

Submission to the
Scottish Government's Spending Review 2017

June 2016



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1. Executive Summary

This document represents the submission from Colleges Scotland, the representative organisation and the Employers' Association for the college sector, to the Scottish Government's Spending Review 2017.

Colleges Scotland is of the view that this submission delivers the following:

- a realistic ask for the necessary investment in the college sector for 2017/18 and subsequent years
- builds on the transformational agenda for the tertiary education landscape that was laid out in the previous Colleges Scotland Spending Review submission.

This will enable Scotland's colleges to maximise their potential to deliver:

- Sustainable and innovative institutions
- Skilled and successful learners
- A stronger economy and fairer society.

This is set out in diagrammatical form at the end of the Executive Summary.

Background

Following the change in the college sector landscape over the last few years, colleges now operate within a regional structure that extends their existing influence and capacity to:

- contribute positively to the delivery of sustainable vocational education provision for the benefit of students in their career choices
- fully deliver the potential benefits to the Scottish economy
- support Scottish Government priorities and contribute to Scotland as a nation, the economy, our communities and individuals
- tackle inequalities
- widen access and achieve greater fairness and equality in the education sector
- maintain the quality of courses delivered
- provide high value in return for the public investment in the sector
- play a role in the innovative solutions set out in this submission that will provide the Scottish public with greater value from every £1 spent in tertiary education.

Colleges Scotland is of the view that with the investment and innovative changes laid out in this submission, the college sector can continue to contribute to help grow an economy that is strong, sustainable, fair and inclusive, and which helps tackle inequality.

The investment will build on the recent reforms and support and empower the colleges to deliver an education system that continues to focus on the skills and training that help young people find work, and that gives all young people the chance to reach their potential and achieve their ambitions. One that gives every child a fair chance in life.

Economic Value of the College Sector

An independent study undertaken in September 2015 on the economic value of Scotland's colleges, looking at both the investment analysis and an economic impact analysis, showed that colleges deliver £14.9 billion for the Scottish economy each year, representing 8.8 per cent of the total economic output of the nation, and for every pound invested there is a 6-fold return on investment.

Sustainable and Evidence Based Investment

The college sector is looking for adequate and sustainable investment from the Scottish Government to ensure that the funding which is essential to deliver on Scottish Government priorities is available. This is crucial following the recent series of mergers, the implementation of regionalisation, reclassification of the sector by the Office for National Statistics (ONS), the reintroduction of National Bargaining and additional cost pressures that are outwith the sector's control. This is not only critical to allow the vital educational activities of Scotland's colleges to keep benefiting students but would also continue to support the wider Scottish economy.

Adequate investment will help preserve the quality of provision as well as supporting the Scottish Government's policy priorities such as economic growth, widening access, reducing inequalities, fairness, Developing the Young Workforce (DYW) and gender balance.

Recommendations

In view of the above, Colleges Scotland makes the following recommendations for the 2017 Spending Review. The funding required is set out in four separate tables within the Executive Summary, covering the following areas:

Revenue operational funding	Required in order to maintain current operation of the colleges
Revenue capacity building funding	Required for colleges to do additionally what is expected of them in support of the policy aims of the Scottish Government
Capital	Required to ensure safe and suitable assets for delivery of learning in an appropriate environment
Workforce for the Future	Required to deliver both innovative and sustainable institutions and skilled and successful learners

Given the current funding challenges faced by the college sector, including the on-going concern over financial sustainability of several colleges, Colleges Scotland is of the view that the total funding of all four of these areas is required.

In addition, all colleges need to generate differing levels of additional income to allow delivery of teaching and learning, with, on average across Scotland, colleges required to generate approximately 30% of income from sources other than public money allocated through the Scottish Funding Council (SFC), simply to allow provision of day-to-day college activity.

Revenue Operational Funding

Innovative and Sustainable Institutions

1. Provide an increased and adequate sustainable level of revenue funding to ensure resource essential to deliver on Scottish Government priorities. This must, as a minimum, include the following revenue operational funding for 2017/18:

Category	Costs /£m
Baseline revenue funding	530.3
Increased unit of resource funding received in 2016/17 for recurring costs	7.9
Adjustment for inflation (using September 2015 Retail Prices Index (RPI) figure of 1.1%)	5.9
Pay award (in line with 1% public sector pay policy)	4.4
Additional pension costs following tri-annual revaluation exercise	4.0
Increased National Insurance as a result of end of contracting out	8.0
Maintaining Student Associations	2.0
Apprenticeship Levy	1.9
TOTAL	564.4

2. The baseline figures (£530.3m and £7.9m as set out in the table above) for 2016/17 have been uplifted for the impact of inflation. The inflation figure used has been to apply the September 2015 Retail Prices Index (RPI) figure, as released by the ONS. The use of September's inflation data is common practice for calculation of annual uplift of figures. The RPI for September 2015 was calculated by the ONS as 1.1%.
3. To sustain this increased funding level in real terms across the Spending Review period, whilst recognising additional cost pressures that are out with the college sector's control in future years, e.g. any potential impact of the announcement of the reduction in the discount rate for the public service pension scheme that will impact from 2019 and knock-on consequences from Workforce for the Future decisions.
4. The sector would welcome the development of greater regional flexibility within the existing delivery framework, which achieves the Scottish Government's target of 116,000 FTEs (Full Time Equivalents), and is responsive to demographic trends and differing regional needs, and which allows for variation with regard the full-time and part-time regional mix. In parallel with this greater regional flexibility within the delivery framework, the college sector would need to see a mechanism to increase the credit price for each credit from the current level in order to cover operational costs and ensure financial sustainability in the sector. Without this greater flexibility within the delivery framework and increased credit price the financial pressures in the college sector would not be addressed, and it would jeopardise the long term sustainability of colleges. This framework would continue to be consistent with, and contribute to, the delivery of key Scottish Government policy priorities.

5. The Scottish Government is asked to actively support the work underway to identify solutions in relation to the challenges faced by colleges attempting to generate a greater proportion of commercial income. The college sector has huge potential to bring benefit to the Scottish economy – through inward investment from abroad and by providing opportunities for global learning and connectivity. As part of this, Colleges Scotland is asking the Scottish Government and the SFC to consider how more flexibility can be provided to the college sector following reclassification, through appropriate changes to areas such as the Statement of Recommended Practice (SORP) and accounting rules that apply. It should be remembered that regional colleges differ in what can be delivered in terms of commercial income in their geographical area. Further details are set out in section 4 of this submission.

Skilled and Successful Learners

6. Seek support from the Scottish Government for the innovative solutions, initially set out in the Spending Review 2015 submission from Colleges Scotland, which will assist in releasing efficiencies from, and increasing the effectiveness of, the learner journey. These innovative solutions should form part of a co-ordinated framework which has the progression of the learner at its heart.
7. The review of the learner journey should be based on the following principles:
- Learners must be given full recognition for their prior attainment as they progress between institutions without unnecessary repetition of any Scottish Credit and Qualifications Framework (SCQF) level unless it is the interest of the learner (e.g. in order to change career direction or to consolidate learning)
 - Learners should be able to progress flexibly and not be inhibited by systemic or institutional factors
 - All learners should have equal access to a consistent and coherent post-16 learning framework
 - Learner choices should be informed by comprehensive, objective and transparent advice and guidance.
8. Within this context, the innovative solutions the sector could deliver include:
- a. Identify and remove any potential duplication faced by a student on their learner journey, ensuring that the progress of a learner is not inhibited by systemic or institutional factors. This can be achieved through, for example, funding fairly following the learner, as well as standardising the articulation routes by moving to a '2+2'¹ or a '2+1'² model of delivery of an honours or ordinary degree respectively. This would ensure that all institutions give the same recognition for the same qualification when the learner is applying to the same or similar course at the same SCQF level. These would assist in shortening, but not reducing the benefits, of the learner journey, thus helping to produce a workforce of greater productivity and skill, allowing more people, from all backgrounds, to participate in the labour market more quickly and bringing greater economic benefit. Such an approach would also be increasingly valued by the employer.

¹ '2+2' model, means where the first two years of education towards an honours degree is undertaken at a student's local college, before articulating into year 3 and completing the final 2 years at a university in order to complete the honours qualification

² '2+1' model, means where the first two years of education towards an ordinary degree is undertaken at a student's local college, before articulating into year 3 and completing the final year at a university in order to complete the ordinary degree qualification

- b. The final report of the Commission on Widening Access was published in March 2016. Its focus is on widening access to higher education by promoting a systemic approach to addressing socio-economic inequalities that obstruct fair access. It identifies a number of areas where colleges can work closely with early learning providers, schools and universities to support disadvantaged learners in the earlier stages of their learning. The Sutton Trust report³, published in May 2016, highlights the vital role that the college sector has played in widening access, stating that "The improved access for disadvantaged students in Scotland ... has been met almost entirely by the expansion of sub-degree programmes in Scottish colleges. Since 2006, 90 per cent of all the growth in entry into Scottish higher education by disadvantaged students has been through sub-degree courses in colleges. The funded places at the ancients are a notable exception, but there have been few other extra university places taken by disadvantaged students". The Scottish Government, working with other key stakeholders, should further explore and implement the widening of access to higher education through colleges. This approach would widen access as the college sector has already demonstrated its ability and willingness to tackle inequalities, to reduce the attainment gap, and to deliver education to learners from some of the most deprived postcodes and those furthest from the workforce. This approach would also have subsequent savings to the public purse due to the recognised lower costs of delivering higher education in colleges.
- c. Allow for the increased delivery of Modern Apprenticeships directly by the college sector, with the appropriate funding being received as an additional direct payment to the sector.
- d. Ensure a continuous pathway, with barriers removed, through the learner journey. Colleges fulfil a vital link between learners undertaking vocational education and training for both schools and employers. This can be achieved through building on the work undertaken by colleges in 2015/16 to bring efficiencies in the delivery of the DYW programme. All learners should have equal access to a consistent and coherent post-16 learning framework. DYW funding should be focused on developing college capacity as vocational hubs, rather than through local government to schools, as so far the very different approaches adopted by schools in supporting the DYW has led to the opportunities available to learners to differ widely, and has introduced inefficiencies into the system. Having recently undergone structural change in the college sector, Colleges Scotland would be willing to share this experience, if this assists in developing future efficiencies through consideration of further regional approaches in other parts of the educational landscape.
- e. Increasingly the learner journey will require greater flexibility in the delivery of programmes to meet the differing needs of individuals and employers. Individualised programmes and personalised learning will shorten and improve the learner journey. There is also a need for flexibility in curriculum design to support non-linear lifelong learning journeys to enable individuals to combine both work and study. Flexible delivery in the home, workplace and college, utilising new and emerging technologies to deliver blended learning, will increasingly be the norm. It is essential that the sector's Workforce for the Future has the skills, knowledge, and working practices to provide the greatest educational benefit to learners and to the economy.
- f. Improve the relationship with Skills Development Scotland (SDS), genuinely exploring the efficiencies, along with consistent quality assurance, and expanding the college role in delivery of additional apprenticeships funded by the Apprenticeship Levy, thus maximising the potential of colleges to deliver SDS programmes at national and regional level.

³ The Sutton Trust, May 2016, *Access in Scotland - Access to higher education for people from less advantaged backgrounds in Scotland* http://www.suttontrust.com/wp-content/uploads/2016/05/Access-in-Scotland_May2016.pdf

- g. Allow added value and employability for individual learners to the primary qualification being studied for, through the provision of an additional qualification, e.g. Microsoft qualification or 'working at height' certificate, where this genuinely adds to the employability of the learner, or where workplace preparation is enhanced through active personal development e.g. tackling mental health issues or ensuring wellbeing for work.
- h. Learner choices should be informed by comprehensive, objective and transparent advice and guidance. This is to ensure that the learner has all the relevant information to explore all the potential routes through the learner journey.

Revenue Capacity Building Funding

9. Provide an increased and adequate sustainable level of revenue funding to ensure resource essential to deliver on Scottish Government priorities. This must, as a minimum, include the following revenue capacity building funding for 2017/18:

Category	Costs /£m
Fair and standardised student support system	15.0
To build capacity for innovation	8.0
TOTAL	23.0

10. For the Scottish Government to introduce a fair and standardised student support funding package, and fully meet the cost of college student support funding demand. To work with Colleges Scotland and other key stakeholders in relation to implementation of the recommendations from the Student Support Review Group⁴, and to ensure adequate funding for these recommendations.
11. Scotland's colleges have a key role to play in encouraging and supporting an innovative economy, facilitating knowledge transfer of skills for innovation within the economy, providing business incubator space and ensuring access to resource to aid start-up of ventures. Innovation is a priority identified in the Scottish Government's Economic Strategy and Programme for Government.
12. Innovation for Small and Medium-sized Enterprises (SMEs) is focused on skills innovation, for the benefit of the SME and the wider economy. The effective working relationships and knowledge between colleges and SMEs within a region means that colleges are ideally placed to support SMEs in relation to innovation, including acting in partnership with universities and innovation centres. To aid this relationship and maximise the benefit within the new regional landscape, and following reclassification of colleges as public bodies, colleges need to look afresh at developing the capacity for regional engagement to:
 - work with universities and innovation centres
 - support innovation
 - roll out business incubator space
 - ensure access to resource to aid start-up of ventures.
13. Colleges Scotland sees the benefit of running these four separate, but related, programmes. The sector is seeking strategic funding of £2m per programme per annum to enable these four work programmes to be taken forward. Further details are set out in section 5 of this submission.

⁴ Scottish Funding Council, November 2014, Student Support Review Group
http://www.sfc.ac.uk/web/FILES/Funding_Streams_Student_Support/Student_Support_Review_Group_Final_Report_Updated.pdf

Capital Funding

14. Provide an increased and adequate sustainable level of capital and capital maintenance funding to ensure resource essential to deliver on Scottish Government priorities. This requires, as a minimum, the following funding for 2017/18 to 2019/20:

Financial Year (FY)	Capital Need/ £m	Capital Maintenance/ £m
2017/18	100	50
2018/19	125	50
2019/20	125	50

15. The figure for capital maintenance is simply to maintain the asset in its current condition; it does not include any amount to allow for necessary backlog maintenance to bring the asset up to a satisfactory standard. Additional backlog maintenance funding is required by the college sector.
16. The college sector is more or less entirely reliant on public funds for their capital investment needs, so to provide state-of-the-art facilities to equip students with skills that are in demand in the workplace, maintain and improve the teaching and learning environment for some of the most deprived communities in Scotland and to ensure the college estate supports the delivery of vocational education and training whilst students acquire the necessary skills to enter the workforce, the above investment is a necessity. Further details are set out in section 4 of this submission.

Workforce for the Future Funding

Colleges Scotland makes the following recommendations for the 2017 Spending Review in relation to the funding required to operate effectively as an Employers' Association and to fully support the Workforce for the Future, as we move towards implementation of a new contract of employment and conditions of service, as a direct consequence of Scottish Government policy:

17. The college sector currently directly employs just over 11,000 FTE staff. The environment within which colleges operate has changed greatly over the past few decades and it is clear that the environment may change even more rapidly in the coming years. It is important that colleges have the capacity to deliver the type of professional and technical learning that society, the economy and individuals will seek in the future, as well as the ability to employ people in the range of jobs required – learning that is increasingly personalised and flexible, increasingly assisted by and delivered by sophisticated interactive technologies, and, of course, tailored to employers' requirements and in line with students' preferences, needs and aspirations.
18. Creating a fit for purpose, cost effective and professional workforce to meet the needs of the college sector in the future is a challenging and extensive project, and will not be delivered without investment. This change programme will not be dissimilar to other public sector reforms, such as the NHS Agenda for Change or the McCrone agreement with school teachers. This extensive project must include the continued funding of an Employers' Association. Elsewhere in the public sector, large scale changes to terms and conditions in recent times have been accompanied by Job Evaluation exercises. There is a likelihood that this may be required in the college sector as well.

19. In that context, it is important that we identify:

- Key characteristics of a future workforce
- Where we are now, what is changing and where we need to be
- How we ensure learners remain at the heart of everything we do.

20. Provide an adequate and sustainable level of funding to ensure the college sector can continue to deliver on Scottish Government commitments to National Bargaining. The following resources are required, over differing time scales as set out below:

Category	Cost
Continue to fund the establishment of an Employers' Association	£460,000 per annum, to be reviewed before the end of 2018/19. <small>See Note 1</small>
Workforce for the Future pay structure	As an illustration, similar schemes elsewhere in the public sector have resulted in 12% increase of pay bill costs. Further details are set out in section 6 of this submission. <small>See Note 2</small>
Possible implementation of a Job Evaluation scheme as part of National Bargaining	As an illustration, similar schemes elsewhere have resulted in a 6% increase of pay bill costs. Timescales are dependent on a number of external factors. <small>See Note 3</small>

Note 1:

The revised Employers' Association requires additional posts, alongside the current resource input from Colleges Scotland, as well as other support costs, as set out below:

Element	Cost
Staffing costs (including on-costs)	£260k
Support costs	£200k
TOTAL	£460k

Note 2:

Illustration based on the cost of the implementation of McCrone recommendations in schools.

Note 3:

If required, there are standard industry assumptions for Job Evaluation, as well as practical experience from some of Scotland's colleges in undertaking local Job Evaluation exercises, that can assist in providing likely cost parameters. Typically, if a Job Evaluation scheme was undertaken, then the increases to payroll costs are likely to be in the order of 3-6%. It should be noted that this figure does not include the cost to develop and agree any scheme, undertaking effective job analysis, training on the scheme application and appeals and regular reviews to ensure the robustness of the scheme.

Illustrative Costs

Whilst the estimated costs related to the implementation of new contracts of employment and conditions of service, and the possible undertaking of a job evaluation scheme, will be more accurately calculated as the process is undertaken, an idea of the scale of the investment required from Scottish Government can be gained, and this is laid out below. Colleges will continue to seek to identify savings through productivity gains, but the implementation of sustainable National Bargaining and new working practices will require significant investment in the college sector by Scottish Government:

Category	Illustrative Cost Comparison	Illustrative Cost
Workforce for the Future pay structure	Illustration based on the cost of implementing McCrone recommendations in schools, which resulted in a 12% increase in pay bill costs	£53.0m
Possible implementation of a Job Evaluation scheme as part of Workforce for the Future	Illustration based on typical cost increases of 6% to the pay bill, in line with standard industry assumptions	£26.5m
Total Illustrative Costs		£79.5m

National Bargaining

21. Colleges Scotland is looking for the Scottish Government to work with us and other key stakeholders and provide the investment necessary for the Workforce for the Future and the continued development of a fully funded and effective Employers' Association. As part of delivering on Scottish Government policy, considerable work is required over the next few years to deliver national pay scales and implement modernised terms and conditions of service. If required, progress towards a national Job Evaluation scheme and an affordable sector-wide pay structure must be underpinned by robust research and data. Colleges Scotland is also seeking for the Scottish Government to ensure provision of sustainable funding for the delivery of this Scottish Government policy, which in turn will enable the modernisation of the college staffing requirements through the Workforce for the Future programme.
22. Recent pay deals with both lecturing and support staff have indicated a common purpose across the bargaining groups for changes in relation to development of the Workforce for the Future. We would hope that the Scottish Government would support the need for change in the workforce and employee pay and terms and conditions.
23. Further details on all these elements related to Workforce for the Future and National Bargaining are set out in section 6 of this submission.

Stronger Economy and a Fairer Society

The impact of the delivery of these recommendations will be to bring benefits to not only the students, but to society and the Scottish economy.

The vision of both Colleges Scotland and the college sector supports the Scottish Government's policy intentions, in relation to:

- achieving the Scottish Government's target of 116,000 FTEs
- providing a positive student experience
- improving attainment
- Developing the Young Workforce
- widening access to higher education
- tackling inequalities
- expanding opportunities across all socio-economic groups
- providing equality in education
- enhancing the skills of those in the workforce
- strengthening the economy through improving productivity and innovation.

Scotland's colleges contribute hugely to Scotland's economy, communities and individuals. They are uniquely positioned within communities to enable access to the acquisition and development of the professional and technical skills and knowledge required for successful careers, delivered in a way that emphasises fairness and equality.

This vital role fulfilled by colleges helps break the cycle of deprivation and enables people who may not otherwise have done so to access work – increasing a person's life chances. Colleges also assist students in retraining and upskilling, hence allowing them to find different work.

Further details are set out in section 7 of this submission.



2. Introduction

Colleges Scotland is the voice of the college sector in Scotland and supports the sector by ensuring that its views are heard and interests represented. Appendix 1 contains some key college sector facts.

Scotland's 26 colleges, arranged across 13 regions, are spread throughout the mainland and islands of Scotland, serving both urban and rural communities. These colleges form part of the educational landscape of Scotland, working alongside the pre-16 education experience provided by the 32 local authorities and Scotland's universities.

Over the last few years, the college sector has undergone parallel processes of both regionalisation and mergers, resulting in an anticipated annual saving of £50m⁵ to the public purse from 2015/16. Whilst this has been a challenging time, it is recognised that the college sector has approached this in a mature manner and, according to Audit Scotland⁶, has continued to deliver high quality services to students. In the last report published by Audit Scotland, it stated that colleges coped well with the process of reform, maintaining sound finances and learning while undergoing significant reforms⁷.

Following the change in the college sector landscape over the last few years, colleges now operate within a regional structure that allows for sufficient influence and capacity, and which allows colleges to contribute even more positively to the delivery of sustainable vocational education provision for the benefit of students. Colleges are now better able to contribute to the benefit of the Scottish economy and to widen access and achieve greater equality for learners, whilst maintaining the quality of the courses delivered and improving attainment.

Colleges are looking forward to working with the Scottish Government to realise these deliverables.

Vision and Aims

The vision and aims of both Colleges Scotland and the college sector are set out in the Colleges Scotland Strategic Plan⁸.

Vision – Colleges Scotland

Colleges Scotland aims to be at the heart of a world class college sector that is recognised, valued and available to all.

Mission Statement – Colleges Scotland

Colleges Scotland is the collective voice of the college sector in Scotland; striving to create cohesive and sustainable partnerships, demonstrate positive impact, acting as representatives, and campaigning for the sector.

Vision – College Sector

Scotland's colleges – enthusing, inspiring, educating people in all communities regardless of their educational, social or economic background to deliver skills and learning for a prosperous Scotland.

⁵ Audit Scotland, April 2015, Scotland's Colleges 2015

http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf

⁶ Audit Scotland, April 2015, Scotland's Colleges 2015

http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf

⁷ Audit Scotland, Scotland's Colleges 2015 – Press Release: 2 April 2015

http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges_pr.pdf

⁸ Colleges Scotland, Strategic Plan for Colleges Scotland 1 August 2015 – 31 July 2018

<http://www.collegesscotland.ac.uk/briefings-and-publications/publications/443-colleges-scotland-strategic-plan-2015-18>

The vision of both Colleges Scotland and the college sector supports the Scottish Government's policy intentions in relation to providing a positive student experience, Developing the Young Workforce, expanding opportunities across all socio-economic groups, providing equality in education and enhancing attainment and the skills of those already in the workforce.

Contribution of Scotland's Colleges

Scotland's colleges contribute to Scotland as a nation, the economy, our communities and individuals. They are uniquely positioned within communities to enable access to the acquisition and development of the skills and knowledge required for successful careers in work, delivered in a way that emphasises fairness and equality.

Review of Skills Development Scotland, Scottish Funding Council, Scottish Enterprise and Highlands and Islands Enterprise

Colleges Scotland understands the need to review the remit and role of the agencies involved in skills and training in order to ensure that they respond to changes in the environment and are able to fulfil the government's policy ambitions. Colleges Scotland would wish to play the fullest possible role in supporting this review. We believe that colleges will have a key role to play in achieving the government's ambitions and that regionalisation provides a model, based upon collaboration and partnership, which would greatly add value to the work of the agencies.

Currently Ministers, through their letter of guidance to the SFC, set national activity targets and policy objectives which colleges are expected to achieve whilst also ensuring they meet the needs of their region, as agreed through their Outcome Agreement. This differs from the approach of SDS and SE who set national targets which, in our experience, are not flexed to respond to regional needs. So, for example, in rural regions the majority of SMEs, who form the backbone of the rural economy, do not meet the criteria for SE support. This more restricted focus limits the potential to work collaboratively with regional colleges to maximise resource and impact.

Colleges Scotland believes that a model of collaboration and partnership, based upon national targets fulfilled through collaborative working which also takes into account regional need is essential and would welcome the opportunity to expand on these views.

Investment Requirements

The college sector is seeking a fair and sustainable investment to ensure continuity of delivery, in line with Scottish Government policy, which puts the student first and which has positive outcomes for the economy, communities and wider society.

Whilst it is vital for the Scottish Government to understand that reductions in funding and other pressures have now led to a critical point in the delivery of services within colleges and with additional cost pressures about to impact the sector, Colleges Scotland recognises the reality of the public sector funding environment that colleges find themselves in, but believes that in order to maximise the potential created by regionalisation, additional investment is required.

In view of the above, the college sector is looking for adequate and sustainable investment from the Scottish Government to ensure that the funding which is essential to deliver on Scottish Government priorities is available. This is crucial following the recent series of mergers, the implementation of regionalisation, reclassification of the sector, the reintroduction of National Bargaining and additional cost pressures that are outwith the sector's control. This is not only critical to allow the vital educational activities of Scotland's colleges to keep benefiting students but would also continue to support the wider Scottish economy.

Adequate investment will help preserve the quality of provision as well as supporting the Scottish Government's policy priorities such as economic growth, widening access, reducing inequalities, fairness, Developing the Young Workforce and gender balance.

3. Economic and Social Impact of Scotland's Colleges

Having set out the context of colleges within the educational landscape and how the vision and aims support the Scottish Government's policy intentions within the introduction section of this submission, it is important to understand the scope and size of the positive benefits that investment in the college sector brings.

Scotland's colleges create value in many ways. They put students on the path to success and help them increase their individual potential and employability, which in itself leads to the off-setting of other public sector spending. Equally important, they provide employers with the skilled workforce necessary to make their businesses more productive.

The spending of the college sector, along with their staff and students, supports the economy and contributes to increased tax receipts and decreased public sector costs.

Economic Modelling Specialists International (EMSI) undertook an independent study⁹ on the economic value of Scotland's colleges, looking at both the investment analysis and an economic impact analysis. The formal launch of the results from the study took place on Thursday 10 September 2015 by Dr Kjell Christophersen, co-founder and senior economist at EMSI, followed by an endorsement by the then Cabinet Secretary for Education and Lifelong Learning, Angela Constance MSP.

The results of the study, which covers the period 2013/14, show that the college sector creates significant positive value including increased earnings for students, additional tax revenues for the Scottish Government, lower unemployment, as well as upskilling and increased productivity in the economy.

Colleges deliver £14.9 billion for the Scottish economy each year, representing 8.8 per cent of the total economic output of the nation.

A summary of the results is provided below:

Benefits to students	Every £1 that students invest in their education at Scotland's colleges yields £6.30 in higher future wages.
Benefits to society	Society will receive £6.30 in benefits in return for every £1 invested in Scotland's colleges.
Benefits to taxpayers	Taxpayers see £5.70 in benefits returned for every £1 in costs.

Further detail is set out in Appendix 2, with full details available from the EMSI report.

⁹ EMSI, August 2015, *Demonstrating the Economic Value of Scotland's Colleges* <http://www.collegesscotland.ac.uk/emsi>

4. Innovative and Sustainable Institutions

An investment in the college sector is an investment for the benefit of students, our communities and the wider Scottish economy.

Innovative and sustainable institutions will be required in order for Scotland to have a college sector that is able to deliver all of these potential benefits to students, communities and to the economy, alongside delivering Scottish Government policy.

It is vital that the significant changes that the college sector has undergone in recent years are capitalised on, with colleges adequately supported in order to place them in a position that will ensure they are robust and sustainable.

There are three broad parts to this element, with colleges seeking to see positive impact from Scottish Government decisions and activity in the following areas in order to help support the delivery of innovative and sustainable institutions:

- Adequate and sustainable investment
- Current delivery framework
- Commercial activity.

Each of these is considered further in this chapter.

Sustainable and Evidence Based Investment

Revenue

As is readily evident from this submission, colleges have the capability and desire to deliver on a range of Scottish Government priorities and policy drivers. Investment by the Scottish Government in the college sector is an investment for the Scottish economy, equality, fairness and widening access, to name but a few.

Without adequate investment, the opportunities available for the college sector to provide a suitable and appropriate learning experience for students, and contribute to a wide range of key Scottish Government priorities, will be lost.

The sector has already made very significant efficiency improvements which have resulted in large cost savings. This has left the college sector at a resource level which, even with the 'flat-cash' settlement announced as part of the Spending Review in December 2015, is inadequate to avoid serious and unsustainable financial pressures for individual colleges, and would leave existing and planned commitments unaffordable.

All available efficiencies have been implemented through the regionalisation and merger processes, and any further efficiencies from structural changes would only be marginal. Reductions in teaching and learning and a removal of opportunity for the communities which are served by colleges are inevitable, along with the negative impact on the Scottish economy, unless additional funding is found for the sector.

Revenue Operational Costs

In view of the above, Colleges Scotland is requesting that the Scottish Government provides an increased and adequate sustainable level of funding to ensure funding essential to deliver on Scottish Government priorities. This should, as a minimum, include the following revenue operational funding for 2017/18:

Category	Costs /£m
Baseline revenue funding	530.3
Increased unit of resource funding received in 2016/17 for recurring costs	7.9
Adjustment for inflation (using September 2015 Retail Prices Index (RPI) figure of 1.1%)	5.9
Pay award (in line with 1% public sector pay policy)	4.4
Additional pension costs following tri-annual revaluation exercise	4.0
Increased National Insurance as a result of end of contracting out	8.0
Maintaining Student Associations	2.0
Apprenticeship Levy	1.9
TOTAL	564.4

Baseline Revenue Funding

The Scottish Government confirmed its commitment to deliver a flat-cash settlement to the college sector for 2016/17. Colleges Scotland sees this as a vote of confidence in the sector and a strong recognition of the valuable work that colleges deliver for the benefit of students, business and communities across Scotland. While finances are tight, we believe that we have robust financial monitoring systems and clear accountability to ensure that we deliver value for money. We recognise that the sector has to live within a tight financial settlement and work in partnership with the Scottish Government as well as the private sector and other organisations to deliver courses of the highest possible quality for students. Colleges are committed to ensuring that they work in conjunction with schools, universities, employers and key stakeholders to deliver clear pathways to employment and improved skills. In order to continue to do this, Colleges Scotland is seeking a change in the baseline funding amount for the college sector in 2017/18.

Increased Unit of Resource Funding Received in 2016/17 for Recurring Costs

In recognition of the unsustainable cost pressures that the college sector would face in 2016/17, the SFC reprioritised some of its funding, and invested a further £7.9m in colleges, in response to the Scottish Government's Letter of Guidance dated Monday 8 February 2016. As these cost pressures are recurring, it is vital that this resource continues to be included in the baseline investment amount for the college sector, and Colleges Scotland seeks that this £7.9m is included as part of the revenue funding received in 2017/18.

Adjustment for Inflation

The baseline figures (£530.3m and £7.9m as set out in the table above) for 2016/17 have been uplifted for the impact of inflation. The inflation figure used has been to apply the September 2015 Retail Prices Index (RPI) figure, as released by the ONS. The use of September's inflation data is common practice for calculation of annual uplift of figures. The RPI for September 2015 was calculated as 1.1%.

Pay Award (in line with 1% public sector pay policy)

Whilst it is too early to know the outcome of any pay award for 2017/18 for either lecturing or support staff, it is important that a sensible and justifiable working assumption is used to allow for the funding necessary to continue to pay a motivated and dedicated workforce is included in the revenue funding for the college sector. In line with public sector pay policy of maintaining a 1% rise in pay, Colleges Scotland has applied this to the total pay bill of the college sector as reported to the SFC in the Quarter 4 Resource Returns, up to and including the 12 months to March 2016. Colleges Scotland is therefore seeking an amount of approximately £4.4m for this pay uplift, and to help demonstrate the Scottish Government's commitment to the staff within colleges.

Additional Pension Costs following Tri-annual Revaluation Exercise

The majority of college staff are members of a pension scheme. In the case of lecturing staff, the standard scheme is the Scottish Teachers' Pension Scheme (STPS). The Public Service Pensions Act 2013 requires regular actuarial valuations of public service pension schemes in order to ensure that scheme costs are properly accounted for and the appropriate level of contributions are paid. The STPS undergoes an independent actuarial exercise every three years. The latest revaluation identified a need for employer contributions to rise, and this was applied from September 2015. Colleges Scotland surveyed all colleges, which identified an additional cost which is completely outwith the sector's control, of approximately £4m for 2016/17 onwards.

If colleges were required to find this additional cost pressure from current resources, then a further sizeable squeeze on available resources would occur, resulting in a potential drop in student numbers. In view of this, Colleges Scotland is seeking £4m from the Scottish Government from 2017/18 onwards to offset the increased pension contribution costs, in order to allow the focus of colleges to be on activity that benefits students.

Increased National Insurance as a Result of End of Contracting Out

The Pensions Act 2014 brought in provisions to implement the single-tier State Pension. The single-tier pension will replace the current basic State Pension and additional State Pension with a flat-rate pension, and was introduced from April 2016. As a consequence of this, there is no state second pension and therefore contracting out of this element can no longer occur. This has led to an increased rate of employer National Insurance (NI) that is paid. Colleges Scotland surveyed all colleges which identified an additional cost, which is completely out with the sector's control, of £8m for 2016/17 onwards.

If colleges were required to find this additional cost pressure from current resources, then a further sizeable squeeze on available resources would occur, resulting in a potential drop of student numbers. In view of this, Colleges Scotland is seeking £8m from the Scottish Government from 2017/18 onwards to offset the increased employer NI costs, in order to allow the focus of colleges to be on activity that benefits students.

Maintaining Student Associations

The Framework for the Development of Strong and Effective Students' Associations in Scotland¹⁰ was developed by the Scottish Government, NUS Scotland and the SFC, and endorsed by Colleges Scotland. This followed the Post-16 Education (Scotland) Act which required colleges to ensure students are represented by an association. Colleges are required to support student bodies to ensure they are autonomous, accountable and representative.

¹⁰ Framework for the Development of Strong and Effective Students' Associations in Scotland
http://media.wix.com/ugd/7a7649_d3dbf66a8b114b9cb0ad8dfaa7ec2da4.pdf

Separate initial funding was identified for the establishment of the Student Associations, but with the ending of that dedicated funding scheme, colleges are now required to find the funding. However, as previously mentioned, the current funding for the college sector is already under significant pressure and is unsustainable, and if this activity related to providing full sector support for the operation of Student Associations was required to be funded from current college budgets, then it will simply directly impact students themselves. Colleges do not want to see such an impact, and in view of this Colleges Scotland is seeking an additional £2m in 2017/18 onwards to cover these costs.

Apprenticeship Levy

The Apprenticeship Levy, which will apply across the whole of the UK from April 2017, is expected to require all employers (public, private and third sector), with a pay bill over £3 million each year, to pay a levy towards providing an increase in the number of apprenticeships. As currently understood, this levy would impact almost all colleges in Scotland, and a preliminary assessment based on sector-wide salary bills, has led to an estimate of an additional cost to Scotland's colleges of nearly £1.9m.

The detail of the amount of the levy that will be available to the Scottish Government is still under discussions between relevant Ministers in Westminster and Holyrood. Also unclear at this stage is how the resource generated by the levy will be utilised in Scotland to create more apprenticeships. This issue is important to understand in the wider context of the most cost effective way to provide apprenticeship training in Scotland, and is covered in more detail in section 5 of this document.

Revenue Capacity Building Funding

Colleges Scotland is requesting that the Scottish Government provide an increased and adequate sustainable level of funding to ensure funding essential to deliver on Scottish Government priorities. This should, as a minimum, include the following revenue capacity building funding for 2017/18:

Category	Costs /£m
Fair and standardised student support system	15.0
To build capacity for innovation	8.0
TOTAL	23.0

Fair and Standardised Student Support System

Colleges Scotland supports the implementation of a standard and fair system for student support funding that provides students with adequate financial support, as well as reasonable certainty on the support they are likely to receive for the duration of their study. Other recommendations to improve student support were also included in the Student Support Review final report. Further details are set out in section 5 of this submission.

To Build Capacity for Innovation

Scotland's colleges have a key role to play in encouraging and enabling innovation, facilitating knowledge transfer within the economy and providing business incubator space. Innovation is a priority identified in the Scottish Government's Economic Strategy and Programme for Government. Colleges have particularly effective relationships with SMEs, which are the engine room of the Scottish economy, but which are generally hard to reach and engage.

Colleges Scotland sees the benefit of running three separate, but related, programmes. The sector is seeking strategic funding of £2m per programme per annum to enable these three work programmes to be taken forward. Further details are set out in section 5 of this submission.

Future Years of the Spending Review

It is vital that once adequate and sustainable investment is received for 2017/18, that this increased level of funding is maintained, in real terms, throughout all the years covered by the Spending Review. In view of this, Colleges Scotland seeks assurances from the Scottish Government that it will sustain this funding level in real terms across the Spending Review period.

Capital

The condition of the college estate is variable, and whilst there has been significant capital investment in the college sector over the last few years, some college campuses are in a very poor state of repair and require urgent attention. In this regard, there would be significant benefit to students for increased capital investment. Continued investment in the college estate and Information and Communications Technology (ICT) capital is vital in order to ensure students have the best possible learning experience, to make sure they are being taught in appropriate and safe facilities, to bring equity to the student experience and to allow colleges to fully contribute to Scottish Government priorities. This investment also supports innovation, new markets and entrepreneurship through investing in college assets to provide state-of-the-art facilities in order to equip students with the professional and technical skills to be work-ready.

Due to the constraints of the ONS reclassification of colleges, they can no longer borrow and are more or less entirely reliant on public funds for their capital investment needs. Colleges Scotland is working with the SFC to set out a 10 year strategy for capital investment which is expected to be finalised during 2016. This includes investment in low carbon technology and in measures that mitigate and reduce the impact of climate change. The college sector wants to fully contribute to reducing the carbon emissions of Scotland and this forms part of the approach going forward.

Whilst the 10 year strategy is developed, the SFC has previously undertaken work which has already assisted in identifying colleges that have major capital investment needs, and for these colleges the only solution is SFC capital funding.

There would be great benefit to planning for capital if there was a mechanism that could be discussed and implemented, within the current framework, which facilitated the college sector to manage investment decisions between years. For example, a mechanism that allowed carry-forward of amounts that did not exceed a few million pounds would be very beneficial to the sector. This would allow the flexibility in capital planning and lead to more efficiency, thus benefiting both students and the college.

Capital Maintenance

Alongside capital investment, funding to maintain assets and to ensure that previous capital investment is not degraded needs to be provided. Due to the constraints of the ONS reclassification and the other financial pressures faced by the sector, colleges are currently unable to provide capital maintenance funding sufficient to maintain them at an acceptable level. Without adequate maintenance funding there will be a negative impact on the learning and teaching environments at colleges, and assets will deteriorate, thus an increase in SFC capital maintenance funding is required to address this.

Working with Colleges Scotland, the SFC has assessed the capital maintenance needs from a number of Non-Profit Distribution (NPD) programmes. This has provided some evidence around a figure of £50 per square metre per year, as an amount that allows for adequate capital maintenance to ensure the upkeep of the condition of the buildings. The college estate in Scotland extends to around 900,000 square metres. Further work is currently being undertaken to provide further robustness that will underpin this data.

Backlog Maintenance

The figure of £50 per square metre per year is simply to maintain the asset in its current condition; it does not include any amount to allow for necessary backlog maintenance to bring the asset up to a satisfactory standard.

Funding Needs of the College Sector

Relying on the SFC's understanding of the capital and maintenance need ahead of further development of the 10 year infrastructure strategy, the estimated need for the college sector over the next three years is laid out in the table below (excluding any potential capital receipts). Whilst the capital maintenance cost figures below include an estimated amount for implementation of carbon reduction measures at six colleges following pilots, they do not include any costs related to backlog maintenance.

Financial Year (FY)	Capital Need/ £m	Capital Maintenance/ £m
2017/18	100	50
2018/19	125	50
2019/20	125	50

The college sector is more or less entirely reliant on public funds for their capital investment needs, so to maintain and improve the teaching and learning environment for some of the most deprived communities in Scotland and to ensure the college estate supports the delivery of vocational education and training whilst students acquire the necessary skills to enter the workforce, the above investment is a necessity.

Three-year Indicative Funding

Colleges Scotland is seeking clear statements on the draft budgets for all years covered by this Spending Review, which we understand is likely to be for three years, from 2017/18 until 2019/20. Audit Scotland, in its Scotland's Colleges 2015 report, highlighted the importance of greater longer term financial planning by the college sector. Certainly the scale and number of changes over the last few years has not allowed colleges to look ahead more strategically, but another key constraint to longer term strategic planning is the lack of clarity over future budgets. Colleges Scotland is asking that the Scottish Government take the opportunity that this Spending Review presents to set out unambiguously the funding that will be available to the college sector throughout the whole Spending Review period.

It is also vital that the Scottish Government recognises future additional cost pressures that are out-with the college sector's control, but are known, or are expected or likely, to impact the sector during the Spending Review period.

One such cost pressure will be the impact on the college sector of the roll-out of the Scottish Government's policy on extending the number of hours of childcare available from the current 600 hours per year to 1140 hours per year by 2020. The large estimated increase in the number of nursery workers will need to be trained in colleges, and Colleges Scotland will expect the additional costs associated with this for colleges will be factored into the development of this policy, and fully funded by the Scottish Government.

Another likely additional cost pressure for colleges is linked to the recent announcement by the UK Government in relation to the reserved area of public pensions. In the last budget, the Chancellor of the Exchequer set out that there would be a reduction in the discount rate for public service pension schemes. The Scottish Public Pensions Agency (SPPA) has shared HM Treasury estimates that the change in the discount rate, all other things being equal, would increase employer contribution rates across the Scottish Teachers' Pension Scheme by around £35m per annum from 2019/20. Taking an average membership proportion for college staff in the scheme would suggest this change could increase the costs of the college sector in Scotland of around £1.9m per annum.

Assets

The 26 colleges across Scotland, in 13 regions, are spread throughout the mainland and islands, with the colleges having multiple campuses and numerous outreach centres. At the end of 2012/13, sector fixed assets were approximately £1,094 million (£1,078 million for incorporated colleges and £16 million for non-incorporated colleges)¹¹, although it should be noted that Orkney College UHI and Shetland College UHI are not included. The asset base of the colleges, comprising nearly 1,000,000 square metres in size, forms a unique framework of accessible buildings within communities, and these buildings present a positive and well known locations for people to attend. There is the potential for a wider scope for the use of these buildings for a range of other public services that both students and the wider community could access.

Young people may need to access a wide range of public services, and co-locating them within a college campus makes sense on likely take-up rates, coverage and ease of contact. It also allows more sensitive or confidential services to be offered at a neutral location, raising the likelihood of a successful impact.

Whilst individual circumstances (including possible constraints on use of buildings due to ownership or covenants etc.) would need to be explored, there is nonetheless the potential for college buildings to be used for co-locating other services offered by a wide range of public bodies to members of a community, but also as a base for offices and meeting facilities to aid public services.

The appropriateness and ability to offer co-located services should ideally be initiated at the planning and financing stages of investment opportunities related to either new-builds or refurbishment, however possible opportunities that may exist with current assets as they stand should be considered.

This sharing of assets would allow savings to be made by other public sector bodies, leading to an overall benefit to the public purse.

European Funding

In the current economic climate, some colleges are increasingly reliant on sources of European funding to support the day-to-day operational delivery of courses. Since the introduction of the 2014-2020 EU Structural Funds Programme in Scotland, it is no longer possible for colleges in Scotland to directly submit bids for these funds. Funding bids are submitted through lead partners on behalf of organisations within their sector, which in the case of the college sector involves the SFC acting as lead partner.

¹¹ Scottish Funding Council, College 2012-13 consolidated spreadsheet
<http://www.sfc.ac.uk/guidance/Governance/FinancialSustainability/FinancialSustainabilityGuidance.aspx>

Colleges Scotland is seeking an assurance that the full potential of both European Regional Development Fund (ERDF) and European Social Fund (ESF) funding can be accessed by colleges going forward, and that appropriate mechanisms can be discussed between the key stakeholders and introduced. Full use of such funding has in previous programmes enabled colleges to use their capital allocations or other external funding as match funding to lever in ERDF to generate larger scale projects than they would otherwise have been able to do.

Delivery Framework

Addressing Government Policy Priorities

Colleges Scotland believes that the current delivery framework needs to reflect greater regional flexibility, to ensure that it allows regions to deliver services required within their locality, without causing intolerable pressure on the resources available within the region.

It is recognised that the delivery framework would need to continue to be consistent with, and contribute to, the delivery of key Scottish Government policy priorities, such as:

- Achieving the target of 116,000 FTEs
- Widening access to higher education
- DYW programme
- Supporting Curriculum for Excellence
- Reducing the attainment gap
- Providing assistance for those furthest from the workforce
- Addressing gender imbalance
- Partnership Action for Continuing Employment (PACE)
- Maintaining the number of full-time equivalent college places.

Responding to Regional Needs

The college sector has worked hard over the last few years to bring about improvements, in both student outcome and support. For example, in 2014/15, 10,916 more students (further education and higher education) successfully completed full-time courses leading to recognised qualifications than in 2008/09. However, with the scale of reductions to the investment in the college sector over that same period, some colleges are now facing serious challenges to their continued sustainability.

Colleges Scotland wishes to see greater regional flexibility within the existing delivery framework, which is responsive to demographic trends and differing regional needs, and which allows for variation regarding the full-time and part-time regional mix. Such an approach would allow the college sector to continue to develop into a place where they can be sustainable institutions, whilst being able to deliver innovative solutions that cater for the particular needs of the region. This regional flexibility can then more readily take into account local demand, supply and changing patterns of participation.

The college sector is looking for discussions around the flexibility within the existing delivery framework so that each region can build its capacity in the most appropriate area, and we can see across all regions an increase in the ability of colleges to meet regional as well as national need, and achieve the most efficient and effective impact on students, communities and the wider economy.

Such discussions would also be linked to our innovative solutions around colleges acting as vocational hubs, and this is discussed further in section 5 of this submission.

Activity Targets

As mentioned, greater regional flexibility within the existing delivery framework would have the capacity to see growth occur across all college regions, and not just those that currently have capacity to see growth in Developing the Young Workforce. The college sector is of course aware of the importance placed by the Scottish Government on maintaining at least 116,000 FTE places in colleges.

To allow for the necessary regional flexibility, Colleges Scotland would be seeking for the delivery framework to continue to have the volume targets at a regional level expressed in credits. The current Outcome Agreement structure should continue to be utilised to set out the detail at a regional level, whilst ensuring any national level requirements are met.

Credit Price

The level of funding to the college sector has reduced significantly in recent years (yet colleges have maintained student numbers and the level of service), with Audit Scotland's 2015 report stating that overall revenue funding has reduced, in real terms, by 12% in the period 2011/12 to 2015/16. The level of the reduction faced by the sector amounted to nearly £54m between 2011/12 and 2013/14, with Audit Scotland estimating a further decrease of over £15m between 2013/14 and 2015/16. This means a total reduction to the sector since 2011/12 of £69m.

This scale of reduction is unprecedented across the public sector, even taking into account the public sector funding environment that has emerged over the last few years. The result of these reductions is such that colleges have been left with no further significant efficiencies that can be gained, with several colleges now in a position of having unsustainable funding levels. Therefore, Colleges Scotland concludes that the current price paid for activity must be increased above the current level.

Failure to develop and deliver greater regional flexibility within the existing delivery framework, or not to increase the credit price, would jeopardise the long term sustainability of colleges. It would also cause cuts in staffing numbers which would ultimately reduce student numbers and leave colleges in a poor state to cope with the increase in demand due to population growth in the early 2020's. It would lead to potential conflict with the Scottish Government's policy of no compulsory redundancies in the public sector.

Commercial Activity

Impact of Accounting Rules

At the same time as both the regionalisation and merger processes, the sector was also subject to reclassification by the ONS. The result is that colleges are now treated as public bodies and are subject to central Scottish Government accounting rules. The total impacts of this reclassification are still being worked through, but a large number of impacts and changes are now better understood by all sides, and these have resulted in a significant change in approach to financial planning and accountability. For example, colleges can no longer hold reserves, nor borrow, which seriously curtails their ability to plan strategically over a timescale longer than a year or to cultivate innovative business opportunities both domestically and internationally.

Whilst now back in the public sector, it is important to understand that colleges are in a situation where the public funding received does not cover the costs of the activity generated. All colleges need to generate differing levels of additional income to allow delivery of teaching and learning, with, on average across Scotland, colleges required to generate approximately 30% of income from sources other than public money allocated through the SFC, simply to allow provision of day-to-day college activity. This necessity, especially within the new accounting rules following reclassification, places colleges in an unusual position for a public body. It should also be remembered that regional colleges differ in what can be delivered in terms of commercial income in their geographical area.

The serious concerns of the college sector resulting from the impact of the application of the new financial accounting rules, resulted in a joint Colleges Scotland and Scottish Government workshop in September 2015. One of the key areas identified, both from this workshop and other groups, was around the reduction in the incentive for colleges to generate commercial income. As a result, a tripartite Commercial Activity Working Group was established, with representation from Colleges Scotland, Scottish Government and SFC.

Whilst not concluded, the on-going work of the Commercial Activity Working Group has identified barriers and potential solutions, and these are currently been worked through. The important point is for all sides to recognise the vital nature of this work to find the best way forward within the current framework, and to be open to innovative solutions and potentially different ways of working moving forward.

The Scottish Government is asked to actively support the work underway to identify solutions in relation to the challenges faced by colleges attempting to generate commercial income. This work is aiming to identify ways to offset the impacts of reclassification as public bodies, ensuring adequate incentives for colleges to continue with, and grow, the proportion of commercial income. As part of this work, Colleges Scotland is asking the Scottish Government and the SFC to consider how more flexibility can be provided to the college sector following reclassification, and to help identify changes that could be made to provide colleges with the ability to manage resources between financial years.

5. Skilled and Successful Learners

The key contribution that Scotland's colleges make to benefit students, communities and the wider economy, whilst delivering Government policy, is skilled and successful learners.

They achieve this while delivering a student experience and a rounded education that not only provides a suitable and appropriate vocational qualification, but also enhances the student's contribution to society.

We believe that to further improve the flow of skilled and successful learners and the attainment of our students and the contribution they, and colleges in their own right, make to the economy we need to focus on three key developments:

- Learner journey
- A fair and standardised student support system
- Innovation, skills and productivity.

Each of these is considered further in this chapter.

Learner Journey

Colleges Scotland believes that it is in the interests of students, the economy and the public purse that the learner journey is as effective and efficient as possible. This should mean that the journey would be completed in the shortest possible time but in a way which is consistent with the learner's needs.

Over the last few years a number of important policy initiatives have had a significant impact on post-16 education. These include:

- Curriculum for Excellence
- DYW
- The Commission on Widening Access
- The expansion and evolution of apprenticeship programmes.

The Sutton Trust report¹², published in May 2016, highlights the vital role that the college sector has played in widening access, stating that "The improved access for disadvantaged students in Scotland ... has been met almost entirely by the expansion of sub-degree programmes in Scottish colleges. Since 2006, 90 per cent of all the growth in entry into Scottish higher education by disadvantaged students has been through sub-degree courses in colleges. The funded places at the ancient universities are a notable exception, but there have been few other extra university places taken by disadvantaged students".

¹² The Sutton Trust, May 2016, *Access in Scotland - Access to higher education for people from less advantaged backgrounds in Scotland* - http://www.suttontrust.com/wp-content/uploads/2016/05/Access-in-Scotland_May2016.pdf

All of these present new and exciting routes through the learner journey, but also the potential for confusion and duplication. Colleges Scotland believes that the time is right to review the learner journey and the role that the various agencies and institutions play in this. The interest of the learner should be central to this review and we would propose that, to ensure this, the review should be driven by the following principles:

1. Learners must be given full recognition for their prior attainment as they progress between institutions without unnecessary repetition of any SCQF level unless it is the interest of the learner (e.g. in order to change career direction or to consolidate learning).
2. Learners should be able to progress flexibly and not be inhibited by systemic or institutional factors.
3. All learners should have equal access to a consistent and coherent post-16 learning framework available nationally.
4. Learner choices should be informed by comprehensive, objective and transparent advice and guidance.

Currently, there is variation in the way that regions, institutions and agencies have either independently or collectively implemented and interpreted the recommendations and implications of these policies and we believe that it would be in the interests of students to review their potential journey.

Several options could present themselves, some of which are explored below, and whilst at this stage Colleges Scotland acknowledges that further work is required, there is clear merit in exploring what an increasingly integrated educational landscape in Scotland might look like. Colleges Scotland is willing to continue to participate in such discussions.

Articulation

Articulation allows students to progress through the various stages of the educational landscape, whilst ensuring the removal of duplication, and hence it delivers efficiencies that are of benefit to the student and the public purse.

The final report of the Commission on Widening Access was published in March 2016. Its focus is on widening access to higher education by promoting a systemic approach to addressing socio-economic inequalities that obstruct fair access. It identifies a number of areas where colleges can work closely with early learning providers, schools and universities to support disadvantaged students in the earlier stages of their learning.

One such area where colleges can play a role as collaborative partners in driving improvement is the articulation of learners from higher education and access programmes in college to further study at university degree and honours degree level. The college sector has many years of experience of working with university partners to make the transition from college to university as smooth as possible, and to remove any duplication that might put a brake on a student's progress. The college sector can bring this expertise and knowledge to bear on the Commission's desire that these articulation arrangements should be available across the whole of the university sector. In taking forward this work, the college sector will seek to engage productively with the Commissioner for Fair Access, as and when this appointment is confirmed by the Scottish Government.

An example of this partnership working would be increasing the amount and type of articulation routes or moving to a '2+2'¹³ or a '2+1'¹⁴ model of delivery of an honours or ordinary degree respectively, which assists in shortening, but not reducing the benefits, of the learner journey. Such an approach would also be increasingly valued by the employer.

Public funding per head on education varies across the different parts of the educational landscape. It is recognised widely that whilst the delivery of higher education in a college setting costs around £6k per annum per student, the equivalent education within a university would be over £9k per annum per student.

Increasing the amount of articulation routes and the number of applicable students who undertake articulation would bring efficiencies in the process. This could be assisted by different approaches, and Colleges Scotland is seeking agreement from the Scottish Government on the following specific approach:

- Identify and remove any potential duplication faced by a student on their learner journey, achieved through standardising the articulation routes by moving to a '2+2' or a '2+1' model of delivery of an honours or ordinary degree respectively.

The 2+2 and 2+1 models are those in which the first two years of tertiary education are delivered locally at a college before students articulate to university, entering year 3 as standard, and then undertaking a further two years at the university to gain an honours degree (2+2 model) or a further single year at university to gain an ordinary degree (2+1 model). This approach has a number of benefits including:

- reduction in duplication
- lowers student debt
- truly widens access to universities in a sustainable and deliverable way
- reduction in dropout rates, as students first study more locally
- allows for growth in the higher education capacity in Scotland in the most cost effective manner for the public purse.

The Sutton Trust report¹⁵, published on Friday 27 May 2016, highlighted the vital role that the college sector plays through articulation in allowing access to higher education for people from less advantaged backgrounds in Scotland, stating that "The contribution made by (college articulation) has an important role to play in improving university participation and vocational degree courses can complement higher apprenticeships as a route to employment".

Case Studies – Shortening the Learner Journey

Efficiencies across the wider education sector are achievable e.g. in regard to those S4 pupils who leave school with few or no qualifications. If delivery of appropriately tailored college programmes were to take place during S4 and be funded from the local authority education budget then this could improve leaver attainment rates and shorten the learner journey as pupils could then progress on to higher level programmes at college. Likewise, Christmas leavers could also come to college to undertake vocational qualifications. At present this type of activity is being undertaken by colleges without funding.

¹³ '2+2' model, means where the first two years of education towards an honours degree is undertaken at a student's local college, before articulating into year 3 and completing the final 2 years at a university in order to complete the honours qualification

¹⁴ '2+1' model, means where the first two years of education towards an ordinary degree is undertaken at a student's local college, before articulating into year 3 and completing the final year at a university in order to complete the ordinary degree qualification

¹⁵ The Sutton Trust, May 2016, Access in Scotland - Access to higher education for people from less advantaged backgrounds in Scotland - http://www.suttontrust.com/wp-content/uploads/2016/05/Access-in-Scotland_May2016.pdf

Higher National Certificate (HNC) programmes could be delivered to S5 and S6 pupils, alongside (or instead of) National Qualifications such as Highers, which again would shorten the learner journey and, in some cases, offer direct articulation into year 2 of a university programme.

There still appears to be duplication between HNC/D programmes and the 1st and 2nd year of university degrees. Research demonstrates that HNC/D qualifications are highly valued by the business sector but some universities still do not recognise these as being equivalent to 1st and/or 2nd year degree study. Greater recognition and exemption, along with improved management of articulation, would reduce duplication and smooth the learner journey. It would also decrease debt as students would be able to study at their local college and produce savings for the public purse as it would only require the higher level of government funding that universities receive for the 3rd and 4th year of study.

Vocational Hubs

Colleges Scotland wishes to work with the Scottish Government and other key stakeholders to achieve a more effective and efficient approach, and to ensure a continuous pathway, with barriers removed, through the learner journey. One key way this can be achieved is by colleges acting as vocational hubs for delivery of DYW programme outcomes and economic development through appropriate interaction between colleges and local authorities.

A key element of the Scottish Government's DYW programme is the development of senior phase vocational pathways through collaboration between local authorities, schools and colleges. Colleges are in a strong position to contribute their unique vocational educational experience and knowledge to extend the range of vocational pathways available to young people in school. The Commission on Widening Access also highlighted the importance of supportive work by colleges to assist learners to make the transition from school to college, and for adults returning to education.

The implementation plan for DYW presents the details of how Curriculum for Excellence, a regionalised college system, significantly expanded Modern Apprenticeship programme and purposeful employer engagement will be brought together to drive the creation of a world class vocational offer aligned to widening access to higher education opportunities. However, as a result of complexities in the post-16 education system and the very different approaches adopted by school-college partnerships in supporting DYW in different regions, the opportunities available to learners differ widely. This depends mainly upon the relationship with schools and local authorities. In some regions individual schools are responsible for their own implementation of DYW while in others it is the local authority that co-ordinates implementation. This has meant that the focus of some school-college partnerships can be on S3 and S4 pupils whilst in others it is on the senior phase. The implementation plan for DYW foresaw a "formative" phase where different arrangements and solutions would be identified. Colleges Scotland believes that the time is right to move to the "normative stage", where for the sake of equality of opportunity and coherence for the learner a national framework and approach is identified.

For example, colleges have the capability to act as vocational hubs, working in close collaboration with local authorities, schools and other local economic agencies, to develop vocational pathways that match regional and national demands and stimulate the interest of young people in career opportunities. These links between colleges, schools and local authorities can also allow greater interaction to help deliver economic development.

Directing the investment through the colleges as vocational hubs would ensure that the elements of the DYW programme and economic development are delivered in a more resource efficient and consistent manner than the existing arrangements, and at the strategic level necessary to ensure success. The vocational hub approach would also allow a seamless progression for those senior phase students whose need would be best met through engaging with college earlier in their learner journey.

Another important element of the DYW strategy is to build capacity in the system for employer engagement with education and the development of re-engineered curricula that meets employer needs. Colleges are well placed to take forward engagement with employers, both small and large, within their regions, in collaboration with other relevant initiatives and to be of mutual benefit, particularly the regional DYW groups. Colleges tend to have well established links with sector bodies, and processes for employer engagement that have been refined over a prolonged period of practice. With appropriate investment, colleges can build on this foundation to reach out to a wider range of employers and support them in developing an appropriate level of engagement with the provision of education in their area. The part that colleges can play in the future with regards to building links with businesses to help develop innovative solutions has been underlined by the announcement¹⁶, by the First Minister of Scotland on 28 September 2015, of a new £78m fund to assist collaboration between Scottish businesses and tertiary education.

The vital link that colleges can deliver for learners undertaking vocational education and training, with both schools and employers, can be achieved through building on the work undertaken as a result of the £1m colleges received in 2015/16 to bring efficiencies in the delivery of the DYW programme, with colleges acting as vocational hubs. DYW funding should be focused on developing college capacity as vocational hubs, rather than through local government to schools. Having recently undergone structural change in the college sector, Colleges Scotland would be willing to share this experience, if this assists in developing future efficiencies through consideration of further regional approaches in other parts of the educational landscape.

Flexible Learning and Individual Learning Plans

Increasingly the learner journey will involve greater flexibility in the delivery of programmes to meet the differing needs of individuals and employers. Individualised programmes and personalised learning will shorten and improve the learner journey. There is also a need for flexibility in curriculum design to support non-linear lifelong learning journeys to enable individuals to combine both work and study. Flexible delivery in the home, workplace and college, utilising new and emerging technologies to deliver blended learning will increasingly be the norm. It is essential that the sector's Workforce for the Future has the skills, knowledge, and working practices to provide the greatest educational benefit to learners and to the economy. The consequences of a more flexible approach will feed into decisions around the Workforce for the Future, which is covered further in section 6 of this submission.

Apprenticeships

SDS administers the Scottish Government's public funding contribution towards the cost of Modern Apprenticeship (MA) provider services. Colleges are involved in various aspects of the delivery of a very large number of MAs in Scotland, although are only directly contracted by SDS for around 10 percent of the MA programme (around 2,500 apprentices). Therefore there is a large 'hidden' involvement of the college sector.

The additional college contribution to the MA programme comes through organisations that are contracted directly by SDS for the delivery of MAs and who then subcontract some or all of the MA's training element to colleges. This type of provision varies widely, such as the education and training to support a Scottish Vocational Qualification (SVQ), health and safety training required by apprentices going into the workplace, and more general skills for work. In addition to the 'known' contracts of this type (an additional 3,000 or so apprentices), there is a further element arising from the delivery of part-time courses where the college has not been made aware that the student is on an apprenticeship programme.

¹⁶ Scottish Government, 28 September 2015, Press Release: Business innovation boost <http://news.scotland.gov.uk/News/Business-innovation-boost-1da3.aspx>

Over recent years there has been a large difference between the number of contracts awarded by SDS to colleges and the number that were bid for. For example, in 2012/13 a survey of colleges revealed that they had collectively been willing to deliver 56% more MA starts than they had been awarded.

SDS Financial Year (April to March)	Delivered in 2011/12 (AY)	Delivered in 2012/13 (AY)	Delivered in 2013/14 (AY)
Where College Holds SDS Contract			
Total MA starts that were bid for by these colleges (by headcount of starts)	4,300	3,682	3,630
Total MA starts that were awarded , to these colleges (by headcount of starts)	2,358	2,359	2,513
Percentage extra starts these colleges were willing to deliver	84%	56%	44%

The Commission for Developing Scotland's Young Workforce report *Education Working for All!*¹⁷ (June 2014) made a number of recommendations for improving MAs, which the college sector welcomed. It identified that currently the distribution of the MA programme is structured through a complex annual tendering process. This is a resource intensive process for SDS, colleges, training providers and employers, and creates unpredictability and risk in the system.

Colleges are well placed to deliver a wide portfolio of courses in different subject areas to meet student and employer demands but at times are prevented from delivering the optimum solution by the inflexibility of the existing arrangements. Colleges are used to operating at a regional level with their partners, and targeting the education and training needs that have been identified at the local level, and are very well connected through Community Planning Partnerships and Local Enterprise Partnerships to the needs of employers in their regions.

Colleges Scotland would prefer a system of contracting that provided some stability in the funding stream. Giving longer contracts to trusted providers, such as the colleges, would allow colleges to be confident about hiring staff, investing in premises and equipment and training of staff. This arrangement would also help to reduce the levels of administration required on the part of SDS. Within the current system, colleges would prefer to have a partnership with SDS in which colleges have the status of trusted partners and have guaranteed contracts for longer periods than at present, i.e. for two or even three years.

Apprenticeship Levy

With the introduction of the Apprenticeship Levy, there is an opportunity for Colleges Scotland to have more direct involvement in the development of the delivery structure for the increased volume of MAs. Colleges Scotland can assist in providing a more efficient and effective approach, which will help provide greater benefit to the public purse. Colleges Scotland is currently liaising with the Scottish Government in relation to the Apprenticeship Levy, but Colleges Scotland is of the view that the opportunity should also be taken to work with SDS and other relevant stakeholders to review the current system, allowing for an increased delivery of MAs directly by the college sector, with the appropriate funding being received as an additional direct payment to the sector.

¹⁷ Scottish Government, June 2014, *Education Working For All! Commission for Developing Scotland's Young Workforce Final Report*
<http://www.gov.scot/Publications/2014/06/4089>

In addition, colleges play a key role in delivering and enhancing Scotland's workforce, working in partnership with employers to deliver high quality MA programmes. Colleges Scotland supports the ambition to increase the number of MAs to 30,000 a year by 2020. Without being exempt from the Apprenticeship Levy, such an increase in costs cannot be met by the college sector from within existing resources, without a detrimental impact on students and the level of educational activity.

Employability Funding

A weakness of the current system of employability support is that provision is spread over a large number of providers, such as third sector organisations, training organisations and others. While some organisations will have well-established systems for quality improvement and professional updating of staff, others may not and as a result there is a detriment to the overall quality of provision. Colleges, on the other hand, have proven themselves to be highly competent in designing, planning, delivering and quality assuring the provision that they make. They collaborate very well with agencies to ensure that what is delivered is matched to need. Colleges have the capacity to do more and to have a stronger role in determining the 'what' and the 'how' of employability training for their regions.

Colleges Scotland believes effectiveness can be increased by investing employability funding in colleges where there is an excellent record of success, experienced staff and high quality resources. Colleges Scotland's view is that it is relatively inefficient to spread employability funding over a large number of providers, rather than focusing it on providers with a proven success record. Colleges Scotland would welcome further dialogue with the Scottish Government on this, with the aim of securing the current £6m Employability Fund administered by SDS to be paid directly to the college sector.

Double Dividend

Whilst students are studying at colleges, additional added value can be delivered to them by the provision of additional qualification(s) over and above the primary qualification being studied. This can be through the provision of an additional qualification, e.g. Microsoft qualification or 'working at height' certificate, where this genuinely adds to the employability, or where workplace preparation is enhanced through active personal development e.g. tackling mental health issues or ensuring wellbeing for work.

Comprehensive, Objective and Transparent Advice

Learner choices should be informed by comprehensive, objective and transparent advice and guidance. This is to ensure that the student has all the relevant information to explore all the potential routes through the learner journey.

The current complexity and lack of coherence in existing post-16 provision means that there is no one comprehensive source of information available which students can use to explore all the potential routes through the learner journey. The situation is exacerbated by existing regional variations and advice in schools from careers staff who may be restricted by their immediate context and personal knowledge.

The Commission on Widening Access recognised that colleges are supportive of learners making the transition from school to college. Through their involvement with schools in school-college partnership links and the newly developing senior vocational pathways, colleges provide good quality information on pathways from school through college to further study or employment. This information requires the monitoring of current regional economic data, as well as close partnership working with other stakeholders and providers, to ensure that students can make informed choices and understand the way in which routes to success in higher education can be opened up to them.

The Commission on Widening Access also envisages that colleges will make a contribution at an even earlier stage in a young person's life by tailoring information about careers and educational pathways to suit this younger audience. Careful selection of information and role models will also be a vital part of this work, to ensure that gender stereotypes in relation to career choices are not reinforced and that the potential of STEM careers is highlighted. Colleges can bring considerable experience and understanding of career destinations and pathways to aid in this important element of the systemic change imagined by the Commission, but it will require dedicated resources within colleges to deliver the potential benefits. Without recognition of this additional ask of the college sector through increased funding, this vital element cannot be fully delivered.

Fair and Affordable Student Support Funding

A Fair and Standardised System

Colleges Scotland supports the implementation of a standard and fair system for student support funding that provides students with adequate financial support, as well as reasonable certainty on the support they are likely to receive for the duration of their study. Current student support funding does not fully meet the cost of college student support funding demand related to further education courses, in contrast to pre-16 year old students and those undertaking a higher education qualification. The shortfall has been covered in 2014/15 and 2015/16 by the use of net depreciation funding, leading to technical deficits in college accounts. Until implementation of a standard and fair system for student support funding within the college sector is achieved, the Scottish Government should fully fund the current system.

Colleges Scotland is of the view that nobody should be financially worse off by attending college than they would be on benefits and we fully support measures to improve student support to ensure that all students can attend college, regardless of their personal circumstances or background.

Colleges Scotland also supports further work exploring the feasibility and impacts of introducing an entitlement based system as one option for the standard and fair system, although it is noted that risks exist with moving to an entitlement system.

In particular, further work around:

- the continuation of a grant based system
- the process for ensuring that the funds are not over-subscribed
- the impact on benefits received by students
- future changes to the welfare system.

Too many students find themselves on different levels of support depending on a wide range of factors. The SFC has been working with the college sector to cost out the various options around the recommendations of the Student Support Review. This work so far has shown that the additional cost to implement all of the remaining recommendations from the review, which have not been implemented as yet, could be in the order of £15m. This figure excludes costs related to standardisation of practice relating to Bursary/Educational Maintenance Allowance (EMA) to 18 and 19 year olds, and any impact of changes to income bands used in the assessment of student income, both of which will be dependent on future policy decisions by the Scottish Government. Colleges Scotland and the SFC agree that further work is required for both of these latter recommendations, and that any increase in student support funding should be achieved through additional funding to the sector.

Innovation, Skills and Productivity

Increasing levels of business innovation is a priority identified in the Scottish Government's Economic Strategy and Programme for Government, and we believe that Scotland's colleges have a key role to play in encouraging and supporting an innovative economy, facilitating knowledge transfer of skills for innovation within the economy, providing business incubator space and ensuring access to resource to aid start-up of ventures. Previous interventions to help colleges engage more strongly with business were shown to be successful when reviewed¹⁸. However, the environment has changed significantly as a result of the recent sector wide reform towards regionalisation, as well as the impact of reclassification. In this new environment, the role that colleges can play has not been sufficiently recognised and especially their particularly effective relationships with SMEs, which are the engine room of the Scottish economy, but which are generally hard to reach and engage.

Innovation for SMEs is focused on skills innovation, for the benefit of the SME and the wider economy. The effective working relationships and knowledge between colleges and SMEs within a region means that colleges are ideally placed to support SMEs in relation to innovation, including acting in partnership with universities and innovation centres. To aid this relationship and maximise the benefit within the new regional landscape, and following reclassification of colleges as public bodies, colleges need to look afresh at developing the capacity for regional engagement to:

- work with universities and innovation centres
- support innovation
- roll out business incubator space
- ensure access to resource to aid start-up of ventures.

These work streams can be viewed as four separate, but related, programmes.

Areas of activity on innovation are already underway with the establishment of the SFC's Research and Knowledge Exchange Committee, the Innovation Scotland Forum and the Bridge 2 Business programme. However, whilst some work is involving colleges, they so far have had minimal opportunity to bring their contribution to the innovation agenda. Colleges Scotland is seeking to continue to contribute to this work area, whilst building capacity to maximise the college sector's contribution to business innovation and fostering an enterprise culture. In order to capitalise on the potential, and realise the benefits to the Scottish economy, Colleges Scotland is seeking additional funding for this work programme. The sector is asking for strategic funding of £8m, representing £2m per programme per annum to enable these four work programmes to be taken forward.

Work with Universities and Innovation Centres

The Innovation Centres, based at Scottish universities, are delivering business-led innovation across some of Scotland's economic sectors. This investment in Innovation Centres is considerable and amounts to over £120m. Given the links between innovation, skills and entrepreneurship, the college sector could clearly make a real contribution to the work of the Innovation Centres. Some colleges have already had engagements with those Innovation Centres where they have shared interests around particular industries and sectors, such as Forth Valley College engaging with Oil & Gas Industry Centre (OGIC) and Industrial Biotechnology (IBioIC).

A total of £2m is sought for this stream of activity.

¹⁸ Frontline, November 2011, Evaluation of the Developing Employer Engagement Programme and the Knowledge Transfer Grant

Support Innovation

College innovation is more focused on skills innovation i.e. delivery and design, industry engagement, networking, bespoke and transitional training, transfer of skills and knowledge exchange. Regional colleges are now able to better engage with business, particularly SMEs.

What is important to many businesses is staying competitive, improving productivity, improving the bottom line, growing markets and expanding into new markets, as well as networking and 'pooling' of expertise with other companies in the supply chain and knowledge exchange. Colleges across Scotland work closely with local businesses in their own geographic area as well as those for whom a college can provide specialist advice and support. Engagement with the SFC / SDS Skills Committee is also taking place. Employer engagement is two-way and mutually beneficial and includes:

- Workforce planning
- Employee training and skills development
- Business process improvements
- Product development
- Development of work placement opportunities for college students
- 'Live' projects for students
- Development and shaping of curriculum
- Skills/vocational academies
- Job brokering
- Digital development.

This list is not exhaustive but illustrates the range and scope of activities that are at the heart of what colleges do, and can help contribute to the economic growth and the performance of local businesses.

Clearly there is an opportunity to maximise that mutually beneficial relationship with employers and business, including SMEs. Colleges Scotland is seeking additional funding for a work programme that will help further develop colleges' work with businesses in order to support them to be more competitive, to improve their bottom line, to expand into new markets, to ensure effective workforce planning and training. A total of £2m is sought for this stream of activity.

Establish and Promote Business Incubator Space

The considerable improvements to college estates over the past decade has created attractive campus locations with opportunities to host business incubator spaces. Many students leave college with well-developed competence in vocational skills, such as building trades, computer technical support or the beauty industry, and some will go on to establish their own businesses. These business start-ups are important to the economic health of a community, and are recognised as such through the advice and practical help that they can access through Scottish Enterprise and other agencies committed to enterprise support.

The establishment of business incubator spaces that are co-located with a local college campus would provide a supportive environment in which business start-ups could flourish, offering guidance and resources. Having a local business incubator is also beneficial to colleges and universities in the region. Incubators often include technology-driven businesses that are able to participate in technology transfers with colleges and universities. Also, incubators can provide college students with internship opportunities in their fields. Beyond internships, business incubators can provide employment opportunities for recent college graduates seeking to remain in the community.

Scottish colleges wish to demonstrate their capacity to provide business incubator services to their graduating students and local entrepreneurs. In order to do so, a funding stream will be required to assist with the fitting out of such spaces and the provision of the underpinning support and resource that would be necessary for start-ups to be successful. A total of £2m is sought for this stream of activity.

Ensure Access to Resource to Aid Start-up of Ventures

Following the reclassification of colleges as public bodies, they are no longer able to hold reserves. This has significantly restricted the ability of colleges to make strategic decisions around using resources up-front to develop an area of benefit to the college and its students.

These areas of benefit could include additional curriculum areas in response to a particular skills need identified or commercial ventures that will bring additional income into the college sector, but which require resource up-front to develop.

For example, one college purchased specialist high voltage equipment costing approximately £250k primarily to deliver commercial training to industry, thus taking advantage of a new commercial income stream.

Another example is related to a college securing a commercial contract to deliver training on site in China. To achieve this, the college had to undertake two visits to China with several staff, as well as staff time preparing and analysing the requirements. The total cost of the upfront investment was approximately £30k.

Colleges Scotland would wish to see the provision of a strategic funding stream that colleges can gain access to, on a case-by-case basis, in order to have availability to 'pump-prime' funding. This strategic fund should be part of the resource for the college sector as part of the Spending Review. A total of £2m is sought for this strategic fund.

6. Workforce for the Future

As the previous sections of this submission have demonstrated, for colleges to maximise their potential, collaborative working between all key stakeholders is required to help produce both innovative and sustainable institutions and skilled and successful students.

To produce innovative and sustainable institutions together with skilled and successful students, a vision and a strategic work plan to deliver a Workforce for the Future is required. The environment within which colleges operate has changed greatly over the past few decades and it is clear that the environment may change even more rapidly in the coming years. It is important that colleges have the capacity to deliver the type of learning that society, the economy and individuals will seek in the future – learning that is increasingly personalised and flexible, increasingly assisted by and delivered by sophisticated interactive technologies, and, of course, tailored to employers' requirements and in line with students' preferences, needs and aspirations.

Creating a fit for purpose, cost effective and professional workforce to meet the needs of the college sector in the future is a challenging and extensive project, and will not be delivered without significant new and recurrent investment. This change programme will not be dissimilar to other public sector reforms, such as the NHS Agenda for Change, or the McCrone agreement with school teachers. If the college sector is to be truly transformational it needs a Workforce for the Future. This work programme envisages delivering a new flexible contract, with many key milestones that deliver for both lecturing and support staff, and ensure students are at the heart of what colleges continue to do.

These milestones could include:

- Identifying with stakeholders the key characteristics of the Workforce for the Future
- Setting out role definitions and role profiles within the college sector, including:
 - Lecturer
 - Instructor
 - Tutor / Assessors
 - Learning Support advisors and assistants
 - Personal / Guidance tutors
- Developing a national Job Evaluation scheme
- Developing a national set of terms and conditions
- Developing a set of national pay scales
- Implementation of the new contracts of employment will deliver a harmonised workforce:
 - For lecturing staff
 - For support staff
 - All new contracts will deliver harmonised sets of terms and conditions across the sector
 - All new contracts will include national pay scales
- Migrate to those new salary scales and conditions of service.

The Workforce for the Future brings together a number of key elements that all require correct alignment. These key elements are set out below.

Employers' Association

To ensure the sector is cohesive in its approach to modernisation it must be unified. Through the Colleges Scotland structural family, the sector has agreed to develop an autonomous Employers' Association. This Association will represent all of Scotland 26 colleges as employers, with Colleges Scotland providing the required secretariat to support the Employers' Association and National Bargaining process.

National Bargaining

National Bargaining has been reintroduced to the sector following an absence of over 20 years, which has seen the creation of the National Joint Negotiating Committee (NJNC). This has established a set of common conditions of service and pay scales across the sector. New contracts of employment cannot simply be related to pay, and a negotiated balance has to be struck to ensure any new model is sustainable and inclusive of conditions of service, hence a new flexible contract is required which will allow delivery of the Workforce for the Future.

Job Evaluation

Elsewhere in the public sector, large scale changes to terms and conditions in recent times have been accompanied by Job Evaluation exercises. There is a likelihood that this may be required in the college sector as well. The key purpose of a Job Evaluation exercise is to provide a rationale for the worth of a job, then proportion the level of responsibility and reward to that job. The benefits of a robust Job Evaluation scheme allows the employer to provide:

- an equitable pay structure
- a logical and rational basis to determine job levels and pay
- for a consistent application of any one scheme
- a robust analytic assessment tool to base informed decision around pay and grading
- a robust mechanism to address the issue of equal pay for work of equal value.

As with any Job Evaluation scheme of this kind, there needs to be the right balance struck between national and individual college roles. Any new scheme will require a degree of robustness for equality, but in equal measure a degree of flexibility to avoid the scheme being too rigid or complex to deliver.

Scottish Government Support

Recent pay deals with both lecturing and support staff have indicated a common purpose across the bargaining groups for changes in relation to development of the Workforce for the Future. We would hope that the Scottish Government would support the need for change in the workforce and employee pay and terms and conditions.

On a practical level, Colleges Scotland is looking for the Scottish Government to work with us and other key stakeholders and provide the investment to support the new structure following the reintroduction of National Bargaining, and the continued development of a fully funded and effective Employers' Association. This in turn will enable the modernisation of the college staffing requirements through the Workforce for the Future programme.

Colleges will continue to seek to identify savings through productivity gains, but the implementation of sustainable National Bargaining and new working practices will require significant investment in the college sector.

Considerable work is required over the next few years to deliver national pay scales and implement modernised terms and conditions of service. Progress towards a national job evaluation scheme and an affordable sector-wide pay structure must be underpinned by robust research and data.

Investment Requirements

To provide adequate and sustainable funding for all of the above elements of the Workforce for the Future programme, the following three elements of funding are required:

The following resources are required, over differing time scales as set out below:

Category	Cost
Continue to fund the establishment of an Employers' Association	£460,000 per annum, to be reviewed before the end of 2018/19.
Workforce for the Future pay structure	As an illustration, similar schemes elsewhere in the public sector have resulted in a 12% increase of pay bill costs. Further details are set out below.
Possible implementation of a Job Evaluation scheme as part of Workforce for the Future	As an illustration, similar schemes elsewhere have resulted in a 6% increase of pay bill costs. Timescales are dependent on a number of external factors.

Continue to Fund Establishment of an Employers' Association

As part of establishing Colleges Scotland as the Employers' Association, the Scottish Government recognised that there were set up costs to ensure this role was adequately funded, and agreed to fund all reasonable costs of this set-up. This funding commenced during 2016/17, and the work will continue throughout the Spending Review period.

In proposing and developing the model of the revised Employers' Association, Colleges Scotland researched other organisations i.e. COSLA, UCEA and the NHS (Agenda for Change), to ensure organisation roles and responsibilities were properly considered and essential. The proposal is consistent with these organisations' structures, despite two out of the three comparisons, primarily dealing only with pay negotiations and not covering conditions of service.

In support of these key strategic themes, the revised Employers' Association will provide national policy guidance and advice, underpinned by robust statistical information, supported by effective communications. The baseline of the statistical information from all the members will be within the scope of the National Recognition and Procedures Agreement (NRPA).

The revised Employers' Association would require additional posts, alongside the current resource input from Colleges Scotland, as well as other support costs, as set out below:

Element	Cost
Staffing costs (including on-costs)	£260k
Support costs	£200k
TOTAL	£460k

Support costs include legal services, equality impact advice and assessment, training, travel and subsistence and facilities support services, as well as facilities time for trade union officials.

National Bargaining – Creating a Workforce for the Future, Implementation of New Contracts of Employment and Conditions of Service, and Possible Job Evaluation Scheme

As part of the Workforce for the Future, Colleges Scotland and the trade unions are working towards agreement on new contracts and conditions of service. Part of delivering on Scottish Government policy will require a review of the terms and conditions of staff to ensure that we have a workforce able to meet the needs of the future, which includes a significant change programme to develop new flexible conditions of service.

As part of this work, there may be a need to undertake a sector-wide Job Evaluation exercise. Whilst the exact cost of individual Job Evaluation schemes required to implement the changes will not be ascertained until completion of the exercise, there are standard industry assumptions for Job Evaluation, as well as practical experience from some of Scotland's colleges in undertaking local Job Evaluation exercises, that can assist in providing an illustration of the likely level of costs.

Typically, if a Job Evaluation scheme was undertaken, then the increases to payroll costs are likely to be in the order of 3-6%. It should be noted that this figure does not include the cost to develop and agree any scheme, undertaking effective job analysis, training on the scheme application and appeals and regular reviews to ensure the robustness of the scheme.

Illustrative Costs

Whilst the estimated costs related to the implementation of new contracts of employment and conditions of service, and the possible undertaking of a job evaluation scheme, will be more accurately calculated as the process is undertaken, an idea of the scale of the investment required from Scottish Government can be gained, and this is laid out below:

Category	Illustrative Cost Comparison	Illustrative Cost
Workforce for the Future pay structure	Illustration based on the cost of implementing McCrone recommendations in schools, which resulted in a 12% increase in pay bill costs	£53.0m
Possible implementation of a Job Evaluation scheme as part of Workforce for the Future	Illustration based on typical cost increases of 6% to the pay bill, in line with standard industry assumptions	£26.5m
Total Illustrative Costs		£79.5m

7. Stronger Economy and a Fairer Society

Benefit to Learners, Society and the Economy

It is evident from previous sections in this submission that an investment in the college sector brings positive benefits to all stakeholders, and allows Scotland's colleges to contribute to Scottish Government strategies and policy direction. This section now sets out how this investment supports the policy intentions of the Scottish Government. The Scottish Government has set out its strategic priorities and policy direction in a number of documents¹⁹ published over the last couple of years.

The vision statements of both Colleges Scotland and the college sector in Scotland are strongly consistent with the aspirations of the Scottish Government.

A summary of the contribution that the college sector makes to Scottish Government strategies and policy direction is set out below. In addition, Colleges Scotland's contribution to the Scottish Government's Economic Strategy, which was refreshed and published in March 2015, is set out in Appendix 3.

Contribution to a Strong, Sustainable Economy

Colleges contribute towards a strong, vibrant and diverse economy, as well as to sustainable economic growth. They contribute by providing relevant high quality professional and technical education and training to ensure that students acquire the necessary skills to enter the workforce, including the 21st century digital skills required by employers. Colleges contribute to competitiveness by producing people with the right skills who are work-ready and positioned to support businesses, encourage innovation and build entrepreneurialism. Colleges help produce a workforce of greater productivity and skill, allowing more people, from all backgrounds, to participate in the labour market. Courses and curriculum are designed to take account of the skills needs that are identified on a regional basis, so that there is increased certainty that students will have the appropriate skills to move into jobs. Colleges also have the flexibility and adaptability to respond to the needs of businesses in relation to training to address skills gaps and help businesses to remain competitive through an efficient, skilled workforce.

The Scottish Government is also committed to nurturing a national endeavour in relation to entrepreneurialism through its CAN DO initiative. With around 230,000 students in 2014/15 engaging with college education every year, the contribution of colleges to fostering entrepreneurial attitudes and skills is highly significant.

Case Studies – A Business Influencing College Curriculum Content

New College Lanarkshire has worked with the Royal Bank of Scotland (RBS) to develop a qualification in software development that provides students with the particular skillset required for the RBS environment. The company gains by having new starts becoming productive very quickly after graduation.

¹⁹ Scottish Government, September 2015, *A Stronger Scotland, the Government's Programme for Scotland 2015/16* <http://www.gov.scot/Resource/0048/00484439.pdf>
Scottish Government, March 2015, *Scotland's Economic Strategy* <http://www.gov.scot/Resource/0047/00472389.pdf>
Scottish Government, November 2014, *One Scotland, the Government's Programme for Scotland 2014-15* <http://www.gov.scot/resource/0046/00464455.pdf>
Scottish Government, November 2013, *Scotland Can Do* <http://www.gov.scot/resource/0043/00438045.pdf>

The Energy Skills Partnership has brokered an agreement between both Forth Valley College and Dumfries and Galloway College and Scottish Power to create a new qualification for electrical power line men. This has allowed Scottish Power to address a skills shortage and to offer a new career direction to unemployed workers.

Contribution to the Student and the Learning Experience

Colleges are in a strong position to help deliver on the Scottish Government's Youth Employment Strategy – *Developing the Young Workforce*²⁰ and to provide retraining and upskilling for adult learners. The current focus of ensuring our young people have the necessary work skills is supported by the college sector, both in the expansion of the links between schools and colleges and in the vital role colleges' play in developing engagement between employers and education in their regions.

Colleges also provide a vital element of learning throughout life, helping those who need to update their skills before returning to the workforce, or those who have been made redundant to retrain and upskill in order to return to the workforce. This results in benefits for the student and helps to create national prosperity and wealth, which in turn supports higher quality public services. The students are also able to bring an important contribution to the wide range of SMEs which are so important to Scotland's economy.

Contribution to Strengthening our Communities

Colleges empower individuals and help strengthen communities. During Scotland's industrial past, colleges became the first providers of training for school leavers and young apprentices employed by industry. Throughout the decades, colleges have continued to adapt to meet the ever changing needs of the industries around them. Working closely with businesses, communities and local agencies, colleges are at the centre of economic development and regeneration in Scotland. They play a critical and valuable role in delivering the skills, competencies and learning that fuels the economy and enables students to train, retrain and contribute.

The learning provision offered by colleges enables individuals and families to get out of poverty, and increases a person's life chances. Colleges offer particular opportunities to women returning to the workforce. The economic benefit to an individual from a college education has been covered previously.

The 26 colleges, working within 13 regions, are spread throughout the mainland and islands of Scotland, offering educational and work opportunities in many different communities. Colleges build partnership working with local communities and businesses to develop workforce skills required to support the economy. Colleges contribute towards delivering a stronger Scotland for people and communities by supporting the community empowerment agenda of Scottish Government and through the contribution that they make to Community Planning Partnerships (CPP) and to community-based adult learning. As well as providing learning and skills, many colleges have developed a significant wider role in their communities, contributing to widening access to learning, community cohesion and the development of civil society and enterprise.

²⁰ Scottish Government, December 2014, *Developing the Young Workforce - Scotland's Youth Employment Strategy*
<http://www.gov.scot/Resource/0046/00466386.pdf>

Colleges participate positively within their respective CPP structures, either at strategic board level or through thematic or operational groups. They also have good links with local community planning groups that operate within overarching CPP structures. Colleges have particular strengths in provision for specific groups of students within communities. These include young people taking part in school-college programmes, students aiming to develop employability skills, students of English for Speakers of Other Languages (ESOL), disengaged young people needing help to move into positive destinations and people in the community with learning difficulties. Most partnerships with local Community Learning and Development (CLD) providers also work well, delivering a range of programmes including adult literacies and digital literacy skills. It is generally acknowledged that access to informal learning helps people to engage effectively in civil society and contribute more fully to their local community as well as to the economy.

According to the 2013 Education Scotland report²¹, "Colleges have made a sustained positive contribution to outcomes for students in their communities through working with community partners. This is reflected in high levels of satisfaction from community partners about the way colleges work with them and respond to identified needs."

Reaching out to disadvantaged hard-to-reach groups within their communities, not only leads to a steady supply of students for higher-level qualification-based study but also supports colleges wider role in promoting the wellbeing and cohesion of their communities. This in turn, leads to significant benefits in other areas of public policy including health, social care, support for families, volunteering and social justice. Most colleges are already seen as being embedded in their communities through networks of outreach centres which lower entry barriers to education.

Democracies need active, informed and responsible citizens; citizens who are willing and able to take responsibility for themselves and their communities and contribute to the political process. Colleges provide an environment in which young people can acquire a grasp of the political, legal and economic functions of adult society, and with the social and moral awareness to thrive within it.

Contribution to a Stronger and Fairer Scotland

Colleges promote fairness, offering people life chances and equality of opportunity to learn. Enrolling in college helps those furthest away from the labour market to move towards employment and supports those with few or no qualifications to achieve a better education.

As part of the sector's commitment to DYW, through stronger school-college engagement and provision, colleges are well placed to make a real difference to attainment levels and encourage young people to develop the skills the nation needs.

Colleges also assist adults in retraining and upskilling, hence allowing students to benefit from lifelong learning and to have the skills to access work. In this regard, colleges offer particular opportunities to women returning to the workforce.

²¹ *Colleges and Community Planning, Education Scotland 2013*
http://www.educationscotland.gov.uk/Images/CollegeandCommunityPlanningReport170513_tcm4-757870.pdf

Colleges play a vital role in generating social capital by taking a disproportionate amount of students from socio-economic deprived backgrounds, and hence bringing a contribution to delivering equality and fairness across Scotland. The latest data²² available from the SFC shows that the proportion of students from the 40% most deprived geographical areas (as measured by the Scottish Index for Multiple Deprivation (SIMD)) has increased from 46.1% in 2009/10 to 50.1% in 2013/14. The proportion of funded activity delivered to the 40% most deprived areas has also seen an increase from 51.2% in 2009/10 to 53.5% in 2013/14. A similar pattern of increased delivery is seen in both the 10% and 20% most deprived areas.

Figures Related to Students from Deprived Backgrounds

	Proportion of SUMs delivered			Proportion of Students		
	10% most deprived	20% most deprived	40% most deprived	10% most deprived	20% most deprived	40% most deprived
2009/10	15.7%	28.8%	51.2%	13.6%	25.1%	46.1%
2010/11	15.9%	29.3%	52.1%	14.0%	25.7%	46.9%
2011/12	15.8%	29.4%	52.5%	14.9%	27.1%	48.5%
2012/13	15.9%	29.6%	52.6%	15.4%	27.9%	49.2%
2013/14	16.3%	30.4%	53.5%	15.8%	28.6%	50.1%

Source: SFC Measures of Success: Learning for All 2013-14

This vital role fulfilled by colleges helps break the cycle of deprivation and enables people who may not otherwise have done so to access work – increasing a person's life chances. Colleges also assist students in retraining and upskilling, hence allowing them to find different work. Both of these activities contribute to closing the attainment gap due to the disproportionate number of students from the 10%, 20% and 40% most deprived postcodes, providing those furthest from the workforce with qualifications and skills to enable them to enter the workforce, and hence address the underlying causes of poverty.

The work of the Commission on Widening Access provides further policy direction in securing access to education for disadvantaged persons, and colleges are well placed to provide an important and tangible contribution to widening access. Colleges have a track record of delivering for students across the socio-economic spectrum.

Colleges are an articulation route to universities for some students who may have not been fully served in their pre-16 educational experience. Colleges also help deliver equality and fairness through admissions and student support policies that recognise the different needs of minority groups, and colleges are working towards ensuring gender balance. For example, the provision of a girls-only engineering course at City of Glasgow College, and a similar approach by Fife College, which is running 'Girls into Energy' courses through school-college partnerships. The latest data²³ shows that the gender balance has remained broadly constant over the last few years. The data also shows there has been an increase in the proportion of Black and Minority Ethnic (BME) and disabled students in 201/15, compared to previous years. Colleges Scotland accepts that the gender balance is not consistent across geographical areas or subjects, and supports the development of a draft Gender Action Plan for the sector by the SFC.

²² Scottish Funding Council, March 2015, *Learning for All: Measures of Success, ninth update*

http://www.sfc.ac.uk/web/FILES/Statistical_publications_SFCST062015_LearningforAllMeasuresofSuccess/SFCST062015_Learning_for_All_2015_Measures_of_Success.pdf

²³ Scottish Funding Council, Jan 2015, *SFC Statistical Publication SFC/ST/02/2016: Baseline Report 2014-15*

http://www.sfc.ac.uk/web/FILES/Statistical_publications_SFCST022016_BaselineReportforAcademicYear201415/SFCST022016_Baseline_Report_2014-15.pdf

Gender Balance Data – Proportion of FTE at Colleges

Proportion of SUMS relating to learners from different protected characteristic groups and care leavers (where data is available)	2012/13	2013/14	2014/15
Female	51.7%	51.8%	51.8%
Male	48.3%	48.2%	48.2%
Black and Minority Ethnic (BME)	5.2%	5.3%	5.6%
Disabled	15.1%	15.2%	16.1%

Source: SFC Statistical Publication SFCST022016: Baseline Report 2014-15

The Living Wage

Scotland's colleges have signed up to a living wage commitment for directly employed staff, understanding the importance of this and the benefits delivered in bringing about a fairer society. The college sector contributes to the key area of delivering equality in Scotland.

Conclusion

We believe that the proposals contained within this submission will strengthen and enhance the ability of Scotland's colleges to make a key contribution to the individuals, communities, business and the nation's economy and well-being.

Colleges Scotland
June 2016

Appendix 1

Key College Sector Facts

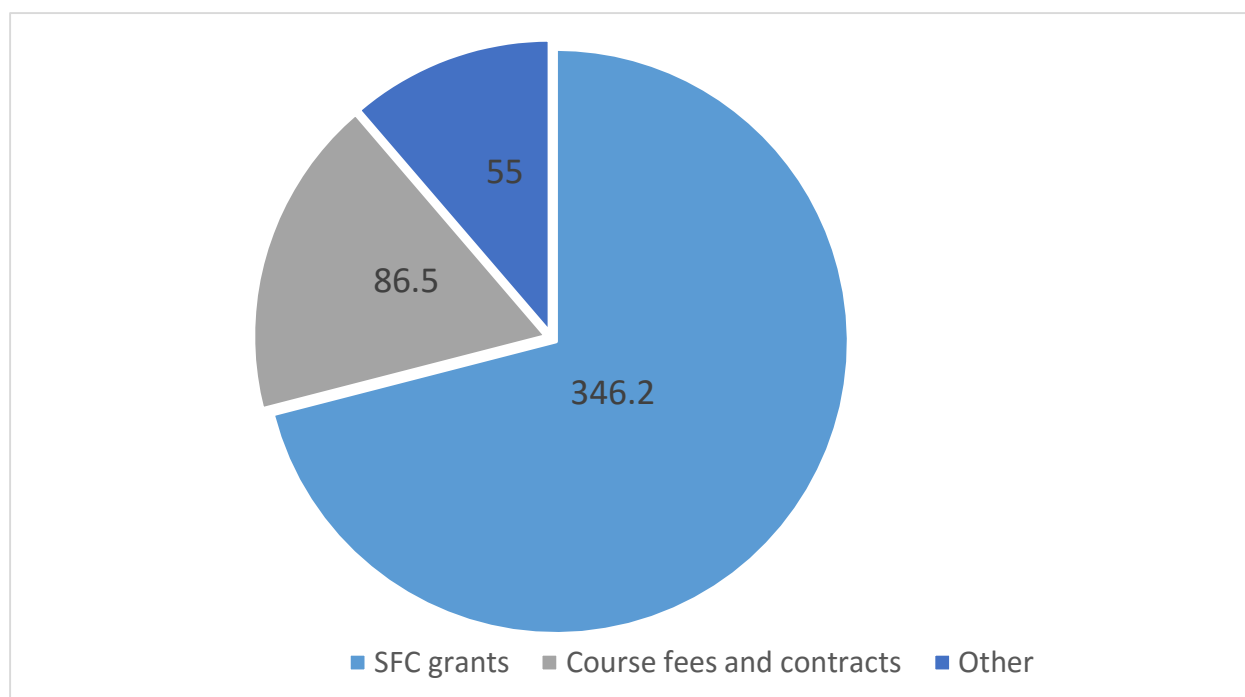
- There were 37 colleges in 2011/12, and 26 in 2014/15.
- These 26 colleges are contained within 13 regions.
- There are 10 single college regions and three multi college regions.
- 20 of these colleges are incorporated under the Further and Higher Education (Scotland) Act 1992.
- There are a further six colleges not incorporated under the Act:
 - Argyll College UHI
 - Newbattle Abbey College
 - Orkney College UHI
 - Sabhal Mòr Ostaig UHI
 - Shetland College UHI
 - West Highland College UHI

Region	College(s)
Aberdeen and Aberdeenshire	1. North East Scotland College 
Ayrshire	2. Ayrshire College 
Borders	3. Borders College 
Dumfries and Galloway	4. Dumfries & Galloway College 
Edinburgh and Lothians	5. Edinburgh College 
Fife	6. Fife College 
Forth Valley	7. Forth Valley College 
Glasgow	8. City of Glasgow College 
	9. Glasgow Clyde College 
	10. Glasgow Kelvin College 
Highlands and Islands	11. Argyll College UHI 
	12. Inverness College UHI 
	13. Lewis Castle College UHI 
	14. Moray College UHI 
	15. North Highland College UHI 
	16. Orkney College UHI 
	17. Perth College UHI 
	18. Sabhal Mòr Ostaig UHI 
	19. Shetland College UHI 
	20. West Highland College UHI 
Lanarkshire	21. New College Lanarkshire 
	22. South Lanarkshire College 
Tayside	23. Dundee & Angus College 
West	24. West College Scotland 
West Lothian	25. West Lothian College 
n/a	26. Newbattle Abbey College 

- 76 million hours of learning was delivered by colleges in 2013/14.
- The split of gender of students is approximately 50:50, having become more equal in the preceding years.
- The top five subject areas studied by students at colleges in 2012/13 were:
 - Health Care, Medicine, Health and Safety
 - Family Care, Personal Care and Appearance
 - Information Technology and Information
 - Engineering
 - Catering, Food, Leisure Services, Tourism.
- Around 71% of colleges' income in 2013/14 was provided by the Scottish Funding Council (SFC). Generated other income through commercial and training activity, and from student fees from those not eligible for the fee waiver.

A summary of overall income for the college sector in Scotland in 2013/14 is set out below:

Income category 2013/14	Amount £m
SFC grants	346.2
Course fees and contracts	86.5
Other	55.0
Total	487.7



Notes:

- Figures for 2013/14 are latest published following analysis by Audit Scotland
- Most colleges' accounts covered a shorter financial period in 2013/14
- The figures do not include bursaries and other student support funds which are provided to colleges for the benefit of individual students

Source: Audit Scotland, Scotland's Colleges 2015 report, published April 2015

Appendix 2

Demonstrating the Economic Value of Scotland's Colleges Fact Sheet



OVERVIEW.....

Scotland's colleges create significant positive benefits on their main stakeholder groups: learners, society, taxpayers, and the local business community. Using a two-pronged approach that involves an investment analysis and an economic impact analysis, the model applied in this study calculates the benefits to each of these groups. This fact sheet presents the key findings.

INVESTMENT ANALYSIS

BENEFITS TO LEARNERS

Learners as a whole invested a total of **£1.2 billion** to attend Scotland's colleges in 2013-14. The majority of these costs, around **£1.1 billion**, represent foregone earnings that they would have generated had they been working instead of learning.

In return for the monies that learners invest in Scotland's colleges, they will receive a present value of **£7.4 billion** in increased earnings over their working lives.

Every £1 that learners pay for their education at Scotland's colleges yields **£6.30** in higher future wages. This translates to a **14.8%** annual rate of return on their investment.

BENEFITS TO SOCIETY

Society as a whole invested **£3.2 billion** in Scotland's colleges through direct outlays and the loss of potential output from learners who spent time at the colleges rather than working.

In return, society will receive a present value of **£19.9 billion** over the course of the learners' working lives, in the form of an expanded tax base and a variety of social benefits related to reduced crime, lower unemployment, and increased health and well-being.

Society will receive **£6.30** in return for every £1 invested in Scotland's colleges. The average annual rate of return on their investment is **16.4%**.

BENEFITS TO TAXPAYERS

Taxpayers in the UK paid **£598.3 million** to support the operations of Scotland's colleges in 2013-14.

The present value of the added tax revenue stemming from the learners' higher lifetime incomes and the increased output of businesses amounts to **£3 billion** in benefits to taxpayers. Avoided costs to the public sector adds another **£358.3 million** in benefits due to a reduced demand for government-funded social services.

Taxpayers see an average annual rate of return of **15.6%** from their investment in Scotland's colleges. The corresponding benefit-cost ratio is **£5.70** in benefits returned for every £1 in costs.

FOR EVERY £1 SPENT

£6.30	Gained in lifetime higher earnings for learners
£6.30	Gained in added income and savings to society
£5.70	Gained in added tax receipts and avoided costs to taxpayers

ECONOMIC IMPACT ANALYSIS

IMPACT OF STAFF & COLLEGE EXPENDITURE

Scotland's colleges employed **10,238** full-time equivalent faculty and staff in 2013-14. Staff costs amounted to **£392.9 million**, much of which was spent in Scotland to purchase groceries, clothing, and other household goods and services.

The colleges are buyers of goods and services and spent **£272.9 million** to support their operations in 2013-14. College expenditure further benefited many local suppliers in Scotland.

The net impact of staff and college expenditure in Scotland comes to approximately **£700.8 million** in added income in the Scottish economy each year.

IMPACT OF ADDED WORKFORCE SKILLS

Many learners attending Scotland's colleges stay in Scotland. Their enhanced skills and abilities **bolster the output** of local employers, leading to higher Scottish income and a more robust economy.

The accumulated impact of former learners attending Scotland's colleges who are currently employed in the Scottish workforce amounts to **£14.2 billion** in added income in Scotland's economy each year.

TOTAL IMPACT ON LOCAL BUSINESS COMMUNITY

Altogether, the economic impact of Scotland's colleges to the business community in Scotland is **£14.9 billion** each year.

Total added income created by Scotland's colleges and their learners is approximately equal to **8.8%** of the total economic output of Scotland in 2013-14 and represents roughly **593,246** average wage jobs.

INCOME CREATED BY SCOTLAND'S COLLEGES

Impact of college and staff expenditure

£0.7 BILLION

Impact of learner skills

£14.2 BILLION

Total income created per year

£14.9 BILLION

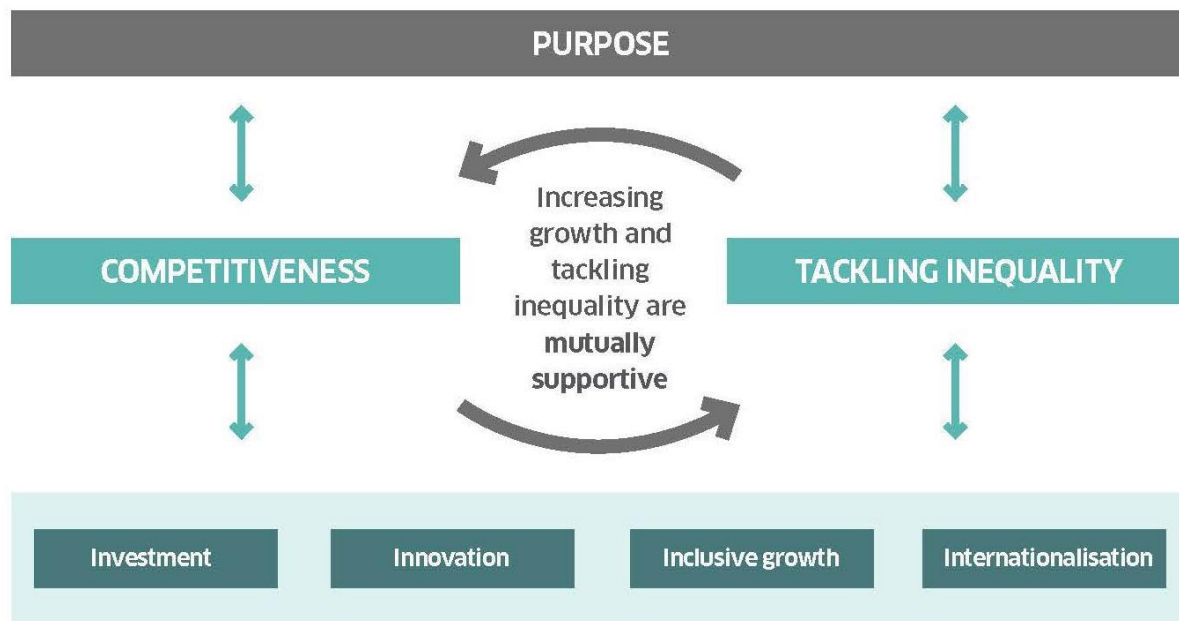
ABOUT EMSI Economic Modelling Specialists International (EMSI) provides employment data and economic analysis via web tools and custom reports. The company has also produced more than 1,300 comprehensive impact analyses for colleges and universities in the UK, US, Canada, and Australia. Founded in 2000, EMSI is located in Moscow, Idaho with branch offices in the UK, and it serves education, economic, and workforce development institutions and organisations. Visit our website at www.economicmodelling.co.uk for more information.

Appendix 3

Contribution of Scotland's Colleges to the Scottish Government's Economic Strategy

In March 2015 the Scottish Government published its refreshed Economic Strategy²⁴. The overall purpose of the economic strategy is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

The strategy is based on two key pillars: increasing competitiveness and tackling inequality. Underpinning the twin pillars are four key priorities of investment, innovation, inclusive growth and internationalisation.



Source: The Scottish Government, March 2015, Scotland's Economic Strategy <http://www.gov.scot/economicstrategy>

Key Pillars**Competitiveness**

Colleges contribute to competitiveness by producing students with the right skills, who are work-ready and are then positioned to support companies, encourage innovation and build entrepreneurialism. Colleges help produce a workforce of greater productivity and skill, allowing more people, from all backgrounds, to participate in the labour market.

Reduce Inequality

Colleges are well positioned to address inequality, and to educate people from some of the most deprived areas of Scotland. This helps deliver the government priorities of widening access and reducing the attainment gap. The Sutton Trust report, published in May 2016, highlights the vital role that the college sector has played in widening access, stating that 'The improved access for disadvantaged students in Scotland ... has been met almost entirely by the expansion of sub-degree programmes in Scottish colleges. Since 2006, 90 per cent of all the growth in entry into Scottish higher education by disadvantaged students has been through sub-degree courses in colleges. The funded places at the ancient universities are a notable exception, but there have been few other extra university places taken by disadvantaged students'.

²⁴ Scottish Government, March 2015, Scotland's Economic Strategy <http://www.gov.scot/Resource/0047/00472389.pdf>

Key Priorities

Investment

Adequate vocational education provision is a basic element of investment in the future for a nation, to enable investment of human capital into business and to build the key relationship with businesses and industry in order to provide the appropriate pipeline of work-ready individuals. The investment, both in students and capital, helps drive the economy. See Appendix 2 return on investing in the college sector.

Innovation

Colleges help to provide work ready staff for business, industry, the public services and the third sector. Colleges act as hubs for developing the young workforce, with the government and the college sector investing in various approaches to ensure productive employer engagement.

The Scotland CAN DO Framework²⁵, presents a vision of Scotland as a world-leading entrepreneurial and innovative nation – a CAN DO place for business. The framework recognises that the reformed college sector has a key role to play in accelerating entrepreneurship and innovation across Scotland. The importance of the college sector was further underlined by Nicola Sturgeon, First Minister of Scotland, at the Scottish Council for Development and Industry (SCDI) Business Engagement Event on 28 September 2015. The First Minister announced²⁶ a new £78m fund to assist Scottish businesses and tertiary education to develop innovation in new inventions, products and services.

The CAN DO strategy states that the colleges are crucial to ensure that businesses have access to a supply of entrepreneurial and innovative graduates equipped with the skills, training and appetite to join growing businesses. It goes on to say that entrepreneurship and innovation also needs to be further promoted across Scotland's colleges, including exciting career options available for talented individuals. The Scottish Government has understood that Scotland's new regional college structure presents the opportunity to do this and will be an integral part of increasing entrepreneurship and innovation across Scotland.

There is a need to support and promote the benefits of knowledge exchange collaborations between businesses and colleges that deliver a positive economic impact.

Inclusive Growth

Colleges are in a unique position to ensure that the contribution to growing the economy is undertaken in such a way that the benefits are delivered in an inclusive and fair way as possible. Colleges tackle inequality through a wide variety of means, including:

- widening access to people from across the socio-economic spectrum
- working towards improved gender balance
- working in partnership with many organisations from across the public, partner and third sector
- signed up to a living wage commitment as employers.

²⁵ Scottish Government, November 2013, Scotland Can Do <http://www.gov.scot/resource/0043/00438045.pdf>

²⁶ Scottish Government, 28 September 2015, Press Release - Business innovation boost <http://news.scotland.gov.uk/News/Business-innovation-boost-1da3.aspx>

Internationalisation

The college sector has the huge potential to contribute to this agenda by bringing benefit to the Scottish economy, through inward investment from abroad, and by providing opportunities for global learning and connectivity.

Traditionally, Scotland's colleges have been active players in the international market, both in terms of recruiting international students and pursuing markets to identify commercial opportunities. Whilst the reclassification of colleges by ONS has brought several areas of complexity in regard to international opportunity, there are a number of colleges who continue to be leaders in specialist niche markets, with considerable potential to attract more international business and enhance Scotland's reputation in those markets. Colleges Scotland has developed of 'A Framework for the Future of Internationalisation' for the college sector, and is in discussions with Scottish Government on ways forward to support the potential opportunities.

International students enrich the experience of Scottish students by providing a more diverse pool of students, with a broader global perspective. The cultural exchange benefits everyone as well as helping to promote Scotland internationally. Support from the Scottish Government for the re- introduction of a post-study work visa, which the UK Government ended in 2012, would attract overseas students thus enriching the college experience for all, whilst retaining skilled graduates who contribute to our economy.