Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

Richard Leonard MSP
Convener of the Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

17 April 2024

Dear Convener,

Thank you for your letter dated 05 March 2024, in which you ask for further information about the impact of SFC's new funding distribution model, how colleges meet local and regional skills needs, and how demand for courses is determined.

SFC's funding distribution model

Our funding distribution model is designed to distribute the teaching funding available to the college sector to greatest effect. To this end, we consulted extensively with the college sector and the Scottish Government about the changes we introduced to our funding distribution model for our College Final Funding Allocations for AY 2023-24.

The changes we made are evolving our funding distribution model from a retrospective, recovery-based model towards a more dynamic, forward-looking model where credits (a credit equates to roughly 40 hours of learning and teaching) are allocated to reflect delivery and demographic trends.

We made several changes which are associated with specific benefits, but these are best understood holistically. This is because, taken together, they result in colleges having an overall reduced risk of exposure to the recovery of funds, which is important because it enables colleges to plan with greater certainty and avoid volatility. This approach has been welcomed by the sector, particularly at a time when they are experiencing increased volatility in the macro-economic environment as a result of, for example, inflation and demographic changes. With this caveat that the changes to the funding distribution model are best understood holistically, the specific benefits of each change are outlined below.

We re-based the credit threshold: We reduced the threshold by 10% across the sector. This change responded to the increasing challenge experienced by colleges, due to a range of factors such as demographic changes, in meeting their credit target. Re-basing the credit threshold has reduced colleges' exposure to funding recovery if they under-deliver credits. This gives them greater planning certainty.

We increased the price per credit: When we reduced the credit threshold by 10%, we introduced a balancing increase to the price per credit. This change ensured that colleges did not experience a corresponding reduction in funding compared to the previous year, AY 2022-23. In other words, we kept the same level of funding in the sector, reduced the credit threshold they needed to cross to avoid the recovery of funds, and increased the price per credit.

We introduced a 2% tolerance for credit under-delivery: We introduced a 2% tolerance rate which means that colleges can under-deliver on their credit threshold by 2% before we act. The main impact of this change is that it further reduces colleges' exposure to funding recovery due to an under-delivery of credits. This tolerance rate is now in line with a similar approach for the university sector.

We have recognised fixed costs: We recognised colleges' fixed costs by introducing a change whereby 20% of college teaching funding is no longer directly related to the delivery of credits. This means that, when considering potential recovery in respect of under-delivery against credits, we will discount any recovery by 20%. This reduces planning volatility and colleges' exposure to funding recovery.

We reduced the required date: We introduced a more generous approach to when a full-time student place can be counted to receive funding (the 'required date'), by reducing the required date from 10-12 weeks to 5 weeks. On average, around 2.4% of full-time college students withdraw from their studies between 5 and 12 weeks into their course. The main impact of this change is that colleges are eligible to claim funding for a greater number of credits. There were several drivers for this change:

- This change to the required date recognises colleges' important role in promoting social inclusion and improving life chances. While there is a range of reasons for withdrawal, we know that students from SIMD20 areas have higher withdrawal rates. This change to the required date therefore recognises colleges' important work in recruiting students from areas of multiple deprivation.
- This change recognises colleges' fixed costs. Colleges invest significant funding in the initial course development, regardless of withdrawal rates.
- It also promotes parity between the college and university sector because it brings the college sector's required date into line with the university sector's required date.

We are still in AY 2023-24, the first full year of introducing these changes, so it is still too early to provide the Committee with a rounded assessment of the financial impact of the changes to our funding distribution model. However, we did apply the new model retrospectively when we considered recovery for under-delivery in AY 2022-23, and we are therefore able to provide an illustrative example of the college sector's reduced risk to recovery with the new funding distribution model: using the previous model, colleges would have been exposed to recovery of £12.5m in AY 2022-23, whereas with our new model, exposure to recovery was significantly less, at £1m. While this financial benefit is welcome, as previously outlined, the most significant impact of the new funding distribution model is the improved planning certainty that it provides colleges.

These changes are our first step towards a more dynamic funding distribution system, and we will continue to evolve our approach in consultation with the college sector, other key stakeholders, and the Scottish Government.

Colleges responding to local demand

Colleges are key anchor institutions in communities and regions, and they are experienced at meeting the needs of students, employers, and their local communities. They provide an extensive range of education and training opportunities to respond to employer and student demand, as well as providing important hubs that foster social inclusion for local communities and regions.

Colleges engage extensively with local and regional partners to deliver a skills pipeline for the labour market and, through this engagement, they are responsive to emerging local, regional, and national priorities. They engage with, for example, Local Employability Partnerships, Regional Economic Partnerships, local authorities, enterprise bodies, employers, and stakeholders.

SFC is also an important partner that supports the college sector to respond to local, regional, and national priorities. Our partnership working with the Scottish Government, enterprise agencies, and qualification and data authorities, ensures we are well placed to support colleges to make strategic connections. Our outcome agreements provide colleges with direction, and we engage closely with them through this process. Our investments facilitate colleges to respond to skills needs; we fund national programmes such as:

- **Energy Skills Partnership (ESP)**: ESP provides leadership and direction to the college sector in the transition to Net Zero. It supports institutions to develop their capability, capacity and curriculum pathways, upskilling, reskilling, and new and emerging jobs. It enables colleges to be at the forefront of curriculum developments which are directly informed by the needs of industry and employers. It supports the college sector through a range of measures, including:
  - engaging and influencing industry, employers, and agencies on behalf of the sector.
  - establishing key partnerships to support colleges and position them as the key delivery partners.
  - supporting colleges with curriculum planning and teaching resources.
- **Built Environment – Smarter Transformation (BE-ST)**: BE-ST is an innovation centre which aims to accelerate the built environment's transition to zero carbon emissions. BE-ST's partnership model equips colleges (and universities) with the necessary skills,

knowledge, and expertise to respond to the needs of a broad range of stakeholders. BE-ST supports colleges through a range of measures, including:

- connecting colleges with its diverse stakeholder network.
- enabling colleges to access BE-ST's assets and resources.
- providing upskilling opportunities for college staff.

Following our 2021 National Review in which we recommended the introduction of a revised approach to strategic provision planning and skills alignment, we established two SFC-convened Regional Tertiary Provision Pathfinders (Pathfinders): one in the North-East of Scotland and one in the South of Scotland. These Pathfinders have tested a new approach to strategic planning and partnership working at a regional level. They have focused on assessing demand and translating this into future tertiary and skills provision that balances the needs of students, employers, and broader economic and social drivers. They have piloted new ways of collaborative working with other educational and skills partners to meet current and future needs of students and employers in the two regions. We would be pleased to share with committee members our findings from the Pathfinders, which will be published this summer.

Determining course provision

Colleges and, in multi-college regions, Regional Strategic Boards (RSBs) determine their own course provision, and they base their decisions on a range of factors, including student and employer demand, optimal class sizes and the institution's teaching capacity.

We liaise with colleges and RSBs about their provision planning as part of our routine engagement with them, which is underpinned by our Outcome Agreements which are a condition of grant from SFC. Our Outcome Agreement Guidance for AY 2023-24 requires institutions to provide information about how they are using data and intelligence and engaging with stakeholders to adapt, develop and align provision to meet the needs of students, industry, and other stakeholders. It also requires institutions to outline how they work with key partners to understand and respond to the current and prospective skills needs of individuals through all stages of life, address employer, industry and regional skills needs, and contribute to workforce planning.

Our recent report on the Financial Sustainability of Colleges in Scotland 2020-21 to 2025-26 sets out that, in the context of a challenging fiscal environment and the need to make savings, we are seeing a mix of strategies being adopted to respond to the challenging financial environment, for example:

- exploring opportunities for strategic collaborations.

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- reviewing teaching provision, including the balance between on campus and distance learning, with a view to consolidating or rationalising curriculum, including the closure of courses that are considered to be not financially unsustainable.

Our Pathfinders are testing new approaches to provision planning. Collaborative working between partners in the region has focused on delivering changes in curriculum, course offer, and marketing materials designed to inform students about course choices, their learner journey and progress into key areas of employment in the region. The Pathfinders have built upon the strong foundations of colleges' existing engagement with schools to help pupils and influencers understand new courses and pathways that will lead to future jobs in the region.

I hope this information is helpful.

Yours sincerely,

Karen Watt

CEO
Scottish Funding Council