

*New Horizons:  
responding  
to the challenges of  
the 21<sup>st</sup> century*

The Report of the  
Joint Future Thinking Taskforce on  
Universities

## **INTRODUCTION**

The Cabinet Secretary for Education and Lifelong Learning, Fiona Hyslop MSP, agreed in November 2007 to establish a Joint Future Thinking Taskforce on Universities (“the Taskforce”) with Universities Scotland, chaired jointly by the Cabinet Secretary and the Convener of Universities Scotland, Sir Muir Russell. The other members of the Taskforce are:

- Bernard King, Vice-Convener of Universities Scotland and Principal of University of Abertay Dundee
- Sir Tim O’Shea, Convener of the Universities Scotland Funding Policy Group and Principal of University of Edinburgh
- Pamela Gillies, Principal of Glasgow Caledonian University
- Seona Reid, Director of Glasgow School of Art
- David Caldwell, Director of Universities Scotland.
- John McClelland, Chair of the Scottish Funding Council
- Mark Batho, Director of Lifelong Learning, Scottish Government
- Stephen Kerr, Deputy Director of Lifelong Learning, Scottish Government
- Stephen Noon, Senior Policy Adviser

At its first meeting on 20<sup>th</sup> December 2007, the Taskforce agreed that its remit would be to consider:

- how to optimise and shape the contribution which the Scottish university<sup>1</sup> sector can make during the next 20 years to the Scottish economy, to Scottish culture and society and to the political priorities of the Scottish Government;
- what opportunities can be created and what barriers will need to be overcome to achieve that; and
- what resources will be needed and how they will be provided.

It also agreed that it would meet monthly over the first half of 2008. Annex 1 to this report sets out the programme of meetings which took place and the topics we discussed.

The Taskforce stated that by the end of this process it would produce a framework to form the basis of a joint action plan and also set down a series of challenges from: the Scottish Government to universities; and from universities to the Scottish Government. This report goes beyond that original ambition by setting out proposals for action in particular areas of strategic importance.

The starting point for the Government is its National Performance Framework<sup>2</sup> with its single overarching Purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

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<sup>1</sup> In the context of the Taskforce, “universities” refers to all higher education institutions.

<sup>2</sup> See Annex 2

Higher sustainable economic growth is the key which can unlock Scotland's full potential and create benefits for all of Scotland's people. By sustainable economic growth, the Scottish Government means building a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life too. The Scottish Government therefore wants the public money it allocates, including the investment it makes in the universities, to support its Purpose and Strategic Objectives and to deliver the National Outcomes.

The universities start from the point of view of their distinctive purposes, which transcend national boundaries. Fundamental to these is the discovery and dissemination of knowledge and truth. This encompasses the search for new knowledge, the wide distribution of new and existing knowledge and its application in creative and innovative ways and developing the intellectual capacities inherent in individuals as fully as possible. Thus, for universities, the functions of research and teaching are both central and indispensable.

In **Part 1** there is an account of the many ways in which, by undertaking activities consistent with their purposes and missions, the universities make many and diverse contributions towards achieving the Government's Strategic Objectives. The Taskforce recognises we have a strong platform from which to build.

**Part 2** continues to explore the context within which both Government and the universities can expect to operate during the next 20 years and the implications of that context for the development of policy and for the allocation of resources.

**Part 3** contains proposals for a new relationship between the Scottish Government, the university sector and the Scottish Funding Council. It will be underpinned by a new set of roles and responsibilities which the Taskforce believes will play a key role in delivering a Smarter Scotland with the highly skilled, creative and innovative workforce needed to deliver prosperity for the people of Scotland in the 21<sup>st</sup> century and which will enable the university sector to continue to be nationally and internationally competitive in the face of global challenges.

Associated with this would be a new funding arrangement, comprising: a General Fund for Universities (GFU) to cover the Scottish Government share of the cost of all mainstream activities; and a Horizon Fund for Universities (HFU) which would support specific incentive based arrangements with individual institutions. This will provide greater clarity for both Government and universities of the benefits each is delivering for the other.

The taskforce recognised that achieving our ambitions and aspirations will not be easy and that it was important to set challenges. Therefore in **Part 4** the Scottish Government and the universities each set three challenges which are included here as a signal of the Taskforce's ambitions for Scotland and its universities.

### ***Challenges from the Scottish Government***

Challenge 1 – Scottish universities must demonstrate that they use the funds they receive from the Scottish Government to support activities which are well aligned with the Scottish Government's Purpose, its economic and skills strategies and its other policy frameworks.

Challenge 2 – learning provision in universities must become more flexible (if it is to respond to the changing needs of students) and more capable of being delivered by closer and differing institutional collaborations and structures.

Challenge 3 – universities contributing more directly to Scotland having a world-class knowledge economy by embedding a culture of engagement between themselves and the Scottish micro, small and medium sized business base.

### ***Challenges from Universities Scotland***

Challenge 1 – by 2028 Scotland must be in the top quartile of OECD countries for percentage of GDP invested in its universities and for national investment in research, development and innovation. These are not excessively ambitious targets for a country aspiring to develop an advanced knowledge-based economy, but currently Scotland falls far short of them. Progress towards achieving them needs to start now.

Challenge 2 – in order to meet the future labour market needs of an advanced knowledge-based economy, as a minimum Scotland must aim to be in the top quartile internationally for its higher education participation rate and must substantially increase postgraduate taught and research student numbers.

Challenge 3 – the new General Fund for Universities funding stream must deliver sustainable funding for all mainstream university activities, including learning and teaching, research, knowledge exchange and the renewal of infrastructure; and the Horizon Fund for Universities funding stream must provide the resources necessary to support strategic change and non-standard funding needs and to fund new initiatives and projects, including investment in capacity building.

## **PART 1 – THE AMBITION FOR OUR UNIVERSITIES IN THE 21<sup>ST</sup> CENTURY**

### ***A strong platform on which to build***

1.1 We recognise that Scotland starts from a position of strength. Our universities are among the strongest and most vibrant institutions in civic Scotland. As autonomous institutions whose fundamental purpose is the discovery and dissemination of knowledge and truth, they play a crucial role not only in facilitating wealth creation, but also in developing cultural identity, in providing an independent and objective analysis of public policy and in fostering a more enlightened, more tolerant and better informed society. The activities of our universities will play a central role in contributing to the achievement of the Scottish Government's Purpose – increasing sustainable economic growth for the benefit of all – and of its five Strategic Objectives and associated National Outcomes, Indicators and Targets.

1.2 The fundamentals of Scotland's universities are solid and show we start from a good position.

- **Quality.** The evidence on the quality of Scotland's universities is strong. For example there are three Scottish universities in the world's top 100 research universities<sup>3</sup> and three universities in ranked in the top 10 new universities in the UK<sup>4</sup>. Scotland has world class schools of art and design and an internationally renowned academy of music and drama. Scottish universities are leading the world in having developed one of the most advanced approaches to academic quality, which is based on enhancement and continual improvement.
- **Effectiveness.** According to recent data, only 14.3% of Scottish students fail to leave university with a successful outcome (degree, other award or transfer to another educational programme).<sup>5</sup> Scottish research is cited relatively more often than that carried out in the USA, Germany and China, placing Scotland second in the world for the impact of its research. It is first in the world in terms of the rate research papers are cited, relative to GDP. With less than 0.1% of world population, Scotland's share of global research people and publication outputs are both around 0.8% and we are particularly strong in science, engineering and medicine<sup>6</sup>. In 2005, Scotland's higher education expenditure on research and development ranked top out of all the UK regions and in the first quartile of OECD countries<sup>7</sup>.
- **Efficiency.** In the last three years, the Scottish higher education sector has demonstrated efficiency savings which have made it at least £60 million more efficient by the end of the period. This has coincided with a sustained period of increased higher education public funding over the last 10 years which reversed the pattern experienced during much of the 1980s and 1990s where rapid expansion in student numbers led to real term reductions in public funding per

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<sup>3</sup>[http://www.topuniversities.com/worlduniversityrankings/results/2007/overall\\_rankings/top\\_100\\_universities](http://www.topuniversities.com/worlduniversityrankings/results/2007/overall_rankings/top_100_universities)

<sup>4</sup> The Times Good University Guide 2008.

<sup>5</sup> HESA Performance Indicators 2006/07 <http://www.hesa.ac.uk/index.php/content/view/1166/141>

<sup>6</sup> Based on data from ONS (2007) and OECD (2007).

<sup>7</sup> <http://www.scotland.gov.uk/Resource/Doc/981/0055654.pdf>

student. There is reliable evidence to suggest that the quality and standards of outputs actually rose through the 1980s and 1990s despite much of the period being characterised by reductions in public funding per student. In addition, data for 2001 to 2004 show that universities in Scotland were the most efficient in the G8 at converting research income into citations<sup>8</sup>.

- **Distinctive.** Scottish universities have developed a distinctive culture in which (in accordance with the Magna Carta Universitatum 1988 to which they all subscribe) the indivisibility of teaching and research is recognised as the defining characteristic of Scottish university education which distinguishes it from all other types of education. Universities progress current knowledge, create new knowledge and expose students to the passions and ambitions of the research process. The intellectual attributes and skills developed by graduates at university are fundamental to the qualities and powers required by a knowledge-based economy and workforce.
- **Culture and society.** Whilst at university, students are actively encouraged to explore and expand the world around them which can lead to the development of cultural 'scenes' and vibrant areas in our towns and cities which can have significant cultural and economic benefits. Scotland is home to two world famous art schools and an internationally renowned academy of music and drama. These institutions are central to the vibrancy of Scotland's cultural life. Universities make a significant contribution in other fields, such as sport. Many of Scotland's universities are home to Scotland's national sports teams and play host to major sporting events. All our higher education institutions make vital contributions to cultural life and to civic society. This is not peripheral activity: it is woven in to the very fabric of our university experience.
- **Cohesion.** Many of the positive characteristics graduates possess as a result of having participated in higher education benefit the wider community either directly or indirectly. Societies with high proportions of graduates demonstrate greater social and civic responsibility across a number of indicators including:
  - an awareness of and interest in politics and environmental issues;
  - a higher tolerance for racial, sexual and cultural diversity; and
  - a greater likelihood to volunteer.

1.3 Our universities are playing the fullest part possible in today's modern Scotland. Universities are part of the 'soul' of Scotland and will continue to play a pivotal role in the future as we seek to create the conditions to enable a new Scottish enlightenment to flourish in the 21st century.

### ***How universities deliver for Scotland***

1.4 Universities are among the strongest centres for intellectual development and creativity in Scotland. They are places for the generation and application of new ideas and for the development, fostering and support of free expression.

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<sup>8</sup> <http://www.scotland.gov.uk/Resource/Doc/981/0055654.pdf>

1.5 The Scottish Government has set five strategic objectives for Scotland. These are objectives with which the university sector can identify and which the universities already play a major part in achieving.

1.6 The following highlights some of the ways in which universities contribute to making Scotland a Smarter, Wealthier & Fairer, Healthier, Safer & Stronger and Greener country.

### Smarter

- Over 240,000 students are currently enrolled at Scottish universities, studying in a sector which is regarded as having one of the strongest quality assurance mechanisms in the world.
- Scottish universities develop higher level skills requiring a learning experience that is research informed and train most of the professionals who work in Scotland in science and engineering, health, education and a wide range of other fields.
- Scotland's universities are among the most international in the world with 20% of the students studying higher education coming from outside Scotland<sup>9</sup>. Many of them choose to remain in Scotland after graduation, increasing the available pool of human capital.

### Wealthier & Fairer

- The direct and indirect benefits from higher education, if translated into economic terms, would mean that our universities would be regarded as a £2 billion plus business, spending over £500m per annum on goods and services and directly employing approximately 34,000 people. It is also one of Scotland's largest earners of foreign currency through the recruitment of international students, successful competition for research grants/contracts and collaborative links with international businesses. By any measure, Scottish higher education makes a significant economic impact.
- Scottish universities are the country's main centres of research and development, helping to compensate for the relatively low levels of business R&D currently undertaken by Scottish firms. They are also major providers of the human capital – staff and students. In both these ways they fuel the Scottish economy and actively support the Scottish Government's six key industry clusters of creative industries, energy, financial and business services, food and drink, life sciences and tourism.
- Universities attract people into Scotland many of whom are in their early 20s. They not only add to the pool of valuable skills available in the domestic economy but these individuals can also make an important positive contribution in helping to counteract adverse demographic trends.

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<sup>9</sup> <http://www.scotland.gov.uk/Publications/2008/05/28121933/1>

### Healthier

- Universities train the workforce that provides healthcare for the nation. Most nurses, doctors, physiotherapists, radiologists, opticians, etc. working in Scotland today are trained in Scotland.
- Scottish universities are at the forefront of research into serious disease and preventative medicine and practices.
- Universities play an important role in developing elite sport in Scotland and also in developing social policy on participative sport.

### Safer & Stronger

- Universities contribute positively to the criminal justice system in Scotland in a number of ways, ranging from training the legal profession to providing courses in forensic medicine.
- Universities are crucial to the artistic and cultural identity of Scotland and its cultural infrastructure. They train the majority of the artists, designers, architects, performers and film-makers working in Scotland. They present exhibitions, hold lecture series, festivals and performances. They are guardians of historic buildings and rich historic archives and collections. They host writers in residence and run community arts projects. They preserve our understanding of Scotland's history, poetry and literature, help keep Scottish music and craft traditions alive and maintain libraries, galleries and museums of national importance.
- Scotland's international identity is strongly supported by universities. Many of Scotland's most valuable international relationships are fostered by universities.

### Greener

- Technologies to minimise all aspects of climate change and environmental harm are being developed in Scottish universities. It is not just the cutting-edge research which is crucial but the application of existing technologies to national and international problems.
- The work of universities has been crucial in raising public awareness of environmental issues. Academics and university departments have been at the forefront of explaining the impact of our actions to the public.
- Universities are working to make their own estates greener and more environmentally efficient.

1.7 There is no doubt that the outputs of Scottish universities and the outcomes and impacts of their activities, are aligned to the Strategic Objectives of the Scottish Government.

***However, our country, our economy, our society and our universities face challenges in the early years of the 21<sup>st</sup> century***

1.8 Part 2 explores what the rapidly changing international environment means for Scotland and our universities. While we can never predict precisely the impact of the external environment on Scotland, we must make an informed assessment so that we develop policy which ensures that our country is as well prepared as possible for future challenges.

1.9 There are a number of challenges that Scotland will face over the next 20 years. These include:

- Increasing international competition on skills. Rapidly developing economies such as China and India have skill levels increasing at a faster rate than advanced economies, albeit they are starting from a low base. In addition, the nature of the skills that are needed by the knowledge economy is changing: a premium is being placed on creativity, flexibility, adaptive capacity and the ability to work in complex teams across disciplines. Most people will be expected to shift career direction several times in their working lives, re-entering education to upskill and re-skill;
- Increasing international competition on innovation and technology. Emerging nations are rapidly developing high technology economies;
- Changing demographics. In the future, we will have fewer younger people and more older people in the workforce;
- Increasing pressure on productivity from these three factors; and
- Environmental challenges. Scotland will also face the same environmental problems as the rest of the world and will need to adapt to the implications of declining natural resources and changing world weather patterns.

1.10 This future brings with it parallel challenges for our universities. These include:

- Responding to the changes in the skills needs of Scotland. Universities are a key player in helping to ensure the skills profile of the modern Scottish workforce is at the optimum level for our country to be able to compete in today's global economy. It will also mean an increasing focus on 'skills utilisation' – the extent to which people not only have skills but use them to best effect;
- Helping to make the economy more innovative and strengthening the relationship with Scottish business;
- A workforce with fewer new entrants which may require much more retraining of existing workers. One consequence of a declining and aging population is that higher proportions of school leavers and people currently in employment will probably participate in higher education. Skilled people must be encouraged into our labour market from abroad where they have skills which are in short supply;

- Universities can drive the economy at the top end but this can lead to polarisation – universities and Government should work harder to address the continuing disparities by social class in learner participation in the university experience and make universities easily accessible to all sections of society; and
- Creating a deeper and more widely spread understanding among the people of Scotland of the benefits which universities deliver for our society, our economy and our country in return for the significant public investment in them.

1.11 Our conclusion is that the universities have an essential part to play in meeting the challenges Scotland faces in the 21<sup>st</sup> century.

### ***An opportunity to forge a new relationship***

1.12 We believe that a new relationship between the Scottish Government and Scotland's universities - one in which the benefits to our country, our economy, our culture and society from the substantial Government investment in universities is more clearly defined and better understood – will help us meet these challenges.

1.13 The Taskforce recommends that the starting point for such a relationship is the recognition of the university sector as a sector of the economy **in its own right**. As stated earlier, by any measure Scottish higher education makes a significant economic impact.

1.14 We also believe we need to put in place arrangements in which the university sector will continue to be properly supported in the future. These new arrangements – set out in Part 3 – will be underpinned by a 'something for something' approach.

1.15 Universities already contribute and will expect to continue to contribute significantly to making Scotland a more prosperous place. In future, though, the Scottish Government will expect the university sector to demonstrate more explicitly how the funding it receives from the Government contributes to delivering against the National Outcomes, thereby ensuring there is alignment of publicly funded activity against the Scottish Government's Purpose – its vision for **the whole of Scotland** – as set out in the National Performance Framework. In turn the sector, delivering outcomes so aligned, will continue to receive public resources at a level to help to keep it nationally and internationally competitive. These arrangements also respect the universities' autonomy as bodies which depend only in part on direct funding from the Scottish Government.

1.16 The Taskforce also believes the following criteria should be used to guide the Scottish Government and the Scottish Funding Council through future Spending Reviews:

- The integrity of the dual support model, where funding for universities is provided partly, but not exclusively, by the Scottish Government, should be maintained.
- Within the context of that model, the Scottish Government investment in learning and teaching, research and knowledge exchange activities should maintain broad overall comparability with the rest of the UK. The members of the new Tripartite

Advisory Group being proposed should play a key role in advising the Scottish Government on these matters, based on the outcomes to be delivered by the sector for the benefit of Scotland, an assessment of where there is a need to invest in building capacity and a realistic appraisal of the rate and which costs are rising, of the efficiencies which can be achieved without compromising quality and of the public investment that is necessary to enable the sector to maintain its competitive position within the UK and internationally.

- Targeted and sustained growth in postgraduate numbers with sufficient funding to support this.
- Collaborative estates development between universities and/or universities and colleges in local and regional areas, where such collaboration is beneficial, is a priority for the Scottish Government as it seeks to optimise the use of limited public resources.

### ***How will we know we've been successful?***

1.17 We will know we have been successful when the evidence demonstrates we have realised our shared ambition for Scotland's universities in the 21<sup>st</sup> century. This ambition is for a university sector:

- which is widely recognised within and outwith Scotland as shaping, preserving and developing our country, our economy, our culture and our society with the result that the substantial Government investment in universities is widely understood;
- which is nationally and internationally competitive, is regarded as 'world class' and has a number of universities ranked in the world's top performers;
- which is an attractive and welcoming place for students outwith Scotland to come and study;
- which values, develops and engages with its staff;
- which actively supports a changing learner demographic and assists learners to access university and progress through the education system, returning throughout their lives to upskill, re-skill or develop new skills for life and work;
- which develops entrepreneurial capacity and makes a significant contribution to graduate employability;
- where the interaction between academics and policy makers in the Scottish Government has improved to such an extent that academic work feeds in more regularly and more influentially into the policy process thereby improving the quality of public policy and public services in Scotland;
- where learning, teaching *and* research continue to be the cornerstone of university activity and are increasingly carried out as collaborative activity across these boundaries;

- where diversity among the missions and scale of universities is recognised, valued and supported and specialism is encouraged, supporting institutions in fulfilling their chosen missions;
- where degree provision is relevant, flexible and adaptable to the needs of future learners and where collaboration with schools and colleges to create articulation and entry/exit points into and out of the degree programme is commonplace;
- which willingly engages with the micro, small and medium sized business base of Scotland, playing a key role in increasing demand side 'pull' for new knowledge created in universities and delivering knowledge into the Scottish economy which creates additional wealth;
- which produces 'curiosity driven' research that advances the frontiers of knowledge (for global benefit) which may contribute directly to Scotland's people, economy, society or culture;
- which works actively with employers to ensure the skills of graduates can be utilised to best effect in the workplace;
- where employers are engaged in the development of the curriculum, influencing its content and participating in its delivery; and
- where the distinctive Scottish approach to assessing the quality of our higher education continues to be recognised and developed, as one of our global strengths.

1.18 These are the things which the Taskforce agrees are not simply important, but essential if Scottish universities are to continue to thrive and win the argument for a sufficient share of public resources.

## **PART 2 – THE CONTEXT**

2.1 The second part of this report sets out the agreed context within which universities will operate and their staff and students will live, work and study in the next 20 years. This context is presented under the topics which the Taskforce members considered in Meetings 2 to 5.

### ***Scotland up to 2028***

2.2 As a country, Scotland has undergone significant changes in its economy and society. Since the early 1990s, the pattern of job change in Scotland has been characterised by an increasing number of jobs at the highest skills end. The percentage of jobs requiring a tertiary education qualification has roughly doubled to more than one third. The rising demand for skills has been accompanied by a rising number of graduates: the number of people with degrees has risen by a half in the past two decades; one third of young people now go to university with a further one sixth studying for higher education qualifications in places such as colleges; and students from deprived areas are becoming increasingly likely to participate in higher education, though we recognise there is still more work to be done in this regard.

2.3 Twenty years ago, a Scottish constitutional convention had just been established. Now, we have a Devolved Government and a Parliament in Edinburgh that is responsible for much of what affects the day-to-day lives of the people of Scotland. And in 1988 Scotland had just over 92,000 students enrolled at university. Today in 2008 there are just under 245,000.

2.4 This serves to illustrate what we already know - that our journey through the next twenty years is difficult to predict. However, some broad trends are clear and it is not difficult to identify certain pre-requisites which have to be satisfied if Scotland is to flourish. To succeed in the future of 2028, the Scottish Government believes that it must focus on one overarching Purpose: **creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth**. It also believes that bodies in receipt of public funding should demonstrate that they use the public funds they receive in ways which deliver outcomes which are aligned with this Purpose.

2.5 This new strategic approach consists not just of the Purpose but five Strategic Objectives (**Wealthier & Fairer, Smarter, Healthier, Safer & Stronger and Greener**) that are internationally recognised as being critical to delivering sustainable economic growth. In turn, the Objectives are supported by 15 National Outcomes which describe in more detail what the Scottish Government wants to achieve over a 10 year period. Progress on these will be measured through 45 National Indicators and Targets, which include specific benchmarks for economic growth and golden rules for ensuring that growth is shared and sustainable. Together, these make up Scotland's National Performance Framework.

2.6 Scotland's economic growth has underperformed relative to both the UK and other small European countries in recent decades. Over the last thirty years (1975 to 2005), Scotland's annual average growth in Gross Domestic Product was 1.8%, well below that of comparable small European countries and significantly below the UK average of 2.3%. Scotland's growth has lagged that of the UK in nine out of the past ten years.

2.7 This is a powerful rationale for a new approach and why the National Performance Framework is founded upon growing a sustainable economy which provides opportunities for everyone living and working in Scotland. The contribution which universities can make to achieving the priorities which the Scottish Government has identified for sustainable economic growth (**Learning & Skills, Human Capital, Business Environment, Infrastructure Development & Place, Effective Government and Equity**) is considerable.

2.8 Like many sectors of the Scottish economy, our universities compete in an international market and international competition will be still more intense by 2028. Scotland has been highly successful in attracting a large percentage of its students from outside the UK. In 2006/07, 20% of students at Scottish institutions were from overseas. 12,265 students were from the EU and 23,905 from outside EU. There has been a 50% increase in EU students in last 5 years and an 118% increase in students from outside the EU.<sup>10</sup>

2.9 The future of Scottish universities depends on where we stand in comparison with other institutions in a competitive international economy. To be successful, Scotland must strive to attract the best lecturers and researchers to teach in world-class facilities based within a fully comprehensive support network.

2.10 The importance of learning and skills as a fundamental driver of growth and the major contribution which Scotland's universities make to this is firmly established as a critical element in a knowledge-based economy. It is the driver with which Scottish universities are already most closely aligned.

2.11 It was noted above that there has been a rapid increase in the supply of graduate level skills in recent times. The evidence (in terms of the wage premium for degree holders and the employment rate for graduates) broadly suggests that the increased supply of highly skilled and qualified people has been absorbed by rising demand for such individuals. However, the question arises of how things will look in the future.

2.12 The quality of the Scottish workforce currently compares favourably with international comparator nations, yet our productivity lags. Productivity is not all about skills, but it is a crucial component nevertheless. It could be said that Scotland has a low performance equilibrium – relatively low productivity but with good labour quality and employers that are broadly content with their staff. We are already doing well in terms of the quality of our labour then the question arises whether the skills and abilities of graduates are being fully utilised by employers. That opens up the increasingly important area of skills utilisation.

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<sup>10</sup> Based on data from the Higher Education and Statistics Agency and the Scottish Funding Council.

2.13 Scotland will increasingly need people who are ready to contribute effectively in the world of work and in their community, who go on to develop and refresh their skills through lifelong learning. And it is perhaps this one factor – our people – that will be the most important, but uncertain, variable in the Scotland of 2028.

Scotland, like many other developed countries, faces the demographic challenge of an ageing population. Whilst we cannot be completely certain about the precise detail of the challenge, we do know 3 things about its scale and how the Scotland of 2028 will look. We know that:

- there will be **far** fewer people aged 25 or under in the workforce than in 2008;
- there will be **many** more people aged 45 and over in the workforce than in 2008; and
- a **significant number** of people over retirement age will still be living in 2028 (with some projecting up to an 81% increase in over 75s between 2006-2031<sup>11</sup>)

2.14 A recent report produced for Universities UK<sup>12</sup> reinforces this picture. It concludes that while the 18 year old population of England is projected to diminish and then recover over the period from 2006 to 2027, the 18 year old population of Scotland is projected to decline by 11%, having dipped by close to 19% between 2009 and 2020. In the rest of the EU, the fall is projected to be 14.1%.

2.15 The authors of that report believe it is also important to note that, while the projections for England and for the UK as a whole, show a significant “bounce “ after the decline to 2020, this is not so clearly the case in Scotland. Their projections show a downturn in projected student numbers over the next 22 years in Scotland, Wales and Northern Ireland, compared with a modest increase of 2.4% at the end of the period in England.

2.16 Work carried out for HM Treasury<sup>13</sup> adds another important dynamic, namely that over 70% of our 2020 workforce have already completed their compulsory education.

2.17 The Taskforce believes universities can provide part of the solution to Scotland’s demographic problem. The one age group in which Scotland has a net population inflow is of those in their late teens and early twenties. This is, in part, attributable to universities attracting learners (including an increasing number of postgraduates) from outwith Scotland. If an increasing proportion of these graduates chose to remain in Scotland after graduation, this would help to counteract some of the effects of a changing demographic outlined above. These graduates would make not just a social contribution to our country (the birth rate in this group is likely to be

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<sup>11</sup> Source: GRO Scotland. Number of people aged 75+, actual and projected, Scotland, 1951-2031.

<sup>12</sup> “The future size and shape of the higher education sector in the UK: demographic projections” by Brian Ramsden and Nigel Brown of Nigel Brown Associates (2008)

<sup>13</sup> “Prosperity for all in the global economy - world class skills”: The Final Report of the Leitch Review of Skills (2007) ([http://www.hm-treasury.gov.uk/media/6/4/leitch\\_finalreport051206.pdf](http://www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf))

higher by virtue of their age profile) but, importantly, an economic one – they represent an inflow of exactly the kind of talent and entrepreneurial spirit needed to support and develop a knowledge-based economy.

2.18 Therefore, one of the positive actions agreed by the Taskforce is that Scottish Government and the university sector should:

- encourage increased inward migration of learners to study in Scottish universities; and
- work jointly within employers to ensure that employment opportunities are available to enable these learners to remain in Scotland after graduation if they wish to do so.

2.19 The Scottish Government's International Framework<sup>14</sup> and the International Lifelong Learning Strategy<sup>15</sup> both provide a good basis and a strong rationale for such action.

2.20 Overall, the student body moving towards 2028 will be increasingly diverse, internationalised and discerning. There will be no “typical” student – changing birth rates, an ageing population and more varied working practices will result in a move away from the necessity of full-time, traditionally taught courses into a need for more part-time, flexible provision delivered through a variety of means.

2.21 We also recognise that people are receptive to higher education study at different points during their lifetime, especially people from lower socio-economic groups who less likely to be receptive or reap the full benefits of higher education aged 17-21, but are more prepared and can gain from higher education at later stages in life.

2.22 Consideration of these matters leads into the next area which the Taskforce considered, namely outcomes and activities.

### ***Outcomes & Activity***

2.23 If the Scotland of 2028 will look as different to us now as the Scotland of 2008 would have looked when viewed from the perspective of 1988, are there any essential principles should guide us over the course of the next twenty years?

2.24 The Taskforce agreed at its meeting on 12<sup>th</sup> March 2008 that existing relationship between the Scottish Government, the Scottish Funding Council and our universities to support and develop adaptive capacity in the sector was a fundamental principle which should guide change in the years ahead. Part 2 of this report is presented with that principle firmly in mind.

2.25 Universities are concerned with the creation of intellectual capital, both through the academic development of learners and the outputs of research and scholarship. In the case of learners, the universities prepare them for life in its widest

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<sup>14</sup> <http://www.scotland.gov.uk/Resource/Doc/171024/0047885.pdf>

<sup>15</sup> <http://www.scotland.gov.uk/Resource/Doc/221041/0059464.pdf>

sense. It is a narrow view that conceives of the purpose of university-level learning as being simply to produce employees. Universities open up a range of opportunities for learners by developing independence of thought, the capacity for critical analysis, self-confidence and leadership capability, the ability to tackle and solve problems and a creative and entrepreneurial approach to the challenges of life.

2.26 That said, many of these skills are becoming increasingly essential in the workplace of the 21<sup>st</sup> century. Moreover, the contribution which our universities make to training the public sector workforce is significant. For example, the NHS is the largest employer in Scotland and our universities and colleges play a pivotal role in training and re-skilling its staff. For most learners, therefore, work will be a large part of the broader picture which is why the major focus of any discussion on the learning and teaching outcomes and activities of our universities will always be graduate employability. Universities Scotland describes graduate employability as being “fundamental to the mission of Scottish universities”, underpinning a large amount of their activities. When outcomes and activities are also considered from the position of the type of research being conducted within our universities, the answer is again one which relates directly or indirectly back to the economy.

2.27 In terms of preparing graduates for the world of work, Scottish universities integrate directly applicable work-related learning into their degree courses in a number of ways. This includes sandwich degrees, work placements and work simulation in class. Research is currently being undertaken which aims to look at how the sector can better integrate work-related learning into the curriculum and also the barriers that can restrict institutions from undertaking this type of activity. This project, *Aiming University Learning @ Work*, is aimed at integrating work related learning into non-vocational subjects. This work has clear implications for learning and teaching and the ways in which academics and business can work together.

2.28 Preparing graduates for the workplace is just one aspect of the debate which takes place on the subject of the value of a degree. Universities are being asked by student leaders to face up to the challenges of a diverse student population through better access, more flexibility and greater support to a wide range of personal circumstances. There are students in the sector from all social backgrounds, international students, disabled students, mature students, part-time students and distance-learning students. Additionally, students now have to work part-time jobs and have family responsibilities. Choice therefore has a role to play in encouraging more people to enter higher education – the provision of a diverse and high quality selection of courses is essential to widening access.

2.29 Universities educate a high proportion of the public sector workforce, particularly in the fields of healthcare and education. It is critical that they continue to offer high quality provision which remains relevant in the face of the changing student demographic. It is also important that they offer flexible opportunities to those already working in the public sector to upskill and maintain the relevance of existing skills.

2.30 As pointed out earlier in this report, the size and age profile of the 2028 workforce is critical. The quality of its skills base will be important too. The Scottish Government's Skills Strategy<sup>16</sup> articulates a vision of a smarter Scotland with a globally competitive economy based on high value jobs, with progressive and innovative business leadership. The skills needs of such a high value, innovative economy are substantial, complex and diverse.

2.31 The Scottish Government's Economic Strategy<sup>17</sup> sets two targets in relation to skills that are relevant:

- ensure a funding system for further and higher education through the Scottish Funding Council that is responsive to the needs of individuals, employers and the wider economy; and
- focus on working with employers and employees to increase the effective utilisation and demand for skills.

2.32 It does not matter how skilled the population is unless there is demand from businesses for these new, higher skills. Moreover, firms need to ensure that the jobs undertaken by workers make efficient and effective use of their skills. This is more likely to be achieved by ensuring that managers and executives have the skills and knowledge to make the best use of the improved supply of quality labour.

2.33 There is also evidence to suggest that for effective skills utilisation it is necessary to consider a range of measures including job re-design, complementary HR policies and capital investment. Universities have a crucial part to play not just in responding to the need for Scotland's economy to have a sufficient stock of highly skilled graduates but also the increasingly important agenda of improving the utilisation of skills in the workplace.

2.34 In the long term, economic growth is driven by growth in productivity. There is compelling evidence to suggest that the four key ways to improve productivity are by increasing investment, skills, innovation and enterprise. While supporting research and development (R&D) is one way of increasing innovation there are two other key strategic approaches and goals which are relevant.

- Recognising, reflecting and promoting the key role of Scotland's universities as world class assets and highly effective levers for the further development of our science base, other key sectors and the wider economy.
- Providing more tailored incentives through the Scottish Funding Council and other agencies to encourage universities and business to engage collaboratively in the exchange of knowledge and expertise to drive greater innovation in the economy.

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<sup>16</sup> Skills for Scotland: A Lifelong Learning Skills Strategy (2007)  
<http://www.scotland.gov.uk/Publications/2007/09/06091114/0>

<sup>17</sup> The Government Economic Strategy  
<http://www.scotland.gov.uk/Publications/2007/11/12115041/0>

2.35 Scotland starts from a strong position. With 0.1% of world population, our country is responsible for 0.8% of the world's research. Maintaining that level of performance is vital. However, there is another way in which it is important: it enables conversation with other major generators of knowledge throughout the world. This is crucial precisely because 99% of knowledge is generated outside Scotland and we need to be in a position not just to exploit the knowledge created in Scotland, but to learn from, develop and make use of the knowledge generated elsewhere.

2.36 Trends towards globalisation mean that depending only on the knowledge created in one's own country is no longer a viable strategy. It is the cadre of researchers working at the cutting edge of their disciplines that we depend on to conduct the dialogue with their colleagues in other countries and to gather and interpret the knowledge that others have created so that Scotland can benefit from it.

2.37 Scotland's universities have an impressive track record in research and developing spin-out companies. Investment in business R&D is low by UK and international standards. As such, Scottish businesses in comparison have a poor rate of R&D. Scotland's R&D effort is dominated by what the universities deliver with funding from business and Government. A further weakness is that Scotland (like the UK as a whole) has not always realised the commercial benefits of the knowledge it creates.

2.38 Absorptive capacity is the ability of businesses to absorb external knowledge and for that knowledge to be translated into commercial processes, new goods and services. There is evidence to suggest that this is relatively low in indigenous Scottish firms, thereby creating a barrier for Scottish firms undertaking taking collaborative research with the science base. The main issues highlighted in the Taskforce discussion on this matter have been that businesses do not innovate enough and there seems to be a lack of connection between universities and businesses. The research points to the fact that business links with academia is an area where there appears to be market failure.

2.39 That does, on the face of it, provide a clear role for Government intervention and poses a number of questions. How do we increase the absorptive capacity of firms? How do we strengthen links between our universities and a business base which is dominated by micro, small and medium sized companies? Is research currently funded using the correct metrics and criteria? Does it adequately recognise new forms of knowledge creation and its economic application? Are the right incentives in place to encourage closer collaboration? Is there scope for better alignment of Scottish Funding Council funding with Scottish Enterprise and Highlands and Islands Enterprise? There is also a connection between this issue and improving skills utilisation in the workplace given that one of the reasons highlighted for the poor absorptive capacity of micro, small and medium sized companies was due to the capacity of managers.

2.40 We propose to address these issues together by improving incentives for engagement between universities and businesses in order to build awareness of the benefits to business of making optimum use of graduate skills and of the outputs of university research - and indeed of the benefits to universities of conducting research which is market-focused. We also recognise that there are cultural issues which

prevent employers engaging with universities. Universities can be intimidating places, especially for micro and small businesses. Finding the right 'way in' can sometimes prove difficult. The Taskforce recognises both universities and business have a shared responsibility to enhance the absorptive capacity of enterprises. Any additional mechanisms must look at this issue from both perspectives.

### ***Collaboration & Shape***

2.41 The Scottish Government in particular often faces questions around the number of universities we have and need in Scotland. The number of institutions per head of population in Scotland is close to the international average, but arguments are often advanced, on the basis of critical mass or cost savings, that we should have fewer institutions. The proponents of this argument have fewer answers on how we should achieve this. There is no convincing evidence that mergers deliver cost significant savings. While efficiencies in the medium to longer term can be expected (and therefore make the cost justifiable), the short term cost can be considerable, as can be demonstrated by recent examples in both England (University of Manchester and UMIST) and Scotland (University of Paisley and Bell College). It is possible that many of the benefits which it is believed would arise from mergers can be achieved as effectively and more economically by collaboration. It would also be wrong to assume that public resources would always be available to facilitate university mergers given the competing priorities on the Scottish Budget.

2.42 In addition to those existing collaborations within the university sector there are other imaginative forms which can be (and are being) pursued, such as collaboration between universities and colleges where there are considerable opportunities. The most obvious example is the relationship between the UHI Millennium Institute and the constituent colleges, but there are others. To take just one, in October 2007 Aberdeen College and The Robert Gordon University (RGU) announced a formal alliance, the first of its kind in Scotland, which has seen Aberdeen College become an Associate College of the University. While the two institutions maintain their autonomy and existing governance arrangements, Aberdeen College uses the RGU brand in its marketing material to advertise the progression opportunities that exist between itself and the university. The '2+2 Degree Link' which underpins this collaboration involves students spending two years at Aberdeen College studying for their HND, followed by direct entry into the 3<sup>rd</sup> year of a degree programme at RGU and a further two years at the university for those wishing to progress to a degree. 'Degree Link' courses already cover engineering, computing, business, hospitality, tourism and social sciences.

2.43 Skills for Scotland, the Scottish Government's skills strategy, highlights the importance of lifelong learning and the need for people to progress seamlessly from one learning opportunity to another, developing their skills and knowledge as they do so in one education system. The demographic changes affecting Scotland in the future will make it more challenging for colleges and universities to attract students, staff and researchers.

2.44 New tertiary education partnerships and collaborations between institutions will therefore be increasingly attractive to potential students, particularly those from a background who have traditionally not accessed higher education. A natural progression of greater collaboration between institutions across further and higher

education would be the emergence of tertiary education institutions in the years ahead. Our size as a country simply adds to the possible opportunities.

2.45 In research as in teaching collaboration can take many forms. The research pooling initiative has enabled research excellence in certain disciplines to be brought together from all the Scottish universities with high quality research activity in that area, further enhancing the quality and impact of the work being undertaken. Although the initiative is less than four years old, there are already seven major collaborations and still more coming on-line. One of the most recent has seen six universities (Aberdeen, Dundee, Edinburgh, Glasgow, St. Andrews and Strathclyde) pool their research excellence in life sciences in the new Scottish Universities Life Sciences Alliance (SULSA) to develop a critical mass of expertise which allows effective competition at global level. Others include the Scottish Universities Physics Alliance (SUPA), the research pooling in Chemistry (ScotChem), the Scottish Research Partnership in Engineering (SRPe) (which has been the vehicle for Scotland's competitive research bids through the Energy Technology Partnership) the Scottish Alliance for Geoscience, Environment and Society (SAGES) and the Scottish Institute for Research in Economics (SIRE).

2.46 Collaboration between universities and universities and colleges is part of our ambition for universities in the 21<sup>st</sup> century. That said, where universities (or universities and colleges) believe that a strong case for merger exists, the Scottish Funding Council will facilitate and strongly encourage and support merger or collaborative activity which could lead to merger in the future.

2.47 Shape and collaboration also caused the Taskforce to consider how teaching and research might continue to change in the future. We understand the challenges of universities working together on the delivery of teaching while maintaining inter-institutional distinctiveness. We also understand that there are some limits to the efficiencies that might be possible through teaching pooling – for example efficiencies of scale around providing laboratory facilities are limited. Yet if we are to maintain delivery of a wide range of subjects across institutions, especially in remoter areas, the extension of the pooling approach beyond research into teaching is an option for future development.

2.48 Finally, a changing student demographic should drive new and different approaches to the university curriculum. Completing any year at university should be regarded as a success. The Scottish Credit and Qualifications Framework (SCQF) now explicitly recognises the Certificate of Higher Education and the Diploma of Higher Education at SCQF Level 7 and 8. The practice of providing exit qualifications from university at these levels, where already happening, should become the norm in recognition for successful study. This credit can then be used in the future if the individual wishes to return to learning, either in a college, university or in the workplace. Advanced entry into the degree programme from school, the four year degree becoming a blended undergraduate and taught post-graduate experience, traditional four year Scottish honours degrees, three year undergraduate programmes, exit qualifications before the third year and so on are just some of the opportunities all universities should actively explore when creating a responsive framework of provision fit for the needs of our people and our country in the 21<sup>st</sup> century.

2.49 Given the importance to the learner of these issues, the Scottish Government, the Scottish Funding Council and the university sector will continue to work with other key partners, especially those in the school and college sectors, to improve access and articulation. Opening up universities to school pupils and teachers and encouraging lecturers to experience a modern school environment should increasingly become part and parcel of the transition between the classroom and the lecture theatre. In doing so, we will make sure we take advantage of opportunities, such as the Curriculum for Excellence, where they already exist.

### ***Future Resources***

2.50 In academic year 2008/09, universities will receive an increase of 2.7% on the core grants for teaching (net of tuition fees). The overall increase in the main quality research grant will be 4.7%. The budget for knowledge transfer will rise by over 20%.<sup>18</sup>

2.51 The Scottish Government believes that access to higher education should be based on the ability to learn, not the ability to pay, and with the abolition of the graduate endowment fee<sup>19</sup>, has restored the principle of free education in Scotland in the early years of the 21<sup>st</sup> century.

2.52 Taskforce members agree that the overall funding for the sector has to be competitive, given the increasingly international market in which universities compete. We also believe we need to put in place arrangements in which the university sector will continue to be properly supported in the future. These new arrangements are set out in Part 3. There are, however, principles which the Taskforce believe should guide the Scottish Government in the funding of universities in the future. These principles are based on the following criteria:

- The integrity of the dual support model, where funding for universities is provided partly, but not exclusively, by the Scottish Government, should be maintained.
- Within the context of that model, the Scottish Government investment in learning and teaching, research and knowledge exchange activities should maintain broad overall comparability with the rest of the UK. The members of the new Tripartite Advisory Group being proposed should play a key role in advising the Scottish Government on these matters, based on the outcomes to be delivered by the sector for the benefit of Scotland, an assessment of where there is a need to invest in building capacity and a realistic appraisal of the rate and which costs are rising, of the efficiencies which can be achieved without compromising quality and of the public investment that is necessary to enable the sector to maintain its competitive position within the UK and internationally.
- Targeted and sustained growth in postgraduate numbers with sufficient funding to support this.

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<sup>18</sup> All figures are taken from the Scottish Funding Council Circular No. 10/2008: Main grants in support of teaching and research for higher education institutions for academic year 2008-09 [http://www.sfc.ac.uk/information/info\\_circulars/sfc/2008/sfc1008/sfc1008.html](http://www.sfc.ac.uk/information/info_circulars/sfc/2008/sfc1008/sfc1008.html)

<sup>19</sup> Graduate Endowment Abolition (Scotland) Act 2008

- Collaborative estates development between universities and/or universities and colleges in local and regional areas, where such collaboration is beneficial, is a priority for the Scottish Government as it seeks to optimise the use of limited public resources.

2.53 It is important to recognise that over and above the resources from the Scottish Government, many universities presently generate a substantial amount of income from contracts won on a competitive basis and from a variety of independent sources. The success of the Scottish universities in competing for funds from outwith Scotland is considerable, particularly in relation to research projects and collaborations with industry. The Universities of St Andrews, Heriot-Watt and Edinburgh derive around a third of their turnover from funding provided by the Scottish Government. At the other end of the scale, small specialist institutions are understandably more heavily dependent on funding provided by the Scottish Government through tuition fee income and grants for teaching and research via the Scottish Funding Council.

2.54 Among the sources of income with the capacity to grow are:

- philanthropic giving; and
- employers.

2.55 The growth of philanthropic giving has attractions for both universities and the Scottish Government in the shape of diversification of income streams and as a result, in the medium and long term, reduced dependency on public funding. There would be some short term cost in bringing this change about. We believe the matched funding initiative launched in England merits further consideration in a Scottish context.

2.56 With this initiative now in place, donors who might be prepared to consider a gift to either a Scottish or an English university might choose the English institution on the grounds that the effect of the gift will be greater by virtue of the matched contribution from public funds. Developing a more widespread culture of philanthropic giving should therefore be an important element within the future funding mix.

2.57 In terms of employers, the Scottish Government does not have at its disposal the full range of economic powers it would need to properly incentivise an indigenous micro, small and medium sized business base to develop financial relationships with universities. Tax breaks for employers wishing to collaborate with universities, where they exist, are developed at a UK level and often fail to take account fully of Scottish situations and circumstances. This is one of the obstacles that prevents deeper engagement between universities and employers.

2.58 Against this background, the rationale of the Government's National Performance Framework and especially the Purpose of sustainable economic growth for all takes on an important dimension. A university sector which delivers outcomes which clearly make a major contribution to meeting the needs of the Scottish economy and therefore employers, is one in which business is arguably more likely to invest.

2.59 There is also a cultural dimension to this issue. Small and micro businesses in particular can feel intimidated by universities, unsure whether or how to engage. There is no doubt that more can be done to foster change in the culture and environment in universities and in businesses that will drive greater collaboration and improve economic performance.

2.60 Improving the effectiveness of knowledge exchange – whether through provision of graduates into the workforce or working with businesses to realise the economic benefits of research to them – is critical to our economy and must be a key priority. Some projects are already underway and have been successful to a degree – Interface is probably the best example, making knowledge in universities more readily accessible to small and medium-sized enterprises. Others need to be explored, such as ways in which universities can help to stimulate demand side pull for research and development and high level skills.

2.61 The Cabinet Secretary for Education and Lifelong Learning has already asked the Scottish Funding Council to consider whether the current knowledge transfer metrics are sufficiently weighted towards applied research. Better alignment of this funding, with other initiatives provided by the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise, must be the logical next step.

## **PART 3 – A NEW RELATIONSHIP FOR THE 21<sup>st</sup> CENTURY**

### ***A model capable of responding to the challenges of the future***

3.1 At its meeting of 12<sup>th</sup> March 2008, the Scottish Government presented the Taskforce with seven models<sup>20</sup> showing how the relationship between the Scottish Government, the Scottish Funding Council and Scotland's universities could be redrawn.

3.2 The purpose of doing so was not to seek to prescribe a solution or impose a particular model. Instead, the models were prepared to encourage debate on a broad range of options. Their value was in moving the debate forward from the status quo to looking at how we best equip our universities to meet future challenges. These challenges include a workforce which will contain more older workers and fewer younger ones, where participation in higher education will be an experience that increasingly happens alongside employment and maintaining the excellent international reputation we enjoy on learning, teaching and research in a fast moving and rapidly changing world.

3.3 The following models were considered:

- **Status Quo** – no change to the present relationships.
- **Incentivised/Progressive** – where Government funded university activity is aligned to the Government's Purpose.
- **Highly Directive** – where all subjects are controlled by the Government.
- **Covenant** – where success is based on delivering high level outcomes.
- **Self-Differentiating** – where sector-wide competition on teaching is introduced.
- **Centrally Differentiated** – where Government funding is targeted towards one institution in an effort to push it into the world's top 20.
- **Threshold** – where the Government purchases a fixed number of places at Scottish HEIs with the market becoming unregulated beyond that.

3.4 The Taskforce members supported the development of a hybrid, based on the areas of emerging consensus, to be worked up for discussion at their meeting on 16<sup>th</sup> April 2008. Two principles guided the work of the Taskforce through this part of its work:

- The ability or otherwise of the existing relationships between the Scottish Government, the Scottish Funding Council and Scotland's universities to support and develop "adaptive capacity" in the sector.

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<sup>20</sup> <http://www.scotland.gov.uk/Resource/Doc/82254/0058120.pdf>

- The hybrid should be capable of articulating a ‘something for something’ approach between the Scottish Government and universities which is mutually reinforcing, focusing on outcomes as a measure of success.

3.5 The following elements of the seven models also guided the development of the hybrid:

- Incentives are attractive as long as quality and excellence is maintained (Incentivised/Progressive).
- Articulation and entry into university should be flexible – multiple entry and exit points assisted by the SCQF (Incentivised/Progressive).
- Institutions should be able to play to their own strengths and qualities and are best placed to make judgements based on their own capacities (Self-Differentiating).
- Diversity of the sector is a strong aspect of Scottish higher education and should continue (Self-Differentiating).
- A focus on outcomes rather than inputs is attractive (Covenant).

### ***A new framework of roles and responsibilities***

3.6 The main components of this new framework are set out below in summary and explained in more detail from paragraph 3.7 onwards.

- Regulation by the Scottish Funding Council will be significantly relaxed and a new ‘lighter touch’ approach adopted to managing the relationship with institutions, in consultation with the universities through a new Tripartite Advisory Group.
- The Scottish Funding Council will play a crucial role in implementing key strategic initiatives developed in partnership with universities (and, where appropriate, colleges) with a view to realising our ambition for the sector as a whole in the 21<sup>st</sup> century.
- The Scottish Government’s role in the future will change to be more focused on outcomes, targeting public funds through the Scottish Funding Council at activity which will deliver the Government’s Purpose, Strategic Objectives and outcomes shaped by the Government’s Economic Strategy, Skills for Scotland and its other policy frameworks.
- Universities accepting the challenge of using Government funds to deliver against the National Outcomes, thereby aligning publicly funded activity against the Scottish Government’s Purpose and Strategic Objectives and, as a result, building a clearer case for (and creating favourable conditions for the Government to afford) continuing and increasing levels of public funding. In other words, universities being able to benefit from a greater share of the Scottish Government’s budget if it can demonstrated through robust evidence that their activities have made a significant contribution to achieving the Purpose.

- Strong governance, challenge and leadership from governing bodies, to ensure universities play an active part in this new set of relationships.
- These new roles also being translated into a new set of funding arrangements.
- The new Tripartite Advisory Group acting as the forum through which the sector offers its views on how these new funding arrangements should be and are operating.
- Public funding streamed into two new funds – the General Fund for Universities (GFU) and the Horizon Fund for Universities (HFU).
- There will be fewer restrictions and more flexibility, on how money in the GFU can be spent within universities. Delivery will be judged against the Government's high level objectives, outcomes and indicators as the measure of success.
- The Scottish Government will set the direction on HFU with incentivised delivery aligned to key Government strategies and priorities.

### ***New roles and responsibilities***

3.7 The starting point of our new framework is a redefinition of the roles and responsibilities of the Scottish Government, the Scottish Funding Council and our universities. A number of external drivers point to this being the right first step, including:

- the new Scottish Government works to a National Performance Framework, which provides the basis for agreeing with organisations in receipt of public money how those funds are to be applied in a way which will contribute to the achievement of its Purpose and Strategic Objectives. In this way, it will allow the people of Scotland to monitor the Government's performance **and** the performance of those organisations;
- the Scottish Funding Council has been in place for less than three years and will, later this year, begin work on its next corporate plan; and
- universities in Scotland are autonomous bodies which want more freedom to make decisions, to be able to adapt quicker to the changing world around them, to change what they do and how they do it.

3.8 The Taskforce agrees that the Scottish Funding Council must perform a different role in the future in relation to the governance of the university sector. As a result, regulation will be relaxed and a new 'lighter touch' approach adopted to managing the relationship with institutions. This new approach will not, however, be limited to governance.

3.9 It will also apply to the Funding Council's approach to funding the sector – orientated more towards funding the right provision in the right institution than ever before – which will result in university funding becoming more flexible and responsive to the needs of universities and students.

3.10 The Taskforce believes that another outcome of this new approach will be a Funding Council where the business of how institutions run their affairs is better left to the institutions – and so a greater emphasis is placed on the role of the governing body in the future – with the Funding Council being freed up to make decisions on delivering those key strategic initiatives (either in partnership with one, some or all of our universities, collaborating with colleges where appropriate) which will realise our ambition for the sector as a whole in the 21<sup>st</sup> century. This can be achieved within the existing legislative framework already in place.

3.11 The Taskforce agrees that the Scottish Government's role must also change and in the future it should adopt the following approach:

- setting objectives for the university sector as at present using Ministerial guidance but extending this to include advice from the Tripartite Advisory Group, which will help to identify strategic outputs and outcomes which can be monitored by the Scottish Funding Council;
- targeting public funds at activity which will contribute significantly to the delivery of the Government's Purpose and Strategic Objectives; and
- incentivising activity which will deliver outcomes shaped by the Government's Purpose, Strategic Objectives and associated policy frameworks, which the activities of the universities have a crucial role in delivering.

3.12 To cement this new set of roles and responsibilities, the Taskforce recognises that universities must also play a different role. The Taskforce believes that universities should be explicitly recognised as a key sector of the Scottish economy and accept the challenge of demonstrating how their activities align closely with the Scottish Government's Purpose and Strategic Objectives. By accepting this challenge, their case for continuing and increasing levels of funding will become much stronger.

3.13 This is the crux of the 'something for something' deal between the Scottish Government and our universities. The Scottish Government's funding is targeted at activity which will deliver against the National Outcomes, thereby aligning publicly funded activity against the Scottish Government's Purpose and Strategic Objectives – that is its 'something'. The universities, by demonstrating that they are delivering relevant to this agenda, strengthen their case for increasing levels of public investment – that increase in public investment is their 'something'.

3.14 We believe Scotland's universities can go much further. We know they have an integral part to play in delivering the Scottish Government's Purpose, because the contributions they make are highly relevant to the achievement of that Purpose. We also know that greater levels of sustainable economic growth will result in a real increase in available public resources. Universities stand to benefit from this increase if it can be demonstrated that the return from public investment in their activities has made a significant contribution to the achievement of the Purpose.

3.15 To cement the new relationship, a dialogue will be held at Cabinet between Scottish Ministers and Universities Scotland before the next Spending Review.

### ***New funding arrangements***

3.16 The next step is to reflect these new roles in a new set of funding arrangements. The existing funding which the Scottish Government provides will be streamed into two funds: the GFU and the HFU. At this stage, the Taskforce has agreed it should not prescribe the nature of these two funds in detail. The Scottish Funding Council's response to this report (see page 29) will include a detailed analysis of current expenditure and its categories with the aim of proposing and agreeing in which of the two funds these categories would sit in the future. This analysis will be discussed at the final Taskforce meeting in September 2008. That said, we expect the GFU will be driven by simplified and transparent funding formulae designed to deliver outcomes that are generally applicable across the sector and support the mainstream activities of universities. The HFU would be able to include specific incentive based arrangements with individual institutions delivering, for example, outcomes which are performance or specialism related.

3.17 The following principles have been agreed by the Taskforce as one which should guide the operation of the GFU and the HFU:

- A new Tripartite Advisory Group will be established between the Scottish Government, the Scottish Funding Council and Universities Scotland. It will be chaired by the Cabinet Secretary for Education and Lifelong Learning and meet once or twice each year. It will act as the forum through which the sector offers its views on how these new funding arrangements should be and are operating.
- Money in the GFU will be distributed via the Scottish Funding Council but its role will be more delivery orientated than at present.
- Delivery will be judged against the Government's high level objectives, outcomes and indicators as the measure of success.
- There will be fewer restrictions on universities on how money in the GFU can be spent within universities. Institutions will have greater flexibility than at present to allocate and, significantly, move funding within their universities to meet priorities. As at present, however, there may still be "protected subjects" where universities would not have total flexibility.
- To deliver certainty in funding allocations, GFU will be largely driven by formula.
- HFU is the incentivised funding stream again delivered through the Scottish Funding Council.
- The Scottish Government will set the direction on HFU with delivery aligned to key Government strategies and priorities.
- Where appropriate, the Scottish Funding Council might seek to negotiate separate agreements with each institution (or groups of institutions) seeking certain outputs or outcomes from HFU funding. This would allow each university to relate its HFU funded activity not only to Scottish Government priorities but also to its own mission and particular strengths.

- There should be a relationship between the GFU and the HFU. This relationship should be fluid with funding capable of moving between the two funds over time. Movement would be expected to be mainly from the HFU to the GFU where it was decided that activity initially supported from the HFU had become a mainstream activity for which there was a continuing need.

### ***Next Steps***

3.18 The six meetings of the Taskforce were not intended to be the end of a process, merely the beginning. With publication of this interim report the first phase of its work has come to an end. There is now an opportunity for wider discussion and debate to take place culminating in a stakeholder conference to be held in August. There we expect to hear the views of governing bodies, unions, university staff and students and key players in the lifelong learning landscape such as ASC, SQA, and SDS amongst others. We will also want to consult industry and business interests.

3.19 The Taskforce will reconvene for one final meeting in September to consider the feedback received over the summer months. During this time the Scottish Funding Council, under the leadership of its Chair, John McClelland, will be undertaking a comprehensive review of its processes and procedures in readiness for the new role it will play in the future in relation to the governance of and funding policies for our universities.

3.20 That review will consider the implications and opportunities arising from this report. The main areas intended to be covered are:

- its operating style, its practices and business processes; and
- its approach to funding, funding methodologies and their implementation.

3.21 Within the context of these two main areas, the Funding Council's review will explicitly address the following points.

- A lighter touch role, with less focus on overall institutional performance and status and thus an interest primarily in the delivery of provision that is relevant, flexible and adaptable.
- Ensuring that the approach of the Funding Council matches the new direction set by the Scottish Government – focusing on outcomes, ensuring alignment the Scottish Government's policy framework (particularly its economic and skills strategies) and reflecting the needs of students and society.
- A recognition of the diversity of missions and specialisms of different institutions.
- Improved interaction with schools and colleges especially on flexible articulation arrangements.
- Improvements in knowledge transfer and engagement with business and in particular micro, small and medium-sized enterprises.

- Closer cross-institutional collaboration and structures for teaching and research.

3.22 This review will be completed by the time of the final Taskforce meeting in September. This report will then be finalised and published with a view to being implemented from the start of academic year 2009/10.

## **PART 4 – CHALLENGES**

We believe the challenges set out below are self-explanatory and, at this stage, we have not sought to offer any further explanation.

### ***Challenges from the Scottish Government***

Challenge 1 – Scottish universities must demonstrate that they use the funds they receive from the Scottish Government to support activities which are well aligned with the Scottish Government’s Purpose, its economic and skills strategies and its other policy frameworks.

Challenge 2 – learning provision in universities must become more flexible (if it is to respond to the changing needs of students) and more capable of being delivered by closer and differing institutional collaborations and structures.

Challenge 3 – universities contributing more directly to Scotland having a world-class knowledge economy by embedding a culture of engagement between themselves and the Scottish micro, small and medium sized business base.

If these challenges are accepted, the Scottish Government believes the outcome would be that:

- its economic and skills strategies become a more visible part of the background against which university learning, teaching and research activities occur;
- universities deliver efficient, flexible and adaptive higher education which meets the needs of students and where provision is driven across existing institutional structures through greater collaboration;
- there is continued support for research pooling and cross-institutional collaboration in pursuit of achieving improved international rankings for our research led institutions;
- acceptance of, and responsiveness to, funding approaches that recognise the diversification, differentiation and specialisms of individual universities; and
- more formal and seamless links with colleges are developed.

### ***Challenges from Universities Scotland***

Challenge 1 – by 2028 Scotland must be in the top quartile of OECD countries for percentage of GDP invested in its universities and for national investment in research, development and innovation. These are not excessively ambitious targets for a country aspiring to develop an advanced knowledge-based economy, but currently Scotland falls far short of them. Progress towards achieving them needs to start now.

Challenge 2 – in order to meet the future labour market needs of an advanced knowledge-based economy, as a minimum Scotland must aim to be in the top quartile internationally for its higher education participation rate and must substantially increase postgraduate taught and research student numbers.

Challenge 3 – the new GFU funding stream must deliver sustainable funding for all mainstream university activities, including learning and teaching, research, knowledge exchange and the renewal of infrastructure; and the HFU funding stream must provide the resources necessary to support strategic change and non-standard funding needs and to fund new initiatives and projects, including investment in capacity building.

## Annex 1

Meeting 1 (20 <sup>th</sup> December 2007)	Meeting 2 (4 <sup>th</sup> and 5 <sup>th</sup> February 2008)	Meeting 3 (12 <sup>th</sup> March 2008)
<p style="text-align: center;"><b><u>Establish Taskforce</u></b></p> <p style="text-align: center;">To agree:</p> <p style="text-align: center;">Role and remit</p> <p style="text-align: center;">Purpose and products</p> <p style="text-align: center;">Process (incl. joint chairing arrangements)</p> <p style="text-align: center;">Papers</p> <p style="text-align: center;">Internal and external communications</p> <p style="text-align: center;">AOB</p>	<p style="text-align: center;"><b><u>Scotland up to 2028</u></b></p> <p style="text-align: center;"><i>Part 1 - Scotland in the world?</i> (Scottish Government Futures Project)</p> <p style="text-align: center;"><i>Part 2 - Higher education's role in ensuring Scotland's economic competitiveness</i> (Government Economic Strategy &amp; Futureskills Scotland; Position paper from Universities Scotland)</p> <p style="text-align: center;"><i>Part 3 - current international comparators</i> (Scottish Funding Council)</p> <p style="text-align: center;">What does this tell us about how universities in Scotland will operate in 2018 and 2028?</p> <p style="text-align: center;">What will the future demand of our students, our graduates and our universities?</p>	<p style="text-align: center;"><b><u>Outcomes &amp; Activity</u></b></p> <p style="text-align: center;">What barriers currently prevent universities from fulfilling their full potential?</p> <p style="text-align: center;">In the future, which university activities and outcomes do we wish to incentivise and reward?</p> <p style="text-align: center;">Which do we wish to prevent occurring?</p> <p style="text-align: center;">How should universities respond to the Government's agenda?</p>

Meeting 4 (16 <sup>th</sup> April 2008)	Meeting 5 (6 <sup>th</sup> May 2008)	Meeting 6 (4 <sup>th</sup> June 2008)
<p style="text-align: center;"><b><u>Collaboration</u></b></p> <p style="text-align: center;">How will teaching and research change in the future?</p> <p style="text-align: center;">Which organisations should do what?</p> <p style="text-align: center;">How should universities/the sector be organised to deliver this?</p> <p style="text-align: center;">What forms could collaboration/collective activity take?</p>	<p style="text-align: center;"><b><u>Future Resources</u></b></p> <p style="text-align: center;">What potential sources of additional income exist?</p> <p style="text-align: center;">What obstacles prevent increased engagement between universities and employers?</p> <p style="text-align: center;">What (non-financial) support can the Government provide?</p>	<p style="text-align: center;"><b><u>Challenge Setting</u></b></p> <p style="text-align: center;">Issues and solutions identified</p> <p style="text-align: center;">Challenges set</p> <p style="text-align: center;">Agreed next steps and plans for announcement</p>

## Annex 2

# NATIONAL PERFORMANCE FRAMEWORK

## THE GOVERNMENT'S PURPOSE

TO FOCUS GOVERNMENT AND PUBLIC SERVICES ON CREATING A MORE SUCCESSFUL COUNTRY, WITH OPPORTUNITIES FOR ALL OF SCOTLAND TO FLOURISH, THROUGH INCREASING SUSTAINABLE ECONOMIC GROWTH

## HIGH LEVEL TARGETS RELATING TO THE PURPOSE

GROWTH PRODUCTIVITY PARTICIPATION POPULATION SOLIDARITY COHESION SUSTAINABILITY

## STRATEGIC OBJECTIVES

WEALTHIER  
& FAIRER

SMARTER

HEALTHIER

SAFER &  
STRONGER

GREENER

NATIONAL OUTCOMES

We live in a Scotland that is the most attractive place for doing business in Europe

We realise our full economic potential with more and better employment opportunities for our people

We are better educated, more skilled and more successful, renowned for our research and innovation

Our young people are successful learners, confident individuals, effective contributors and responsible citizens

Our children have the best start in life and are ready to succeed

We live longer, healthier lives

We have tackled the significant inequalities in Scottish society

We have improved the life chances for children, young people and families at risk

We live our lives safe from crime, disorder and danger

We live in well-designed, sustainable places where we are able to access the amenities and services we need

We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others

We value and enjoy our built and natural environment and protect it and enhance it for future generations

We take pride in a strong, fair and inclusive national identity

We reduce the local and global environmental impact of our consumption and production

Our public services are high quality, continually improving, efficient and responsive to local people's needs

## Annex 2

NATIONAL INDICATORS AND TARGETS	At least halve the gap in total <b>research and development spending</b> compared with EU average by 2011	Achieve annual milestones for reducing <b>inpatient or day case waiting times</b> culminating in delivery of an 18 week referral to treatment time from December 2011	NATIONAL INDICATORS AND TARGETS
	Increase the <b>business start-up rate</b>	Reduce the proportion of people aged 65 and over admitted as <b>emergency inpatients</b> two or more times in a single year	
	Grow <b>exports</b> at a faster average rate than GDP	Reduce mortality from <b>coronary heart disease</b> among the under 75s in deprived areas	
	Improve <b>public sector efficiency</b> through the generation of 2% cash releasing efficiency savings per annum	Increase the percentage of people aged 65 and over with high levels of care needs who are <b>cared for at home</b>	
	Improve people's perceptions of the <b>quality of public services delivered</b>	All unintentionally <b>homeless households</b> will be entitled to settled accommodation by 2012	
	Reduce the number of Scottish <b>public bodies</b> by 25% by 2011	Reduce overall <b>reconviction rates</b> by 2 percentage points by 2011	
	Reduce the proportion of driver journeys delayed due to <b>traffic congestion</b>	Reduce overall <b>crime victimisation rates</b> by 2 percentage points by 2011	
	Increase the percentage of Scottish domiciled <b>graduates</b> from Scottish Higher Education Institutions in positive destinations	Increase the percentage of <b>criminal cases</b> dealt with within 26 weeks by 3 percentage points by 2011	
	Improve knowledge transfer from <b>research activity</b> in universities	Increase the rate of <b>new house building</b>	
	Increase the proportion of <b>school leavers</b> (from Scottish publicly funded schools) in positive and sustained destinations (FE, HE, employment or training)	Increase the percentage of adults who rate their <b>neighbourhood</b> as a good place to live	
	Increase the proportion of <b>schools</b> receiving positive inspection reports	Decrease the estimated number of problem <b>drug users</b> in Scotland by 2011	
	Reduce number of working age people with severe <b>literacy and numeracy</b> problems	Increase positive public perception of the general <b>crime rate</b> in the local area	
	Increase the overall proportion of <b>area child protection committees</b> receiving positive inspection reports	Reduce overall <b>ecological footprint</b>	
	Decrease the proportion of <b>individuals living in poverty</b>	Increase to 95% the proportion of <b>protected nature sites</b> in favourable condition	
	60% of school children in primary 1 will have no signs of <b>dental disease</b> by 2010	Improve the state of Scotland's <b>Historic Buildings, monuments and environment</b>	
	Improve the <b>quality of healthcare experience</b>	<b>Biodiversity:</b> Increase the Index of abundance of terrestrial breeding birds	
	Increase the proportion of <b>pre-school centres</b> receiving positive inspection reports	Increase the proportion of <b>journeys to work</b> made by public or active transport	
	Increase the <b>social economy turnover</b>	Increase the proportion of adults making one or more <b>visits to the outdoors</b> per week	
	Reduce the rate of increase in the proportion of children with their <b>Body Mass Index</b> outwith a healthy range by 2018	50% of electricity generated in Scotland to come from <b>renewable sources</b> by 2020 (interim target of 31% by 2011)	
	Increase the average score of adults on the Warwick-Edinburgh <b>Mental Wellbeing Scale</b> by 2011	Reduce to 1.32 million tonnes of <b>waste</b> sent to landfill by 2010	
Increase <b>healthy life expectancy</b> at birth in the most deprived areas	Increase to 70% key <b>commercial fish stocks</b> at full reproductive capacity and harvested sustainably by 2015		
Reduce the percentage of the <b>adult population who smoke</b> to 22% by 2010	Improve people's perceptions, attitudes and awareness of <b>Scotland's reputation</b>		
Reduce <b>alcohol related hospital admissions</b> by 2011			

**DELIVERY, ACCOUNTABILITY: PARTNERS' CONTRIBUTIONS ACROSS THE PURPOSE AND ALL STRATEGIC OBJECTIVES - MEASURED BY PERFORMANCE MANAGEMENT REGIMES**