

## Outcome agreement funding for colleges - final allocations for 2016-17

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Summary: Announcement of final funding allocations for college outcome agreements in AY 2016-17.

FAO: Chairs, Principals / Chief Executives and Directors of Scotland's colleges / regional strategic bodies

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## **Outcome agreement funding for colleges - final allocations for AY 2016-17**

### **Purpose**

1. I am writing to provide you with the Scottish Funding Council's (SFC) final decisions on outcome agreement funding for academic year (AY) 2016-17. The figures provided in this announcement should be used to finalise your outcome agreement and the funding allocation for your college will be taken to be accepted upon the final signing of your outcome agreement for AY 2016-17.
2. The decisions on funding are in line with the Cabinet Secretary's Letters of Guidance of 8 February 2016 and 23 March 2016. They support SFC's strategy, in particular the extent to which the achievements in the emerging draft outcome agreements meet the national aspirations identified by SFC. The decisions have also been guided by negotiations on outcome agreements, including consideration of performance against past agreements where that is likely to affect the amount or type of funding we should allocate for AY 2016-17.

### **Guidance and policy priorities**

3. In her Letter of Guidance of 8 February 2016, the Cabinet Secretary reiterated the Scottish Government's high-level strategic objectives remained unchanged from her earlier letter of 10 September 2015. These included:
  - High-quality, effective learning.
  - Access to education for people from the widest range of backgrounds.
  - Learning which prepares people well for the world of work and successful long-term careers, and in doing so supports our ambitions for economic growth.
  - Meeting the challenges set out by the Developing Scotland's Young Workforce report.
4. The February 2016 Guidance Letter also *"welcomed the publication of the SFC's Strategic Plan 2015-18 in November 2015 - a plan which is broad in scope and stretching in terms of ambition. I note the three main outcomes set out in the plan which are to be delivered by 2018: delivery of high quality learning and teaching; provision of world leading research; and stimulating innovation in the economy"*.

5. In her Letter of Guidance the Cabinet Secretary highlighted the potential for *“a more streamlined approach to the learner journey, ensuring that there is a clearer, more targeted path for young people between schools, colleges, universities and employment.”* The Cabinet Secretary went on to say that she would like to see us *“allocate funding in a way that can best support more impactful delivery and, crucially, improvement in the quality of the learner experience”*.

### **Further guidance**

6. The Cabinet Secretary wrote again on 23 March 2016, in response to advice provided to her by SFC along with our college colleagues, to provide further guidance on her expectations for 2016-17. In this further Letter of Guidance the Cabinet Secretary stated:

*“I was grateful to receive your advice, which set out a number of important areas for future reflection. These areas, including the future impact of demographics on FE provision and potential to introduce new measures of success for the FE sector, are important ones. However, the matters you address - including demand, supply, and shifting patterns of participation - are ones that clearly apply to, and affect, our wider learning system. I should therefore like to see them explored further as part of our forthcoming work to examine and improve the learner journey.*

*I would ask you to maintain the current volume of provision. In doing so, you should work with the sector to identify ways in which to maximise the funding available to secure appropriate, high quality and sustainable provision across the country. Additionally, I would ask that you continue your changes to ensure the distribution of activity more closely reflects regional need, taking account of colleges’ capacity to deliver. Moreover, in the light of the financial pressures outlined in your paper, in deciding on institutional allocations, I would ask that you consider a modest increase in the unit of resource for colleges.”*

7. In response to the guidance from the Cabinet Secretary we have taken the decision to maintain the sector credit target for AY 2016-17 and to provide a modest 1% increase in the teaching grant.

### **Overall available funds for the college sector**

8. The Deputy First Minister and Cabinet Secretary for Finance, Constitution & Economy announced Scotland's Spending Plans and Draft Budget 2016-17 on 16 December 2015. The FE Resource budget for financial year (FY) 2016-17 was announced as £530.3 million (maintained at the same level as FY 2015-16). SFC’s available funds for AY 2016-17 is set out in Table 1 attached.

9. Taking into account budget revisions which we expect to take place in year, the total resource funding available for distribution to the college sector is £536.053 million (Table 1). As requested by the Cabinet Secretary, we have used these additional funds to provide a modest increase in the unit of resource for teaching. In addition, we have provided an inflationary uplift to the student support bursary rates.
10. We will continue with the current criteria and arrangements for the Employability Fund.
11. SFC's capital allocation as set out in the Scottish Government's budget is £27.0 million, with a further £24.4 million allocated for college NPD expenditure (to meet the NPD service payments as per the profile provided by the Scottish Futures Trust).
12. In setting our indicative academic year (AY) budget for 2016-17 we span two financial years (FY) 2016-17 and 2017-18. We do not have any information on the Scottish Government's plans for the financial years beyond 2016-17, and as such have planned on the basis of flat cash for future financial years. The budgets set for capital and revenue are set-out in Table 1 attached.

#### **AY 2016-17 activity targets**

13. In response to the guidance from the Cabinet Secretary, we have kept the sector activity target at the same level as in AY 2015-16 at around 1,690,000 credits. Table 2 shows the original activity target for AY 2015-16 and any in-year redistribution of college activity. We have taken the AY 2015-16 activity target after any adjustments as our starting point for AY 2016-17.
14. We have used our demographic model as well as our knowledge of colleges' capacity to deliver, regional skills assessments and outcome agreement negotiations and made some small adjustments to the activity targets. These changes for AY 2016-17 are:
  - Dumfries & Galloway College - a reduction of 304 credits (1%) based on discussions with the College about levels of activity in AY 2015-16.
  - Edinburgh College - our starting point for AY 2016-17 is the activity levels after a redistribution of credits to other colleges following discussion with Edinburgh (9,194 credits). In addition, Edinburgh has also agreed a transfer of courses to SRUC (2,230 credits). This reduces their core target by 11,424 (5.8%) credits from the original AY 2015-16.
  - Glasgow college region - an additional 1,080 credits (subject to further confirmation with Glasgow Region) but no additional funding for the City of Glasgow College, agreed as part of the Glasgow curriculum strategy.

- North East Scotland College - an agreed transfer of 2,396 credits to SRUC.
  - SRUC - will benefit from a transfer of 4,626 credits agreed with Edinburgh and North East Scotland Colleges.
  - West Lothian College - an increase of 411 credits (1%) to meet additional need as part of our demographic modelling.
15. There is a small overall change in activity targets at the sector level with 1,187 more credits being delivered than in the final AY 2015-16 activity targets. However this has minimal financial impact and is mainly attributed to an agreement with the City of Glasgow College to deliver activity at its new campus.

### **College funding allocations by region AY 2016-17**

16. Table 3 sets out the corresponding teaching funding. The starting point is the original funding allocated in AY 2015-16, followed by the in-year redistribution for Edinburgh College. We have then adjusted teaching grants in line with the activity changes above to obtain AY 2016-17 funding allocations.
17. We have then reflected the Cabinet Secretary's guidance for "*a modest increase in the unit of resource*" in light of financial pressures and added 1% to all teaching grants. This amounts to an additional £4 million.
18. In addition, for small rural colleges we have provided an additional uplift of 1%. This is because small rural colleges are faced with the same operational pressures as the rest of the sector but do not have the same economies of scale. As a result of this, Borders College and Dumfries & Galloway College receive an uplift of 2% in the price per credit. For the Highlands & Islands the region will receive an uplift of around 1.6% in the price per credit, based on the proportion of activity in small rural colleges within the region.
19. We have also provided some colleges / regions with additional funds as a result of movements to reflect the new funding model. These changes have been made to colleges that would gain from the move to the new regional prices and provide an additional 0.5% uplift. We have not made any reduction of funding to colleges that would lose out as they are still facing the same financial pressures. These changes impact on:
- Edinburgh College +£103,076
  - Glasgow college region +£392,284
  - Highlands & Islands region +£168,433

- North East Scotland College +£144,154
  - SRUC +£41,345.
20. As a result of these changes most colleges are receiving a 1% uplift on their teaching grants from the original AY 2015-16 funding allocations. The colleges with additional activity to deliver from AY 2015-16 have a corresponding uplift to their teaching grants to cover this (Borders College, Highlands & Islands region, Lanarkshire college region and West Lothian College).
21. The transfer of activity from North East Scotland College and Edinburgh College to SRUC has a significant impact on the overall percentage changes in their funding. This transfer has been agreed by the colleges concerned and includes the transfer of courses and staff.

### **Student Support**

22. We have allocated student support funds on the same basis as last year, as set out in Table 4. This means that student support for AY 2016-17 has been based on the percentage share of demand for student support in AY 2015-16 adjusted for changes in volume.
23. We have increased the bursary rate by an inflationary rate of 1.5%, at a cost of £1 million. We have also initially earmarked £3.2 million for in-year adjustments. Whilst we have improved our initial targeting of student support funds, this allocation can never be completely accurate due to changing student cohorts. As we have maintained the sector credit target overall, we still expect there to be a shortfall in student support in-year. We have therefore set aside these funds for the in-year redistribution, when we will know the level of potential shortfall. This will enable us to target these funds more effectively.

### **Strategic funds**

24. We have set aside a budget of £19 million for strategic funds. This will enable us to continue to support sector-wide services and agencies (e.g. Education Scotland and JISC). In addition, these funds will enable us to support colleges / regions with specific financial pressures where this is necessary.

### **European funding**

25. We have received and accepted a formal offer of grant for both our European Social Fund (ESF) programmes - the Youth Employment Initiative (YEI) and Developing Scotland's Workforce (DSW) - although the offer of grant for DSW is only for the current AY 2015-16.

26. We have set-out in Table 5 the additional ESF activity targets that we provisionally expect colleges to deliver as part of these programmes in AY 2016-17. These activity targets and associated funding, are indicative, may change and are subject to Scottish Government approval. SFC has not had its DSW Operational Application for 2016-17 approved by the Scottish Government and therefore does not have an offer of grant for AY 2016-17 for the DSW programme.

### **College Capital infrastructure FY 2016-17**

27. The college capital and infrastructure budget for FY 2016-17 has increased from £25.5 million to £27.0 million. Against this budget, we have forward commitments which are set out in Table 1. Therefore, despite an increase to the overall budget, our project commitments mean that we are unable to maintain the core Capital / Maintenance Grant at the same level as FY 2015-16 (from £20 million in FY 2015-16 to £15.6 million in FY 2016-17).
28. We have set out in Table 6 a breakdown of the college Capital / Maintenance funding. This has been allocated in proportion to each college region's credit target.

### **College NPD expenditure**

29. The Scottish Government has allocated £24.4 million for College NPD expenditure. This is to support the unitary charges associated with the NPD projects at Inverness, Kilmarnock and Glasgow, and has been agreed with Scottish Futures Trust.

### **Acceptance of grant and outcome agreements**

30. This letter announces the final funding that will be associated with your outcome agreement for AY 2016-17. By signing your outcome agreement you are agreeing to the funding allocation announced in this letter and the associated conditions of grant (see Annex B).

### **Funding tables**

31. We have attached the following tables and annexes for AY 2016-17:

- Table 1 - Colleges Overall Budget for Academic Year 2016-17
- Table 2 - College Core Activity Targets
- Table 3 - College Core Teaching Funds
- Table 4 - Student Support Allocations

- Table 5 - DSW / YEI / SFC European Social Fund Project
- Table 6 - College Capital / Maintenance Funding
- Annex A - Individual College Allocations and Calculations
- Annex B - General Conditions of Grant

### **Further Information**

32. Please contact Lorna MacDonald, Director of Finance, tel: 0131 313 6690, email: [lornamacdonald@sfc.ac.uk](mailto:lornamacdonald@sfc.ac.uk) or Martin Smith, Chief Funding & Information Officer, tel: 0131 313 6528, email: [msmith@sfc.ac.uk](mailto:msmith@sfc.ac.uk)