

## Annex E: SFC's Annual outcome agreement cycle

1. To deliver greater consistency in the outcome agreement process SFC has developed an annual outcome agreement funding cycle.
2. The cycle is summarised in **figure 1** below and is composed of two inter-related tracks. One track relates to past activity and concludes with SFC considering decisions in relation to sector progress (*the review cycle* - orange track). The other track relates to the negotiation of future outcome agreements or updates to the three-year outcome agreement and concludes with SFC taking decisions on funding allocations (*the negotiation cycle* - blue track).
3. Both tracks intertwine to enable SFC to review past progress to inform decisions about the future outcomes SFC wish to achieve.
4. Each year begins with a review of the progress made. This review considers the outcome agreements that were recently approved alongside the progress that has been made by the sectors. From this analysis SFC is better able to determine what now needs to be achieved.
5. The review provides the scope for SFC's decisions in relation to funding recovery – concluding this track of the cycle - and helps to identify SFC's priorities for the next round of outcome agreements.
6. Following on from this, SFC is able to determine the guidance to the sectors and can set out its plans for engagement with institutions in relation to both outcome agreements and on-going strategic projects.
7. This then allows the outcome agreement managers to negotiate the impact SFC wants to achieve, concluding the negotiation with the submission to SFC of their assessments of individual outcome agreements. From these assessments, SFC is able to make its decisions on funding allocations – concluding the second track of the cycle.

8. Once the indicative funding allocation decisions are made, the process repeats and begins again with the review of progress, which acts as a control mechanism to ensure SFC remains on course. As part of the controls available to SFC, in March each year, SFC will confirm the funding allocations and issue funding guidance to the sectors.
9. Throughout the cycle, it will be necessary for SFC and the Scottish Government to coordinate timings, particularly in relation to the publication of sector guidance and decisions on consolidation limits and funded places within controlled subjects.

### **Funding recovery**

10. To conclude the *review cycle* SFC will consider situations where there is concern over a variation in delivery against outcome agreement commitments. This action would involve application of the process described in annex B and would involve SFC considering – taking context and ambition into account - whether funding needs to be recovered, taking a holistic view of both good and unsatisfactory progress to arrive at its decision.
11. While SFC will be able to take funding decisions at any time, to reinforce the annual cycle we will plan to take funding recovery decisions in March. This will allow sufficient time for data on progress to be compiled as well as time for SFC Committees and the executive to have engaged in a full review of the progress delivered to date.
12. Funding recovery decisions will take place to ensure that the most effective use of the funding allocated in previous years has been made. To inform its decisions, SFC will consider institution governance and progress against:
  - Student numbers
  - Funded mix of provision
  - Deliverables related to strategic investments / projects
  - Compliance with legislation, regulatory frameworks and good practice.
13. Importantly, as a result of the outcome agreement process SFC will be able to review the progress being made by the sector on an on-going basis within the academic year and can raise pertinent issues with institutions as part of on-going engagement and in order to assist institutions in the preparation of future outcome agreements.
14. Where SFC determines that funding recovery is required, institutions will usually be informed at this time. Arrangements for this will be supported by the

outcome agreement managers who will assist with managing the consequences of SFC's decisions.

15. By announcing its decisions in March, SFC will allow an opportunity for appeal and discussion, meet the preferred timescale for the signalling of funding recovery in the accounts and allow sufficient time for the funds to be recovered before the end of the academic year. The existing rules of appeal will apply.
16. The Scottish Government's consolidation (over-recruitment) policy limits the number of full-time undergraduate students eligible for funding in the non-controlled subject areas across all years and limits the number of students eligible for funding and rest of UK students in the controlled subject areas across all years. Penalties for breaching consolidation are set out in our standard conditions of grant at:  
[http://www.sfc.ac.uk/web/FILES/Funding\\_Outcome\\_Agreements\\_2013-14/University\\_Outcome\\_Agreements\\_2013-14\\_Annex\\_D\\_standard\\_conditions\\_of\\_grant.pdf](http://www.sfc.ac.uk/web/FILES/Funding_Outcome_Agreements_2013-14/University_Outcome_Agreements_2013-14_Annex_D_standard_conditions_of_grant.pdf)
17. Following its review of progress, SFC will update its understanding of Scotland-wide progress and, from this, new priorities would emerge. This information will be shared within the published annual outcome agreement guidance available from July and the process of developing next year's agreement will commence.

### **Funding allocation**

18. Mindful of the fact that the overwhelming majority of university funding will continue to be formula based, to conclude the *negotiation cycle*, in January each year, SFC will assess the newly submitted outcome agreements and agree funding allocations.
19. SFC will determine the funding to institutions based on the quality of the agreements submitted along with an assessment of the individual and collective progress being made to date against Scottish Government priorities.
20. The March meeting and the January meeting will, connect as part of one continuous review cycle, such that past progress against outcome agreement commitments will impact upon future strategic funding and when a new outcome agreement is being considered for funding.
21. In particular, SFC will assess outcome agreements against the extent to which they:
  - Contribute toward achieving Scottish Government priorities
  - Respond to the needs of learners, communities and employers

- Improve Scotland’s educational performance
  - Improve organisational efficiency.
22. In making decisions about funding allocations, and to ensure outcome agreements are most effectively aligned with an institution’s capacity and expertise, SFC will also consider information available from the monitoring process.
  23. At its January meeting, SFC will specifically assess past delivery against proposed activity and deliverables in relation to key strategic investments. To inform its decisions SFC will consider the self-evaluation progress reports submitted in October alongside the most recent statistical data.
  24. By drawing together all this information SFC will form a more complete understanding of individual and collective progress to better determine institution and sector level funding allocations. The decisions taken by SFC in relation to individual institutions will then be shared via outcome agreement managers.

**Further information**

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**Figure 1: Outcome agreement annual cycle**

