards employment.

22. From 2012-13, we will expect colleges to concentrate further on courses leading to recognised qualifications, including vocational non-advanced and advanced programmes; and support for the Senior Phase of the Curriculum for Excellence (including through school-college partnership programmes). Having said that, we recognise that some Non-Recognised Qualifications (“NRQs”) have value, for example, as access routes and by meeting some learners’ additional support needs. Ultimately, and in line with the new approach to employability funding highlighted in *Putting Learners at the Centre*, we expect that resources necessary to support this type of provision will be allocated to regions on the basis of each region’s share of people with low qualifications.
23. We will expect colleges to show how they have met these requirements through the outcome agreements that we will agree with regions (see para 42).

Basis of funding for courses

24. The Government is clear there is scope for simplifying funding arrangements. Discussions between colleges and the SFC have confirmed that view and we propose that from 2013-14 we move to a simplified approach to funding courses with three elements:
 - a subject-based payment, reflecting the cost of providing that subject through a large efficient college;
 - a payment reflecting the additional costs of teaching students with additional needs; and
 - a rural infrastructure payment reflecting the additional costs for a college serving sparse populations.

Subject-based element

25. Some subjects are more expensive to teach than others. We may therefore need to reflect this point in funding arrangements so that more expensive subjects are not neglected. However, there is no strong evidence base at the moment to make distinctions between subjects. We propose to undertake further work with the colleges on this.

Additional support needs element

26. We recognise the additional costs involved in supporting students who require additional support in learning. However, we propose that in the long term there should no longer be separate weightings for DPG 18 courses and extended learning support. Instead, the SFC will set out a price per student place (the ‘subject-based element’ described in para 25) at a rate reflecting the fact that some students need additional support; it will do by incorporating resources previously allocated through these separate weightings. We would expect regions to meet most students’ needs from within the subject based element.
27. However, where students have more complex additional needs, separate funding is required: such students must not be excluded, or fail to get the support they need, because of cost. The SFC will work with colleges and other

agencies to decide how best to use this fund based on an ascending scale of need. We also think that such student-based funding should be used to recognise the additional costs of serving students from areas of social deprivation. More discussion is required on the detail of how such a system would work in practice.

Rural and remote element

28. We also recognise the additional costs of providing learning to students in remote and rural areas. For regions operating across sparsely populated areas, we would propose to provide some additional investment, using the Government's index of rurality as its basis. We shall discuss with colleges how these indicators can be used and the thresholds for eligibility for such funding.

Funding for student support

29. Meanwhile, the SFC will provide regions with student support on the basis of the number of student places and the historical proportions of full-time FE students getting bursary support and childcare funds. However, the need for student support can fluctuate. As an interim measure, SFC would initially hold back a proportion of student support; these funds will be provided to regions during the year once evidence of demand is clearer.

Funding for capital maintenance

30. We propose that annual grant for capital maintenance should be distributed on a regional basis from financial year 2012-13. The SFC is concluding a review of its allocation model and is likely to move from funding based solely on student numbers to a model taking better account of building condition and recent investment in the estate.

We would value comments on:

- **the three elements we propose to use as a basis for funding courses. Are these the right ones; are there others?**
- **our proposals for each of these elements;**
- **whether student support should be based on regional demographics;**
- **whether funding for capital maintenance should take better account of building condition and recent investment in the estate;**
- **our proposals for NRQs.**

Counting student numbers

31. The current funding method is based on a standard price multiplied by the volume of student activity. Our measurement of volume is currently Student Units of Measurement (SUMs), which are weighted to reflect more or less expensive subjects. This provides a W(eighted) SUMs target which we expect colleges to achieve in return for their teaching grant.

32. If the provision is credit-rated under the SCQF (or has a credit rating that can be matched to SCQF), the SUMs value for the course should be equal to the course/programme's number of credits. If the provision is not credit-rated, the SUMs value is the planned learning hours by 40. Under the current

methodology, FE (non-advanced) courses of 16 or more credits (640 planned learning hours) qualify as full-time and equate to 20 SUMs. HE (advanced) provision with 12 or more credits (480 planned learning hours) within one academic year qualifies for 15 SUMs.

33. Many have argued this arrangement is too complicated and insufficiently transparent. As *Putting Learners at the Centre* makes clear, we therefore propose to simplify the current system and would propose that the unit of measurement should be based on converting learning hours to full-time equivalent students places (FTEs). Doing so would eliminate many complex rules and guidance, providing colleges, learners and other stakeholders with a simpler, more transparent funding methodology. There are however different ways to convert learning hours/credits to FTEs. But – again with simplicity in mind - we propose there should be one standard conversion between learning hours/credits. This would involve removing the fixed tariff for full-time, but the price per unit would be adjusted accordingly. An alternative could include having separate conversion factors for FE (non-advanced) and HE (advanced).

Retention

34. Meeting learners' needs and improving employment prospects are an essential part of the post 16 reform. Improving retention rates in colleges are a central part of that theme. The levels of drop out historically recorded are unacceptably high. The Government, in its guidance letter to the SFC, has asked it to act to improve retention rates, making clear that this "should not result in colleges screening out applicants they consider might compromise our ambitions for improved retention; rather we expect to see greater emphasis on improving the match between learners and the courses they are enrolled on, based on high quality career information, advice and guidance and support for students once they have enrolled".
35. There are a number of possible ways of dealing with this, including:
- raising the current cut-off for eligibility for counting towards funding targets from 25% to 50% of course duration. This would clearly focus SFC funding on the students actually attending college. It might, however, have an impact on colleges' recruitment behaviour – narrowing access by becoming more selective;
 - our proposals for simplifying how we fund courses by no longer having an 'entry cost' element would have the effect of reducing the incentive for colleges to enrol students who are likely only to attend for a very short time; and
 - including targets for improvement of retention in outcome agreements (see para 45).
36. We also propose to improve the evidence on the reasons for drop out and the next steps taken by students who drop out. This would help identify the factors that colleges can most strongly influence and help direct efforts to improve retention. It would also identify where drop out is for very positive reasons (e.g.

where students obtain employment as a result of the colleges links with an industry).

We would value comments on:

- **how colleges and the SFC work should together to help improve retention rates;**
- **how to replace SUMS/WSUMS with an FTE based system;**
- **whether, in addition to an FTE-based system, there other ways to make the system simpler and more transparent.**

Regional structures and accountability

37. *Putting Learners at the Centre* signals the Government's wish for a fundamental change in the accountability arrangements for college funding. At the moment, a college is expected to meet its own activity target, provide education of at least acceptable quality, and maintain its financial viability. We propose that colleges become directly accountable for how well, collectively, they serve the needs of their region, on the basis of negotiated outcome agreements with the colleges in each region.

38. There are options for how colleges might organise themselves to meet the needs of the region, and we propose to discuss the structure that is appropriate in each region. We recognise it will take time for new structures to develop and therefore interim arrangements will be needed for many regions, particularly in the first year. That said, we think there are four broad options, but there are a number of variants which may be appropriate in different areas, and the model chosen in a particular region might evolve over time:

- **a merged college.** Where colleges intend to merge there is a well established route to moving from funding the individual colleges that intend to merge to the new entity which is formed from the legal entity of one of the merging partners (a 'host model' merger) or through the creation of a new college (a 'phoenix model' merger). In the former case we can move very quickly to funding the new body once a merger is agreed. In the latter case we would need to wait until the new body was added to the list of fundable bodies, something that requires secondary legislation.
- **a federation of colleges** through a joint board. Where colleges wish to federate and form a joint board to receive and be held accountable for the funding from SFC our view is that this would mean that – in effect – a new fundable body is being created. This model has not been tried before, though it is in some ways analogous to the way that higher education in the Highland colleges is funded through the UHI. We will explore whether this model would require an amendment to the list of fundable bodies before it could become effective.
- **a 'lead college'.** The colleges in an area may wish to agree that one college become the fundable body that is accountable to the SFC for the needs of the area. Any such arrangement would need a very firm contractual arrangement between the lead college and other colleges in the region.

- **a collaboration** between a group of colleges. In this arrangement the SFC would continue to fund each college in an area directly but would require that the colleges agree to a firm collaboration to address the needs of the whole region.
39. Each of these models has advantages and disadvantages. The single college model offers the clearest link between the needs of the region and the body that serves it. It will however require both investment and time to create single colleges. At the other end of the spectrum, collaborations between groups of colleges could - at first sight - be set up quickly. But it would nonetheless take time to make such collaborations plan and work effectively; and it might prove difficult to hold them accountable for the outcomes for the whole of a region.
40. It is important that whatever arrangement is chosen also supports efficiency. For example, a federal structure that created new layer of management that was not more than balanced by reductions in the colleges would be at risk of diverting funding from provision to structures. We will ask the colleges in a region to discuss the best way for them to work together in their region and the timetable for implementation. The SFC will support them in that process. This will then be reflected in the outcome agreement negotiations (see para 47).

We would value comments on whether there are any other options for regional structures, beyond the four we propose.

Supporting the cost of change

41. In some regions we expect that colleges will wish to merge or federate or make other major structural changes in order to create the most effective vehicle. We recognise there may be initial costs in making such structural change work well: initially, this might support a full assessment of options, and allow Boards access to due diligence reports on partners, and facilitation and project management support. Once structural change has been agreed there will be costs in staff restructuring and in aligning systems. The SFC will support some of the costs of these necessary steps so that the resulting efficiencies can be quickly realised, and minimising the impact on courses and services for students. We have heard arguments for funding to support strategic change to be in the form of a 'loan' to a region from the SFC - on the grounds that the efficiencies generated would be recouped by the colleges in the medium-term. Others say this would be a disincentive to colleges coming together, and would delay progress. We would welcome views on this issue. In any event, the SFC in negotiating outcome agreements with each area, will discuss the case for additional investment in structural change.

We would value comments on how we support the cost of strategic change most effectively.

Outcome agreements

42. The outcome agreement for a region will reflect the return the Government and the SFC expect for their investment and is an opportunity for the region to make clear, and agree with SFC, the contribution it intends to make to the

Government's three strategic aims set out in *Putting Learners at the Centre*: improving life chances, jobs and growth and sustainability of the sector.

43. In negotiating outcome agreements the SFC proposes to combine SMART objectives (where the results can easily be seen within a short time-frame) with longer term, broader objectives relating to the region's economic and social well-being. There needs to be a balance between short-term hard measures and these broader objectives: too much focus on the former can lead to 'target-chasing', distorting the service provided; too much emphasis on the latter makes it harder to hold colleges to account for their responsibilities. We propose that outcome agreements should therefore cover three broad areas: *learning opportunities*, *outputs* and *outcomes*.
44. Each region will have a different and individual agreement, though there will be common elements across the board. We expect outcome agreements to develop over time as the SFC and colleges work together and as this new performance improvement approach becomes embedded. That said, we expect that *Learning Opportunities* could include indicators on the number of student places to be delivered; targets for how, alongside other providers, the region will deliver the Opportunities for All guarantee for 16-19 year olds; the region's plans for delivery to under 24 year olds; the campuses and range of provision that will be provided so that local access is maintained across the region; plans for any national specialist provision (e.g., for those with additional learning needs, or for a particular subject); and national standards to be maintained or improved upon e.g. Frank Buttle Trust.
45. We expect *Outputs* to include key performance indicators such as targets for retention and completion rates; numbers of qualifications/SQA units achieved; student and employer satisfaction rates; and numbers of students successfully progressing to employment. Additionally, we expect key indicators to demonstrate the efficiency of the region and its financial viability.
46. We expect *Outcomes* to include broader indicators on the issues to which the college makes a contribution, such as: improving the qualifications of the workforce in the region; improving learners' readiness for, and ability to get, a job; an improved fit between the skills of the region's population and the key employment and key industry sectors; and constructive arrangements with the relevant local authorities, and relevant universities, to guarantee high quality, efficient progression for learners.
47. Finally, given the forthcoming period of transition, we expect some *process* indicators on how, jointly, colleges are progressing towards the new arrangement and implementing any structural or strategic changes necessary; and how they are working with partners

We would value comments on:

- **the key purpose of an outcome agreement**
- **our proposals to combine SMART objectives with longer term economic and social objectives.**

- **Whether there are other indicators on college contribution that should be included in an outcome agreement.**

Negotiating Outcome Agreements

48. The SFC will ask regions for proposals on how they will use its investment to deliver efficient, high quality vocational education in their region and on what should appear in an outcome agreement. This should include plans for how they will work together; how they will respond to the needs of local regional and, where appropriate, national employers; how they will work with key partners; and their proposals on accountability structures. To help develop these plans, the SFC will provide its views on the key issues for provision in the region. We will also engage with other stakeholders (e.g. local authorities, Skills Development Scotland (SDS), the Enterprise Networks and other community planning partners) to discuss joint planning to meet regional skills needs including the contribution of regional outcomes.
49. The SFC will work with regional senior managers to agree an Outcome Agreement, to be ratified by College Boards and the Council. Once agreed, delivering the Outcome Agreement will be a condition of the SFC's funding.
50. In 2012-13, we expect outcome agreements to be a first step in the process of reform, and the SFC will adopt a pragmatic and flexible approach so that agreements can be finalised quickly: so we will commit to signing Outcome Agreements for 2012-13 by April 2012.

We would value comments on:

- **the key stakeholders that should be involved in the outcome agreement process and their role in influencing, signing off and monitoring performance;**
- **how to ensure effective joint planning in meeting regional needs, including how to strengthen the college response to local, regional and national employers.**

Assessing performance against the outcome agreement

51. The SFC will review performance annually, first by asking the region to prepare a self-assessment of evidence demonstrating progress towards the targets. Building on this evidence base, SFC will benchmark elements of performance against the national levels (where appropriate), to provide its own assessment of performance for the region. SFC will then discuss this review with the region before finalising it. If there are any areas in which performance has fallen short of expectations, the region will identify the reasons and agree an appropriate course of action with SFC. This process will replace SFC's existing monitoring activities; we shall need to consider how it is supported by the process of quality review undertaken by Education Scotland.
52. Where colleges or regions fail to achieve their agreed targets and outcomes, we shall consider if the issues fall within colleges' control: for example, a change in the economic profile of the area or in economic circumstances more

generally, may have an unforeseen impact on demand. In such cases, we would expect to work with the college or region to rebase its agreed outcomes and targets.

53. Where actions to address improvement have been agreed, subsequent outcome agreements will incorporate the improvements to performance expected to flow from such actions.

We would value comments on our proposals for assessing and managing performance.

Phasing of reform

54. These changes are far reaching and cannot be achieved at once. We therefore propose that the reforms are phased. Some need to happen early, because other items depend on them being in place; others could wait - either because they are less essential, or because they could benefit from more discussion. We propose the following broad phasing over the next three years.

	Jan-Jul 2012	AY 2012-13	AY 2013-14	AY 2014-15
Defining regions	Regions defined by January 2012.			
Estimating regional need	Regional allocations finalised by March 2012, establishing clear 'direction of travel' for each region.	New needs-based regional allocations begin to be phased in.	New needs-based regional allocations continue to be phased in.	New needs-based regional allocations fully implemented.
New basis for counting students	Simplification of rules for counting students eliminating WSUMS and replacing them with FTEs agreed by July 2012.	Phasing in of new MIS systems, with flexibility from SFC on how students are counted.	New systems fully in place.	

	Jan-Jul 2012	AY 2012-13	AY 2013-14	AY 2014-15
Basis for funding courses		Introduction of needs-based funding, with transitional measures applied to moderate effect of significant changes in funding patterns.	New simpler funding system based on the outcome of this consultation paper and further detailed discussions introduced.	New funding basis fully implemented.
Regional structures	Planning for new regional structures well under way, taking into account the Griggs review. Some regions to have determined the way forward for their region.	Every regions' plans firmed up, with most regions starting to implement structural change.	New structures operational in most regions. All other regions having firm plans.	New structures operational in remaining regions. New structures kept under review to ensure they are operating effectively.
Outcome agreements	Negotiations on outcome agreements begin, focussing on processes for regionalisation in the first instance. But also seeking to address the key provision issues for each region.	Outcome agreements monitored – for provision issues, more at the individual college level, for process issues, at the region. Further development of outcomes agreements.	Development of regional performance management approaches.	Outcome agreements focus on provision issues. Performance management culture well embedded in all regions.

Transitional arrangements

55. These changes are far reaching. Allocating places on a regional and needs-based approach, changing the basis of counting students and funding courses, and creating new regional arrangements could have a significant impact on a college. We therefore propose that there should be substantial transitional arrangements in place to spread the impact of these changes over time between individual colleges most affected by a reduction in places and those least affected. This would combine moderation of shifts in funding with setting

clear direction of travel for colleges and regions and maintaining the pace of reform. In line with the commitment in *Putting Learners at the Centre*, and taking into account views expressed in response to this consultation, we will make regional allocations for AY 2012-13. We will however apply transitional arrangements to individual college budgets to make the changes manageable. The Government and the SFC is committed to giving colleges sufficient time to plan for 2012-13. Building on discussions already in hand with the college sector, we will therefore provide as much certainty as possible about funding and activity levels in December including the nature of the transitional arrangements.

We would value comments on preferred transitional arrangements

**Scottish Government, Scottish Funding Council
14 November 2011**