

**THE PERFORMANCE OF THE SCOTTISH FUNDING COUNCIL:
Comments to the Scottish Parliament Education and Skills Committee**

Summary

- The SFC is expected to operate at arms-length from the Scottish Government. We are however concerned that increasing intervention from Government has eroded this arms-length relationship. The SFC must have the freedom to play the role of respected intermediary.
- With regard to its relationship with the universities, the role of the SFC should be to provide strategic leadership and support. Specific examples of the SFC fulfilling this role include the creation of research pools and Innovation Centres. It is important that new initiatives continue to be demand-led.
- In securing an internationally competitive research base, the SFC should adopt a strategic role through prioritising and facilitating the conditions for the provision of world-leading research. Audit Scotland has recently stated that the SFC's current funding approach makes achievement of its research excellence ambitions increasingly challenging.
- Audit Scotland has repeated its call that the SFC and the Scottish Government need to improve how they measure and report on colleges' progress in meeting the expectations of the merger process. To address this the SFC will need to consider what baseline information is available to enable it to measure progress.
- The Scottish Government has accepted the Widening Access Commission's recommended targets for increasing the proportion of students from the most deprived backgrounds entering higher education. It will of course be important to ensure that the focus on entrants does not detract from the continuing need to support under-represented learners complete their degree programmes. Without an increase in the number of funded places, there is a risk that widening participation targets could displace other prospective students.

The Royal Society of Edinburgh (RSE) welcomes the invitation from the Scottish Parliament Education and Skills Committee to submit comments on the performance of the Scottish Funding Council (SFC). Our response focuses on the SFC's relationship with the universities as this is the sector where most of our experience with the SFC lies. However, principally through the work of its Education Committee, the RSE is seeking to enhance its engagement with the college sector. We therefore comment on aspects of the SFC's relationship with the colleges where we believe it is appropriate for us to do so. The RSE should be pleased to meet with Committee members to discuss the points made in this response.

The RSE receives its Scottish Government grant-in-aid via the SFC and has concluded an Outcome Agreement with the Council. This relationship is not, however, touched upon in this response. We include the point here on the principle of 'full disclosure'.

Relationship between the SFC and the Scottish Government

The SFC is the *"national, strategic body for the funding of further and higher education in Scotland"*. The SFC is expected to operate at arms-length from the Scottish Government. We are however concerned that increasing intervention from Government has eroded this arms-length relationship. The Ministerial Letters of Guidance which are issued to the SFC on an annual basis are more prescriptive and directive than those of earlier years. While the Scottish Government is responsible for setting national priorities and safeguarding the provision of public funds, it must do so in a way that is appropriate, and commensurate with the proportion of public funds it allocates to the university sector¹. In order to preserve the creative autonomy that has underpinned the performance and contribution of Scotland's universities, Scottish Ministers should not seek to be overly prescriptive towards them.

¹ In financial year 2014-2015, 32% of Scottish HEI income came from SFC grant (£1.1bn). See SPICe Briefing on HE Institutions (September 2016): http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-71_Higher_Education_Institutions-_Subject_Profile.pdf

The Scottish Government must ensure that the SFC has the freedom to play the role of respected intermediary. In so doing, the SFC should transmit to universities annually the governmental view of priorities that it wishes to see reflected in university work, but in a way that goes with the grain of universities' capability and function. It also requires the SFC to be the conduit for universities' priorities to be reflected in national policy making.

Implications of the EU Referendum

A key area of activity for the SFC will be working with the Scottish Government, colleges and universities to assess the impact of the outcome of the referendum. The recent announcement from the Scottish Government that EU applicants applying to start an undergraduate course in Scottish universities in autumn 2017 will be eligible to benefit from free tuition for the duration of their degree programmes provides welcome reassurance to prospective EU students. The Scottish Government will need to continue to work with the UK Government with a view to providing long-term assurances on the immigration status of EU nationals once the UK formally leaves the EU and on the future funding arrangements for research.

Higher Education and Research Bill

While this Bill focuses on reform of higher education and research arrangements in England, the RSE recognised² at the outset of the proposals that it would have implications for Scotland. In order that Scotland continues to be fully part of the UK research and innovation ecosystem, arrangements should be made for formal engagement between UK Research and Innovation (UKRI) and the SFC.

Scottish Government Review of Enterprise and Skills

The RSE responded³ in August to the Scottish Government's Review of Enterprise and Skills Agencies, including the SFC. The Stage 1 report on the review was published very recently⁴ and the RSE will consider it carefully. We are, however, concerned about the open-ended nature of the review process. It will be

important to ensure that Stage 2 does not exacerbate existing uncertainty and the ability of the agencies concerned to make strategic decisions.

SFC Strategic input

Given that it is in the institutions themselves that the expertise, experience and capacity for achieving successful outcomes are located, the role of the SFC should be to provide strategic leadership and support. Specific examples of this role include SFC's creation of research pools and Innovation Centres. It is important that new initiatives continue to be demand-led.

Research Pools

The research pooling initiative, created by the SFC in 2003, has encouraged researchers across Scottish higher education to pool their activities so as to be on a scale that enables them to compete for increasingly concentrated funding. Research pooling has been widely praised, with the number and discipline range of pools having expanded since its inception. This approach has enhanced submissions to RAE 2008 and REF 2014 in some areas; more importantly, it has encouraged better sharing of facilities and led to better coordination of bidding for competitive processes, including Doctoral Training Programmes. The challenge to the SFC will be to ensure that it has a robust methodology for assessing the performance of the pools so that its resources are targeted to support internationally competitive pools in strategically important areas. There should not be an assumption that its support for specific pools will continue indefinitely.

Innovation Centres

Working with Scottish Enterprise and Highlands and Islands Enterprise, the SFC has so far established eight Innovation Centres with the aim of harnessing research expertise to meet industry demand in key economic sectors. The RSE supports their creation as they are intrinsically innovative, seeking to address the long-standing challenge of more direct exploitation of the research base through increased academic-industry collaboration. They demonstrate a significant strategic commitment by the SFC through its investment of £120m of core funding for the Innovation Centre Programme.

² The RSE's recent submission (October 2016) to the Education and Skills Committee summarises our position on the Bill: http://www.parliament.scot/Inquiries/RSE_HE_Research_Oct_2016.pdf

³ RSE response to the Review of Enterprise Agencies (August 2016) https://www.royalsoced.org.uk/cms/files/advice-papers/2016/AP16_19.pdf

⁴ Enterprise and Skills Review: Report on Phase 1; Scottish Government; October 2016 <http://www.gov.scot/Resource/0050/00508447.pdf>

Innovation Centres have undoubted potential but because they have been established for only a relatively short time (between two and three years for most of them), it is too early to be able to make a determination as to their research and collaborative performance. However, in order to develop a fuller understanding of the progress of the Innovation Centres programme, the SFC commissioned an independent review which reported in September ⁵. The review confirms that the programme is on the right track and makes recommendations for improvement. The review highlights the need to simplify what is a crowded and complicated landscape of public sector support for businesses in Scotland. This includes ensuring the consistent use of “business-friendly” language. We are also supportive of the Review’s recommendation that the SFC explores ways in which the colleges can participate in the Innovation Centres.

Deployment of Strategic funds

In providing leadership and added value, consideration will need to be given to the prioritisation the SFC gives to the way it streams and allocates strategic funding. The RSE expressed concern that in announcing its indicative funding decisions for 2015 – 16 the SFC stated, “*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*”. While we recognise that there are limited funds available to SFC, in positioning itself strategically we would expect it to ensure that there is greater in-budget flexibility to support new proposals.

Outcome Agreements

The introduction of Outcome Agreements in 2012 represented a major change in the relationship between the SFC and individual universities and college regions, and required substantial organisational change within the staff of SFC. The earlier stages were, not unsurprisingly, focussed on the need to develop relationships and resolve process and negotiation issues. It has, therefore, taken a number of cycles for the SFC and institutions to gain a mutual understanding of the process. The Outcome Agreement process has helped to build an understanding between the SFC and institutions as to how institutional strategies can best take account of national priorities. In so doing, they enable the

institutions to demonstrate what they are delivering in return for public investment.

There is evidence that the SFC keeps the Outcome Agreement process under review. In particular, the introduction from 2014-15 of three year agreements (with annual progress reports) appears to have streamlined the process and reduced bureaucracy. The SFC should continue to work with institutions to ensure that the focus is on outcomes as opposed to actions.

It should be noted that while it is a condition of grant that every university must prepare an Outcome Agreement, the overwhelming majority of SFC funding for teaching, research and knowledge exchange continues to be formula based. This means that the allocation of core funding to universities is largely unaffected by Outcome Agreements.

International Competitiveness of Scotland’s Universities

Investment of resource is the main way in which the SFC can create the conditions for securing an internationally competitive research base in Scotland. In its strategic plan for 2015 – 18 ⁶, the SFC states that it “*will prioritise our investment in research on developing world-leading and internationally excellent research*.” However, in March 2015 the SFC announced changes to the allocation of the Research Excellence Grant for the period 2014/15 to 2017/18, whereby the relative weighting of 4* (world-leading) research compared to 3* (internationally excellent) has been reduced (from a ratio of 3.11:1 to 3:1). This means that the allocation of the Research Excellence Grant will be spread more widely, thereby impacting on the proportion available for supporting world-leading research in Scotland. In addition, in 2015 the SFC suspended the Global Excellence Initiative which had invested almost £28m since 2013 in support of world-leading research in Scotland. In its recent report ⁷ Audit Scotland states that the SFC’s current funding approach makes achievement of its research excellence ambitions increasingly challenging. The conditions for allocating research funding indicate that there is an inherent tension that needs to be resolved between supporting a diverse sector and competitively funded research excellence, both of which are highly desirable.

⁵ Independent Review of the Innovation Centres Programme; September 2016
http://www.sfc.ac.uk/web/FILES/InnovationCentresReview/Independent_Review_of_Innovation_Centres_Programme_-_29_September_2016.pdf

⁶ SFC Strategic Plan 2015-18
http://www.sfc.ac.uk/web/FILES/Corporate_publications_SFCCP022015_ScottishFundingCouncilStrategicPlan2015/SFCCP022015_SFC_Strategic_Plan_2015-18.pdf

⁷ Audit of higher education in Scottish universities; Audit Scotland; July 2016
http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160707_higher_education.pdf

College Mergers

In its last two annual reports⁸ on Scotland's colleges, Audit Scotland has advised that the SFC and the Scottish Government need to improve how they measure and report on colleges' progress in meeting the expectations of the merger process. In order to address this, the SFC will need to consider what baseline information is available to enable it to measure progress.

Scottish Government funding for the college sector has decreased by 18% between 2010/11 and 2014/15. The Audit Scotland (2016) report makes clear that a number of colleges are experiencing underlying financial challenges with recent press reports suggesting that 16 out of 20 colleges are due to post a deficit for 2016-17. This indicates that these colleges are finding it increasingly difficult to deliver what is expected of them from the financial resource available to them. This situation will require close monitoring by both the SFC and the Scottish Government.

The Audit Scotland report makes clear the impact that the national policy of prioritising full-time college course provision for under 25s has had on other sectors of the student population. While full-time education at college has increased by 14% in the last eight years, the number of part-time students has decreased by 48% over the same period, with most of the reductions in student numbers having been among women and those aged over 25. This is a clear example of how legitimate policy choices can have wider implications or unintended consequences. Given that many people change careers throughout their working lives, there is a need to ensure there is sufficient provision for lifelong learning and flexible learner pathways.

Widening Access to University

The RSE strongly supports measures to ensure that access to higher education is based on ability and potential, rather than other personal or financial circumstances. How to achieve this is not straightforward, for widening access to higher education is a complex, multi-faceted issue, requiring a holistic response. This was recognised by the Commission on Widening Access which adopted a

'whole system approach'. The Commission reported⁹ in March and approximately 14 of the 34 recommendations have direct implications for the SFC.

The Scottish Government has accepted the Commission's recommended targets – so that by 2030 students from the 20% most deprived backgrounds should represent 20% of entrants to higher education. As a staging post, by 2021, students from the 20% most deprived backgrounds should represent at least 10% of full-time first degree entrants to each Scottish university. However, without an increase in the number of funded places, there is a risk that widening participation targets could displace other prospective students.

Outcome Agreements have focused on the common objective of widening access. It will be important to guard against focusing too extensively on widening access entrance figures as opposed to the proportion of students from deprived and disadvantaged backgrounds who complete their degree programme i.e. it is the output that really matters.

The SFC uses the Scottish Index of Multiple Deprivation (SIMD) to define social deprivation for widening access purposes. However, it is widely recognised that this indicator fails to capture a large proportion of disadvantaged people who live outside SIMD areas. The Commission therefore recommended that a fuller set of measures is required to support decision making about individuals.

Additional Information

This Advice Paper from the RSE Education Committee has been signed off by the RSE General Secretary.

Any enquiries about this Advice Paper should be addressed to Mr William Hardie (email: whardie@theRSE.org.uk)

Responses are published on the RSE website (<https://www.rse.org.uk/>)

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⁸ Scotland's Colleges; Audit Scotland; 2015
http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf

Scotland's Colleges; Audit Scotland; 2016
http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160825_scotlands_colleges.pdf

⁹ *A Blueprint for Fairness*; The final report of the Commission on Widening Access; March 2016
<http://www.gov.scot/Resource/0049/00496619.pdf>