

New Horizons: Joint future thinking taskforce on universities

The Funding Council's response to the interim report

Introduction

- 1 The Funding Council welcomes the interim report and the opportunity to take forward key pieces of work flowing from it. We believe the report creates an excellent platform for development of the university sector in Scotland over the next 20 years. Key to this are the agreements in the report that:
 - The Scottish Government's investment in learning and teaching, research and knowledge exchange activities should maintain broad overall comparability with the rest of the UK, and should enable the sector to maintain its competitive position within the UK and internationally (NH paragraph 2.52¹)
 - The universities accept 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 (NH paragraph 3.6)
- 2 These two agreements work hand in hand: the second building a clearer case for (and creating favourable conditions for the Government to be able to afford) continuing and increasing levels of public funding (NH paragraph 3.6).
- 3 The Funding Council's role will shift to respond to this agenda – we will adjust what we do to become more effective facilitators of change and development, working along side universities, colleges and partnering more effectively with other agencies. We need to work better with other agencies such as Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland so that together we contribute more to increasing sustainable economic growth.
- 4 *New Horizons* proposes streamlining our existing funding into two streams: the General Fund for Universities (GFU) and the Horizon Fund for Universities (HFU) (NH paragraph 3.16). The GFU is to be driven by simplified and transparent funding formulae (NH paragraph 3.16). Universities are to have more flexibility than at present to allocate and move funding in the GFU within their

¹ All references are to *New Horizons: responding to the challenges of the 21st century, The Interim Report of the Joint Future Thinking Taskforce on Universities*

universities to meet priorities (NH paragraph 3.17). Delivery on use of GFU funds will be judged against the Government's high level objectives, outcomes and indicators as the measure of success (NH paragraph 3.17).

- 5 The HFU is to be the incentivised funding stream, with delivery aligned to key Government strategies and priorities (NH paragraph 3.17). Where appropriate the SFC might negotiate separate agreements with individual institutions or groups of institutions seeking certain outputs or outcomes from HFU funding (NH paragraph 3.17).

The General Fund

- 6 We agree that the establishment of these two separate funds will need to be accompanied by a change in our operating style, practices and business processes, and our approach to funding, funding methodologies and their implementation (NH paragraph 3.20). We agree that a simplified GFU with more freedom for universities to respond to priorities is the right way to go. We therefore propose that we radically simplify our teaching funding formulae so that:

- Institutions have one single student number target, replacing the current 25 separate categories of funded student places.
- We simplify our funding formulae to eliminate the current system of premiums – in future where we are seeking to incentivise change we would do so through the horizon fund.
- We would aim to simplify our current system of 25 different undergraduate and postgraduate 'price groups', perhaps down to as few as four 'price groups' whilst ensuring we can maintain a balanced range of provision. This will require further work and discussion with colleagues within the sector.

- 7 The GFU would include elements for teaching, scholarship and general research, and knowledge transfer.

Lighter touch

- 8 New Horizons asks us to ensure a 'lighter touch' (NH paragraph 3.21), and the simplifications above will help with this by reducing the detail of our funding and control over institutions use of funding. This will also enable us to reduce the detail of our information returns from institutions. We therefore propose that we:

- Require one major statistical collection instead of the current two (early statistics and the main HESA collection), we will also look critically to reduce the detail included in these collections.
 - We have also looked at a range of other information returns we currently require and propose to eliminate about half of them, reducing the number from about 40 to 20. These could include estates strategies and annual updates, the HESA finance return, the qualifications data return, consolidation of separate returns on knowledge transfer activities, Estate Management Statistics (EMS), and annual reports on Museums and Galleries and Collections awards and on the Research support libraries programme. However, we recognise that many of our proposals will require consultation with other stakeholders, including the Scottish Government and Audit Scotland. In finalising these proposals, we will of course also factor in the requirements of our own outcome agreement with the Scottish Government – which may limit the extent to which we can entirely eliminate some of these returns.
 - We have also looked critically at the information, advice and guidance we provide to the university sector and believe we can significantly reduce the volume of this activity. Much of this activity is intended to be helpful by providing or collating information and guidance, however through the internet and their own expertise, we believe institutions can readily access much of this for themselves without us. As an indicator of our intentions in this area, we would aim to reduce the number of circular letters we send to universities by about 40%.
- 9 By confining ourselves in a very disciplined way to only collecting data and providing information which is directly relevant to achieving Scottish Government and our objectives, we will free up resources in our organisation and in the sector which can be used more strategically.

Outcome agreements

- 10 There does of course have to be accountability for the use of the GFU. We think the need for accountability, addressing the issue of “protected subjects” and an opportunity for universities to demonstrate more explicitly how the funding they receive from the Government [through the GFU] contributes to delivering against the National Outcomes (NH paragraph 1.15) can be combined. We

would therefore propose to replace current conditions of grant, annual reporting and routine returns with an “outcome agreement” for the use of GFU.

- 11 We would envisage that these outcome agreements would include much that was common to all institutions, but would also reflect the unique characteristics of each institution – whether it be, for example, a specialist institution, such as an art school; a university with a regional mission or a large research intensive one. They would reflect the unique pattern of subjects that each institution provides. They would also enable universities to demonstrate their very important contribution to developing our country, our economy, our culture and our society through their teaching research and knowledge transfer. We would prefer that they would not be overcomplicated nor subject to extensive negotiation, however, as we discuss later there is a trade off between the size and operation of the funds, the nature of our agreements with institutions and the sector’s ability to achieve and demonstrate improved performance against Scottish Government objectives. We would also intend that, except where there was a need for major strategic change, these agreements would persist over several years, with the opportunity in the interim for discussion of and minor adjustments to specific targets. We would work with Universities Scotland and individual institutions, using a similar partnership approach, as the Scottish Government has with COSLA and local authorities, to develop workable systems.
- 12 These outcome agreements would also be the vehicle through which the Scottish Government and ourselves could receive reassurance that universities were fulfilling their basic responsibilities for access, quality of provision, engagement with students, enhancing employability, research and scholarship, high quality financial and human resource management. Although some of these might also be development priorities through the horizon fund where more specific, focused improvement on Scotland’s performance was also needed.
- 13 As *New Horizons* indicates, there will remain some ‘protected’ subjects where we will require particular volumes of provision; as for example, medicine and teacher education are treated at the moment. The courses affected and volumes of such provision are likely to change over time as employers’ requirements alter. This would contribute to the New Horizons report requirement of funding the right provision in the right institution (NH paragraph 3.9). We would propose that these outcome agreements would represent a light touch vehicle to deal with such subjects, and represent an effective means of ensuring

that there is the right pattern of teaching provision across Scotland perhaps in long standing priorities such as science, engineering and technology, or other emerging national priorities.

The horizon fund

- 14 The Scottish Government will set the direction on HFU with delivery aligned to key Government strategies and priorities (NH paragraph 3.17). We believe that the HFU should be used in targeted ways to incentivise and support universities continually to improve their delivery in areas where Scotland can and must do better if it is to succeed.
- 15 We propose that the priorities for the use of the horizon fund should in the first instance be:
 - Employability and skills interventions: as New Horizons suggests a key ambition will be to better develop entrepreneurial capacity and graduate employability, to work actively with employers to ensure the skills of graduates can be utilised to best effect in the workplace, to ensure degree provision is relevant, flexible and adaptable to the needs of future learners, and to respond to changing demographics enabling learners to return to education throughout their lives to upskill, reskill or develop new skills for life and work (NH paragraph 1.17). Whilst all teaching provision needs to develop learner's skills and therefore the bulk of funding for this priority will be delivered through the GFU, we believe HFU funds targeted on change and improvement are required.
 - Access and progression: improving how our college and university system assists learners to access university and progress through the education system (NH paragraph 1.17) is vital. In particular we need better collaboration with schools and colleges so that provision for learners becomes more seamless. As for employability we believe targeted funding is required here to supplement the general expectation on all universities in this area.
 - World class research: Scotland has an enviable record, but we must continue to work hard at this and focus our resources so that we remain nationally and internationally competitive, regarded as 'world class' and continue to have a number of universities ranked in the world's top performers (NH paragraph 1.17). We think this will continue to require imaginative schemes such as research pooling.

- Knowledge transfer and innovation: ourselves, the universities, Scottish Enterprise and Highlands and Islands Enterprise must work smarter together so that Scotland increases the demand side ‘pull’ for new knowledge created in universities and delivers knowledge into the Scottish economy which creates additional wealth (NH paragraph 1.17). We think focussed intervention to grow knowledge based industries of scale, with strong alignment between ourselves, the universities and other agencies is required to take Scotland to the next stage.
- Differentiation, diversity and specialisms: if we are to recognise, value and support diversity among the missions and scale of universities and encourage specialisms we need strands of funding organised to achieve this. Otherwise universities are all driven into pursuing uniform strategies – this is not in their own, or the nation’s best interests.
- Collaboration: whilst a lot of progress has been made over recent years, much more needs to be done to ensure our provision is coherent, we achieve economies of scale with learning, teaching and research increasingly carried out as collaborative activity across institutional boundaries (as argued for in NH paragraph 1.17). Funding specifically incentivising this kind of working is required. We also think that focussing and making best use of scarce capital resources more on collaborative projects may be a key way to get better value for capital spend and support academic collaboration.

16 We believe that as *New Horizons* recognises we have made some progress towards some of these goals – for example *New Horizons* highlights progress on research pooling and articulation and progression from colleges to universities – albeit more progress needs to be made. Key to success in these areas, has been working in partnership with universities, imaginative and focused use of funding, support from other stakeholders and exploitation of Scotland’s collaborative ethos.

17 However, having reflected on our use of funding and performance, we think we should also give similar focus to the other outcomes above. We would therefore wish to extend the type of proactive, partnership working we have developed for research pooling to other areas. As with research pooling there is a ‘win win’ here: the universities benefit, Scotland’s economy and society benefits, students benefit and the taxpayer gets better value.

- 18 For example, with the same kind of commitment, joint working, and imagination as Scottish Universities and ourselves put into research pooling, especially if we can involve others such as Scottish Enterprise and Highlands and Islands Enterprise and perhaps philanthropic donors, we believe that we can make equal progress on issues such as knowledge transfer and innovation, employability and skills, and enhancing diversity, differentiation and specialisms.
- 19 We think the horizon fund is the vehicle for this kind of initiative. We believe we could, through working together in this way, and using funding from the horizon fund:
- Create many more world-leading research/knowledge transfer initiatives such as the Translational Medicine Research Initiative which brings together a US pharmaceutical giant, with the Health Service and the Universities – or the Informatics development at Edinburgh which brings together the university’s research excellence and major private sector partners.
 - Respond to skills needs, for example, the need and opportunity being expressed by Skillset the Sector Skills Council for the creative media industries for developing and joining up our world-class or near world-class teaching and research capacity in computer games, film and media.
 - Develop collaborative Scotland-wide postgraduate training and education provision to meet the needs of priority industries. For example, the current initiative to build on the success of the Scotchem research pool to provide additional very highly trained research chemists to meet the aspirations currently being expressed by Scotland’s SME-dominated chemical industry.
 - Develop academic collaboration through joint capital projects such as those currently being discussed between a number of institutions including universities, colleges and potentially other partners including local authorities.
 - Recognise, build on and strengthen institutions’ specialisms. We think this should include but extend beyond the traditional specialisms we have recognised such as creative arts or performance. We should also be supporting much more explicitly the strengths of our technological universities (such as those active in industries such as oil and gas) and other specialisms (such as those with a very strong regional role). This

is an opportunity for support institutions to diversify, differentiate themselves and to enhance their own mission.

- Support the efforts of institutions to diversify and grow their other sources of income, such as philanthropic giving.

- 20 These are just some examples of the kinds of imaginative programmes we would hope to develop through the horizon fund.
- 21 The success of research pooling proves that Scotland can make this kind of shift and we must ‘think big’ as a sector to seize this opportunity and respond to the Scottish Government’s challenge to us.
- 22 Our view is that if the horizon fund is to be effective it must be able to fund some provision (funded numbers and research capacity) as well as project or development funding. We know from experience that project or development funding is often inadequate to support sustainable change – what is needed in these areas is often quite focussed additional places that enable institutions to make breakthroughs. We also agree that over time funding and activity should move between the two funds (NH paragraph 3.17), for example, successful initiatives could become embedded within institutions’ GFU.
- 23 A further example of the kind of development we would hope the horizon fund could be used for is the commitment in New Horizons that all universities should undertake research as well as teaching with rejection of the ‘teaching only’ universities proposed in England (Scottish Government News Release 24/06/2008). As well as funding for scholarship and a basic level of research from the existing unit of resource for teaching, we think the horizon fund should include funding to ensure we can build research capacity in all institutions, particularly where it relates to economic or social priorities, local industrial needs or enables applied research unlikely to be recognised by other metrics.

Allocation of resources to the two funds

- 24 If we are to deliver on this vision we need to establish the right levels for both the GFU and HFU in the context of the overall resources available.
- 25 The Council’s view is that the GFU needs to contain the bulk of the funds and to be sufficiently stable for institutions to be able to

formulate effective future plans. At the same time the horizon fund needs to have sufficient resources to facilitate the kinds of improved outcomes that New Horizons vision requires (NH paragraph 1.17) within a reasonable timescale. A horizon fund developed to resource this level of activity would allow our monitoring and intervention on the GFU to be very light, focusing our attention on our ‘agent of change’ role through the HFU.

- 26 Based on the Council’s 2008-09 budget² the Council’s view therefore is that the GFU would consist of £965M and the HFU of £122M. The GFU would include all main teaching grants except for funding for a small number of targeted places which recognise specialisms or particular priorities (such as conservatoire provision, or the places allocated to Crichton etc). The GFU would include all of the Quality Research budget.
- 27 The horizon fund would include current strategic grants (eg Skills and employability, SRDG), sector-wide infrastructure grants (eg JISC), targeted premiums and some parts of current KT and capital budgets for strategic allocation.
- 28 The table below summarizes how these resources are allocated across the proposed priorities for the horizon fund.

	HFU Budget for AY 2008-09 £M
Employability and Skills interventions	£11
Access and progression	£18
World Class Research	£30
Knowledge transfer and innovation	£19
Differentiation, diversity and specialisms	£6
Collaboration	£6
Capital	£17
Sector-wide capacity	£15
TOTAL	£122

Annex A shows the details line-by-line of our current budget.

² Note: figures exclude ring fenced budgets (eg for additional teacher places)

Future years

- 29 In future years, as additional resources become available, a proportion of these will be allocated to the horizon fund to create scope for it to stimulate new or developmental activity in line with Scottish Government priorities.

Operation of the funds

- 30 The Council will continue its longstanding approach of avoiding unmanageable change for institutions. Where change is made there will be appropriate consultation, the Council will take care over the pace of change and, where necessary, suitable transitional arrangements will be put in place (for example as we have used in previous years in relation to the outcome of previous RAEs or where grants are phased out). The Council also recognises that the severe cost pressures on institutions offer limited scope for increasing the size of the horizon fund significantly during the current Spending Review period.
- 31 In allocating resources from the horizon fund the Council will use whichever method is the most fit for purpose, taking account of experience of existing schemes and evaluation evidence. Formulaic allocation will be applied where appropriate, and in other instances targeted allocations or bidding may be used. Where the method of distribution is altered, the Council will recognise the need to minimize the burden on institutions and to manage the pace of change.
- 32 The Council recognises that many of the grants in the horizon fund have existing commitments some of which will roll forward into future years. The Council will, of course, honour these commitments, while continuing its existing practice of reviewing grant lines periodically to ensure that they are being used most effectively to meet the highest priorities.

Conclusion

- 33 We believe these proposals strike the right balance:
- providing Scottish Government with assurance that the sector is contributing to its objectives, is continually improving efficiency and effectiveness and welcomes change and development as part of the ‘something for something’ approach;

- permitting targeted investment for improvement, development, differentiation and diversity; and
- allowing us at the same time to offer a lighter touch thereby freeing resources to be redeployed to achieve increased effectiveness.

Construction of the GFU and HFU

	Budget for AY 2008-09	GFU	HFU	HFU category
	£	£	£	
Main Teaching Grant	662,148	659,826	0	
<i>Conservatoire</i>	0	0	1,975	Differentiation, diversity and specialisms
<i>PG Cert Creative Arts</i>	0	0	101	Employability and Skills interventions
<i>Crichton</i>	0	0	246	Access and progression
<i>Sport and rural health</i>	688	0	688	Differentiation, diversity and specialisms
Part-time Incentive Premium	8,243	0	8,243	Employability and Skills interventions
Widening Access Retention Premium	10,269	0	10,269	Access and progression
Scottish Teachers' Superannuation Scheme	1,515	1,515	0	
Disabled Students Premium	2,506	0	2,506	Access and progression
Main Quality Research Grant	197,543	197,543	0	
Strategic Research Development Grant	24,135	0	24,135	Research
Research Postgraduate Grant	28,182	28,182	0	Research
Research Development Foundation Grant	3,165	0	3,165	Research
ORSAS	1,766	0	1,766	Research
Knowledge Transfer Grants	22,302	5,000	17,302	Knowledge transfer and innovation
Strategic Priority Investment in Research and Innovation Translation (SPIRIT)	2,000	0	2,000	Knowledge transfer and innovation
Capital	87,400	70,000	17,400	Capital
Small Specialist Institution Supplementary Grant				
	1,472	0	1,472	Differentiation, diversity and specialisms
Vision Sciences	257	0	257	Differentiation, diversity and specialisms
Sabhal Mor Ostaig	138	0	138	Differentiation, diversity and specialisms
RSAMD Junior Academy	313	0	313	Differentiation, diversity and specialisms
Museums, Galleries and Collections Grant	1,127	0	1,127	Differentiation, diversity and specialisms
Part-time Fee Waiver Scheme	2,468	2,468	0	

Fee Anomalies Grant	750	750	0	
Access and Participation	5,197	0	5,197	Access and progression
Skills and Employability	2,643	0	2,643	Employability and Skills interventions
Research Support Libraries Programme	750	0	750	Research
Quality Enhancement	10,781	0	10,781	Sector-wide capacity
Mergers and Collaboration	5,000	0	5,000	Collaboration
Strategic Change Grant (existing commitments)	700	0	700	Collaboration
International Activities	500	0	500	Sector-wide capacity
Medical Academics	200	0	200	Differentiation, diversity and specialisms
Greener	150	0	150	Sector-wide capacity
Procurement	359	0	359	Sector-wide capacity
Scottish Leadership and Management	352	0	352	Sector-wide capacity
SuperJanet	2,000	0	2,000	Sector-wide capacity
Marine Biology	125	0	125	Differentiation, diversity and specialisms
Other	447	0	447	Sector-wide capacity
OVERALL TOTAL:	1,087,591	965,284	122,307	