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4 April 2018

Dear Mr Cantlay,

SCOTTISH FUNDING COUNCIL – LETTER OF GUIDANCE 2018-19

Introduction

1. Following the publication of our Programme for Government (PfG), 'A Plan for Scotland' in September 2017 and the agreement of the 2018-19 Scottish Government Budget, I am writing to you to set out my expectations of the Scottish Funding Council and my strategic priorities for the Scottish Government's investment in the further and higher education sectors until the end of March 2019. More detail around this can be found in Annex A.

Strategic context

2. Education remains this Government's defining mission and, as the national strategic body for funding teaching, learning and research in our colleges and universities, the Scottish Funding Council plays a crucial role in supporting our drive to achieve excellence and equity across the education and skills landscape. It is also at the heart of our ambition to align our enterprise and skills agencies behind a common purpose and vision which secures improved outcomes for all our learners, drives inclusive economic growth and improves productivity.

3. It is my intention that the SFC will undertake its operational and strategic planning in line with the Strategic Board's Strategic Plan once it is developed, and in the meantime be attentive to the emerging themes and priorities of the Board as it develops that Plan and to contribute to the staffing resource of the new Analytical Unit. Of considerable significance to that aim is the requirement for SFC to plan and work collaboratively with the other Enterprise and Skills agencies, with the Scottish Government and more widely as required to support the Strategic Board's aims.

4. In 2018-19, I therefore look to the SFC to make decisions that ensure the funds provided to it by the Scottish Government are used to drive sustainable growth, deliver the priorities detailed in this letter and achieve the outcomes set out in its plans for 2018-19.

5. When I wrote to you in October, I set out my expectations and ambitions for the 2018-19 Outcome Agreements, in particular my desire to see that process intensified with the aim of providing a clearer line of sight between SG investment and the delivery of desired outcomes. That intensification must continue and progress further. I welcome the work that has been done with the sectors to date and look to you to build on this in 2018-19 by continuing to set ambitious targets, encouraging engagement; improving transparency and accountability, and driving improvement through the funding you allocate to colleges and universities.

6. For 2018-19, I will be focusing on the key themes of equality and fairness across our further and higher education sectors. The Scottish Government, SFC and colleges and universities must strive to provide leadership on ensuring people are treated fairly, with respect and can access opportunities regardless of background or personal circumstances. Work to drive forward implementation of the recommendations from the Commission on Widening Access (CoWA) is vital to this and I also look to the SFC to demonstrate leadership and drive improvements in key areas such as student welfare, gender equality and the living wage.

7. 2018 is the Year of Young People and is celebrating the very best of Scotland and its young people. The Year has been co-designed with young people themselves and the SFC should actively seek to work in partnership with other partners, including schools, teachers, local authorities, Youth Organisations, Education Scotland and young people themselves to ensure young people have a platform to have their views heard and acted upon, and that they will have a key role in the development and delivery of activities ensuring an inclusive approach is taken throughout the Year and beyond, creating a lasting legacy.

Scottish Funding Council Budget 2018-19

8. In what has been a tight financial settlement for public services across Scotland, I am pleased to have been able to provide cash increases for 2018-19 to both the college and university sectors. This clearly demonstrates our commitment.

9. The Scottish Government's budget for 2018-19 includes the planned funding for colleges and universities and administration funding for the SFC set out in the table below. As normal, transfers in and out of the budget will be detailed in the Spring and Autumn Budget Revisions, published each year and subject to Parliamentary scrutiny.

Financial Year 2018-19	£m
Higher Education Resource	1,024.9
Higher Education Capital	81.3 (including £40m Financial Transactions)
College Resource	588.2
College Capital	76.7
College NPD Expenditure	29.3
SFC Administration	7.5

Conclusion

10. In conclusion, I trust that you will find this letter helpful in carrying forward your planning and activity for 2018-19. I am confident that the SFC will rise to the challenges it faces during the coming year and this Government very much values the important work that the SFC carries out in helping to deliver this Government's purpose. I look forward to that support continuing as the Council drives forward its important work in meeting our priorities to ensure excellence and equity in our education system and playing a key role in Scotland's inclusive economic growth.

Yours sincerely,



SHIRLEY-ANNE SOMERVILLE

Copies:

John Kemp, Interim Chief Executive, Scottish Funding Council
James Dornan MSP, Convener, Scottish Parliament Education and Skills Committee
Ken Milroy, Chair, Colleges Scotland
Shona Struthers, Chief Executive, Colleges Scotland
Liz McIntyre, Chair, College Principals Group
Professor Andrea Nolan, Convener, Universities Scotland
Alastair Sim, Director, Universities Scotland
Sally Loudon, Chief Executive, COSLA
Gayle Gorman, Chief Executive, Education Scotland
Damien Yeates, Chief Executive, Skills Development Scotland
Grahame Smith, General Secretary, Scottish Trades Union Congress
Mary Senior, Scottish Official, University and College Union
Larry Flanagan, General Secretary, Educational Institute of Scotland
Dave Prentis, General Secretary, UNISON
Pat Rafferty, Regional Secretary, UNITE Scotland
Gary Smith, Secretary, GMB Scotland
Luke Humberstone, President, NUS Scotland
Paul Lewis, Interim Chief Executive, Scottish Enterprise
Charlotte Wright, Chief Executive, Highlands and Islands Enterprise
Nora Senior, Chair, Enterprise and Skills Strategic Board
Russel Griggs, Chair, South of Scotland Economic Partnership
Gerald McLaughlin, Chief Executive, NHS Health Scotland

ANNEX A

SECTION 1: SFC's contribution to Scottish Government priorities

SG strategic priority

SFC's role in contributing to effective delivery of the key aims of the Enterprise and Skills Strategic Board.

SFC strategic outcome: High quality teaching and learning

Skills Alignment

1. As reflected in our Economic and Labour Market Strategies, developing the skills of Scotland's current and future workforce is central to improving productivity, supporting the Scottish Government's focus on inclusive and sustainable economic growth. The Enterprise and Skills Review concluded that the impact of our investment in skills would be enhanced by increasing the planning and alignment between the SFC and SDS, so that this investment better reflects the needs of employers and the economy. I want the SFC to continue working with my officials and with SDS to deliver the Skills Alignment workstream as set out in the *Enterprise and Skills Review Report on Phase 2: Skills Alignment*, with a specific focus in 2018-19 on:

- **Working with SDS to establish a single demand and provision planning cycle** that takes into account the planning cycle of colleges, universities and training providers. This supports the expectation, set out in the above report, that the SFC and SDS will jointly develop: an evidence-based skills demand assessment proposal that identifies skills demand at national, regional and sector levels, and where gaps exist in possible priority occupations, qualification levels and skills pathways; and a resultant coherent, provision plan for skills investment at regional, occupational and qualification levels. Both the demand assessment and the provision plan should be developed with industry and institutional engagement, with SFC and SDS working actively with relevant providers to build institutional capacity and capability.
- **Enhancing the use of information on labour market demand and providers' capacity** across SFC and SDS. This on-going improvement from 2018-19 should support the enhanced use of this information to better and more clearly inform Outcome Agreements and SDS contracting processes.
- **Better aligning the work of the relevant parts of SFC and SDS.** This will ensure a seamless approach to developing and implementing skills provision planning, Outcome Agreements and SDS contracting.
- **Joint recruitment of a Director of Skills Alignment** and planning supported by the establishment of a supporting core team and wider virtual team drawn from SFC and SDS. The establishment of this post and the supporting team is a vital enabler to delivery of the above and Skills Alignment more widely given the post's responsibility for progressing Skills Alignment.

2. These actions directly support the implementation and delivery of the Skills Alignment workstream and the 5 step model that underpins it. Implementation of this approach will inform ongoing consideration of the most effective balance of our skills investment to maximise returns in terms of productivity and labour market inclusion and avoid duplication of effort and funding.

Apprenticeships

3. There is an increasingly important role for colleges and universities in supporting the expansion, enhancement and diversification of the apprenticeship family, as crucial components of Scotland's skills offer.

4. I expect SFC and SDS to work together to ensure that colleges and universities play their vital role in expanding apprenticeships at every level. I expect the SFC and the institutions it funds to work effectively in delivering these ambitions, recognising the value of more diversified work based learning pathways into employment. Our targets for this year are 28,000 Modern Apprenticeships and as part of this 887 Graduate Apprenticeships; and 2,600 Foundation Apprenticeships.

SG strategic priority

High quality learning in a system which is seamlessly connected for the learner.

SFC strategic outcome: High quality teaching and learning – success in and progression from learning

STEM

5. Developing Scotland's STEM talent and capability is key to the Government's aim of generating inclusive and sustainable economic growth and to realising our ambitions to place our economy at the forefront of the technological frontier. The STEM Strategy for Education and Training aims to support people to develop their STEM skills throughout their lives, to grow STEM literacy and drive inclusive economic growth. This includes enabling learners to develop specialist STEM skills to gain employment in the growing STEM sectors.

6. The Strategy highlights the SFC as a key partner in delivery of the Strategy, helping to build a high-quality, responsive STEM offering in both the further and higher education sectors and promoting the Strategy's themes of excellence, equity, inspiration and connection. We expect the SFC to deliver designated actions within the Strategy, working with partners and to contribute to the governance arrangements for the Strategy through its representation on the STEM Strategy Implementation Group, and through the official-level Action Group.

Digital

7. The digital skills gap in Scotland is widening and is a significant challenge across the economy and at all stages of the skills pipeline. Therefore it is now a critical policy priority to improve Scotland's digital skills to enable inclusive growth. I expect the SFC to work with the further and higher education system and public and private partners to emphasise the necessity of improved digital skills development across all subject areas for both students and teaching staff and to greatly enhance industry links, so that the system responds effectively and quickly to the evolving digital skills requirements across all sectors. Furthermore, I would like the SFC, through their representation on the Digital Skills Partnership, to consider opportunities to enhance FE/HE provision of digital skills.

Screen

8. The screen sector remains a priority sector for Scottish Government. I note and welcome the SFC's funding for – and active support of - the Creative Media Network, alongside a number of other investments designed to meet the emerging needs of the Creative Industries. This will help the screen sector to engage constructively and productively with a wide range of colleges and universities in Scotland in order to fully harness our large and diverse indigenous talent pool. The SFC should continue to collaborate with Creative Scotland and its partner agencies to establish the dedicated Screen Unit, play a full part in its governance and work to fulfil its shared strategy. I expect the establishment of the Screen Unit in 2018-19 to result in closer and stronger collaborative working by the SFC with agency partners so that public sector investment and resources drive growth more effectively in our television and film sectors.

Veterans

9. I expect you to respond to the recommendations made by the Scottish Veterans Commissioner by working with the Veterans Employability Strategic Group and SCQF, to address how qualifications gained in the Armed Forces can be translated and mapped and might be better utilised and understood.

SG strategic priority

Access to further and higher education for people from the widest range of backgrounds.

SFC strategic outcome: High quality teaching and learning – access to learning

Access and Learning

10. Access to university for people of all ages from the widest range of backgrounds remains a key priority of the Scottish Government. Our aim is to build on the recommendations made by the Commission on Widening Access in order to implement the Scottish Government priorities on fair access; including our ambition that every child, no matter their background or circumstances, has an equal chance of going to university by 2030. Therefore ensuring continued progress, at pace, on implementation is very important.

11. The establishment of the Access Delivery Group in August 2017 is an important step forward in helping us to achieve that. Within that Group I expect the SFC to lead by example, clearly demonstrating its own contribution, as a Lead Delivery Partner, to the delivery of the recommendations made by the Commission on Widening Access. More generally I expect the SFC to actively drive forward this agenda, in respect of articulation in particular, demonstrating both leadership and innovation, and working collaboratively with relevant key stakeholders from across the whole education sector to facilitate real change.

12. I welcome the SFC's continued support, through Outcome Agreements, to ensure that the priority for those widening access places added to the system over recent years is given to those living in SIMD20 areas. I expect the SFC to ensure Scotland's colleges and universities make further significant progress towards the targets set by the Commission which should be reflected clearly in Outcome Agreements.

13. I have been clear that our work on access must go beyond entry to higher education to include improved retention and outcomes for students from disadvantaged backgrounds. As set out in my letter to you of 18 October regarding the 2018/19 Outcome Agreement Guidance, I expect these areas to be reflected in the Outcome Agreement Guidance and national measures going forward.

Review of Student Support

14. The Independent Review of Student Support published its findings in November 2017. As work progresses in considering implementation of the Review's recommendations, the SFC should support the delivery of this work, working closely with Scottish Government and the Student Awards Agency for Scotland (SAAS). At the forefront of all considerations should be the need to ensure students from the poorest backgrounds receive the support they require to succeed in their studies.

15. SFC should support the Government's considerations of the recommendations of the independent review including making improvements to attendance criteria for college students.

Equally Safe in Higher and Further Education

16. In 2014, and refreshed in 2016, the Scottish Government published the Equally Safe Strategy. This document, co-authored by COSLA, sets out the Scottish Government's commitment to prevent and eradicate all forms of violence against women and girls. (<http://www.gov.scot/Resource/0049/00498256.pdf>)

17. Universities and colleges are well placed to play a pivotal role in supporting efforts to tackle violence against women in Scotland and they have a responsibility for providing a safe environment for students and staff. I welcome the commitment that has been shown by universities and colleges, including their support for and engagement with, the Equally Safe in Further and Higher Education Working Group.

18. I expect institutions to adopt a gendered analysis in their approach to this issue, and working with students and staff, assess their own policies and practices against the forthcoming Equally Safe in Higher Education Toolkit, to create safer places of learning for everyone. Institutions should not delay in considering their own policies and practices, identify where gaps exist, and develop a framework for developing an effective, strategic and collaborative approach to preventing gender based violence on campuses. This includes putting in place reporting systems, and data capture arrangements. Importantly, support arrangements should be developed to meet the needs and diversity of survivors, whilst also supporting their continuing engagement at university or college.

19. I look to the SFC to work in partnership with the sectors to agree an initial plan for how they intend to adopt and work with the Toolkit, including adaptation of the Toolkit for colleges. Thereafter, to report annually on universities and colleges' progress on this, reflecting this in the annual Outcome Agreement process; and to ensure that their work with the Toolkit is reflected in the forthcoming institutional Gender Action Plans.

Student Mental Health and Wellbeing

20. University and college campuses should be transformative places where students not only achieve academically but flourish and where their well-being is supported and nurtured. Universities and colleges should, in partnership with student associations, other pastoral

care providers and NHS Scotland, have in place a range of support services that are sensitive to the varying needs of all students, that identify mental health difficulties early and provide appropriate support to meet these.

21. I would expect all universities and colleges to develop a strategy for mental health and work with NUS Scotland and their local student association to develop a Student Mental Health Agreement. The SFC, through its reporting mechanisms with universities and colleges, should ensure that these arrangements are in place and are effective.

English for Speakers of Other Languages (ESOL)

22. With the move to core Outcome Agreement teaching funds of £1.455m of Strategic Funds (previously used to fund ESOL delivery with Community Planning Partnerships), the SFC should ensure colleges continue to involve Community Planning Partnerships in the planning and delivery of ESOL. This will include identifying and agreeing with Partnerships the most appropriate agents in this delivery that reflects the needs and type of demand being identified from ESOL learners within their regions.

23. The SFC should work with Education Scotland to evaluate how well colleges and their respective Community Planning partners are working together to meet the needs of ESOL learners.

SG strategic priority

The highest standards of teaching, governance and financial accountability in colleges.

SFC strategic outcome: SFC will invest in, and support, the development of high-performing colleges and universities with modern, transparent and accountable governance arrangements.

Scotland's colleges

24. Scotland's Colleges are at the heart of our ambitions to deliver inclusive economic growth in Scotland and I am grateful to the SFC and colleges for their efforts in continuing to deliver our commitment to deliver 116,000 full-time equivalent places. Building on the successes of the sector in responding to the needs of young people, to learners of all ages and to the local and national labour markets, I wish the college sector to continue to develop its culture of improvement and for there to be a clear line of sight between your investment in colleges and their contribution to the delivery of our national priorities.

25. Through the national college improvement project, we wish colleges to be supported to deliver local improvements with the aim of improving retention and raising attainment to the benefit of all learners. This approach to improvement should build upon the learning from the pilot year of the revised quality arrangements implemented by the SFC, Education Scotland and colleges themselves. I look to the SFC to play a full part in the ongoing development and wider application of this work, which I am looking to progress with pace in 2018-19.

Financial reporting and long-term planning

26. The SFC, the Scottish Government and its partners in the sector should continue to work together to create a financially stable national college sector which delivers for all students. The SFC should work with the sector to agree the assumptions for the 2018 Financial Forecast Return Call for Information on key long-term planning assumptions that underpin the forecasts covering the period ending Academic Year 2022-23.

National bargaining

27. National Bargaining is a key strategic priority for the college sector and we will continue to work closely with you on the associated costs as negotiations progress during 2018/19. We also welcome the enhanced role the SFC will play in national bargaining to improve transparency in relation to the validation of financial and operational information. The SFC should ensure proposals and draft costings from joint secretaries are received at least 2 weeks before any negotiating meeting, to allow time for the data to be validated and agreed in advance of any discussion taking place. The SFC will have the final say on the validation of the data and therefore on the associated financial implications.

28. The SFC should also ensure that colleges include the cost of harmonising staff-pay, terms and conditions in their financial plans as part of the long-term planning described in paragraph 26.

Arm's Length Foundations

29. I would welcome advice from the SFC on how the sector might best continue to use Arm's Length Foundations to assist with long term financial planning and future investment decisions.

Regional Strategic Bodies

30. The SFC should continue to support all three Regional Strategic Bodies (RSBs) to support long-term planning for colleges in their region; and ensure that each regional board has robust arrangements in place to discharge its duty to monitor its performance, support high-standards of governance and that of any colleges assigned to it. This should include advice to Ministers on the scope for improving the efficiency and effectiveness of the RSBs.

Good governance

31. Effective governance is fundamental in supporting colleges in the performance of their day-to-day operations. I expect the SFC to continue to work with the Good Governance Steering Group and the Scottish Government to take forward the recommendations from the Good Governance Task Group and also to ensure colleges continue to comply with the principles detailed in the Code of Good Governance for Scotland's Colleges.

Gender balance on boards

32. Building on my key themes of equality and fairness, the SFC should take a leading role in supporting board appointments across college regions which reflect the diverse nature of the communities which they serve, and meet the Government's objective set for public boards that 50% of their non-executive members are women by the end of 2022. The SFC should work with Colleges Development Network to develop innovative approaches to chair and board member recruitment which supports succession planning and diversity.

Senior Level Pay

33. The SFC should encourage senior figures within the college sector to demonstrate restraint in their own pay settlements. While Public Sector Pay Policy does not apply directly to colleges, the SFC's Financial Memorandum state that colleges must have regard to Public Sector Pay Policy. Therefore, setting pay arrangements for senior staff must ensure value for money, affordability and sustainability in the longer term.

Living Wage

34. The Real Living Wage Initiative is an important part of the Scottish Government fair work agenda and I would ask the SFC to encourage further progress to be made across the college (and university) sector. I expect all colleges to demonstrate progress towards achieving Living Wage Accreditation. Paying the living wage and becoming accredited not only treats people more fairly, it benefits the economy and sends a positive signal about the organisation into the wider community.

Flexible Workforce Development Fund (FWDF)

35. I expect the SFC to continue to work closely with the Scottish Government in delivering this year's Programme for Government commitment on the Flexible Workforce Development Fund (FWDF) in 2018-19. That will include drawing on the lessons of the FWDF pilot to put in place arrangements for the up-skilling and reskilling of the existing workforce. There will be £10m to support the FWDF in 2018-19, with the SFC continuing to contribute £6m from its existing baseline, and a further £4m being provided by the Scottish Government through in-year transfers.

Capital investment and estates strategy

36. Further to the completion of the national College Estate Condition Survey, the SFC should use this as a basis to prioritise future capital investment in the college estate, including new build, refurbishment, upgrading and maintenance. Future capital investment requirements in the college estate should be underpinned by fully transparent guidance and engagement with the sector. The SFC should also continue to work closely with the Scottish Government to develop clear guidance on the disposal of assets within the college sector.

37. Capital investment should also consider and support the clear and ambitious targets set in the Climate Change (Scotland) Act 2009 and I expect the SFC to continue to support the sector in reduction of its carbon footprint. Through the development of the Scottish Energy Efficiency Programme and the delivery of the Low Carbon Universities Fund, the SFC has a unique opportunity to share learning across the sectors.

SG strategic priority

Colleges working in partnership

SFC strategic outcome: SFC will take a leadership role in creating a high-performing system of learning in Scotland, which is strongly connected and coherent for learners

Developing the Young Workforce and Employer Engagement

38. Colleges have a central role to play in growing the provision of vocational pathways in the senior phase of Curriculum for Excellence and I look to the SFC to drive acceleration of collaboration and growth in provision. Through active and effective partnership working between school, colleges and employers, the SFC should help to ensure all young people have access to good quality work-related learning and a range of vocational pathways at a range of appropriate SCQF levels (including introductory/ taster courses) in addition to provision at level 5 and above.

Collective and collaborative leadership in college sector

39. Collaborative leadership (not just between colleges but between colleges and their partners) is needed at all levels to develop a shared vision for change and improvement. The SFC should support this collective approach by working with Colleges Scotland and the Colleges Development Network to embed equity and excellence across the sector.

Early Learning and Childcare (ELC)

40. The expansion of Early Learning and Childcare (ELC) is a key policy for the Scottish Government. Building on the increase in provision of training places over the previous academic year, a further increase in provision to support the expansion is sought for the 18/19 academic year. Specifically, we are seeking to train an additional 1,813 new starts for HNC college and university (through UHI) courses to train at practitioner level in the sector. We are also seeking an additional 490 places (245 FTEs) at managerial level. Those should be split between 388 BA Childhood Practice places (194 FTE) at universities and 102 PDA places (51 FTE) at colleges. These figures have been adjusted to account for withdrawal rates, as discussed with SFC colleagues. My officials will continue to discuss how best to establish a process through which progress against targets can be monitored throughout the year.

41. The SFC's support in ensuring this crucial evidence is available throughout the year is greatly appreciated. Providing flexibility in how and when courses are delivered for the sector will assist in ensuring those wishing to change career have the ability to train in a way that fits around their lives. Exploring greater flexibility in delivery of courses to widen the training options available, in particular for career changers, will be important in the coming year. I am grateful that you continue to work with colleagues from the Directorate for Children and Families, contributing to a number of cross sector fora to progress this policy and, in particular, with development and implementation of the ELC Workforce Delivery Plan. Finally on ELC, I welcome your on-going support in building a diverse workforce to support the expansion of ELC, including recruitment of more males, those from minority ethnic groups and those with disabilities.

FE Strategic Futures

42. The FE Strategic Futures Group presents an opportunity for long-term partnership between the SFC, the Scottish Government and the sector as we work together to create a financially stable national college sector which maximises its potential and delivers for students. The SFC should play a full role in the development of this newly established group and should use the group to promote and secure the success of Scotland's colleges and to deliver on the strategic ambitions of the Scottish Government.

SG strategic priority

Quality learning and good governance in universities

SFC strategic outcome: SFC will invest in, and support, the development of high-performing colleges and universities with modern, transparent and accountable governance arrangements

HE Capital

43. Gaining an understanding of the costs of maintaining a fit for purpose higher education estate is vital to the effective use of capital funds. The work that has been undertaken thus far by the SFC to create an evidence base which sets out the sector's year-on-year life-cycle maintenance needs is a key part of this.

44. This information, in conjunction with discussions between the SFC, the university sector and Scottish Government officials, should continue with a view to exploring ways in which the use of Capital funds could be more effectively aligned with strategic priorities both for this year and in the future.

HE Strategic Futures

45. The SFC has continued to engage with the Scottish Government to develop a positive outcome for the higher education sector in the 2018/19 budget. While funding and efficiencies remain an important element of the Strategic Futures Group, the Scottish Government will continue to work with the SFC and the sector, using this Group as a conduit, to discuss wider issues that affect delivery and service provision. The SFC has a crucial role in the continued development and improvement of this long-term partnership working and in ensuring maximum value for our public investment.

Quality assurance

46. In the context of the changing regulatory framework in England, the SFC should continue to work to protect, as far as possible, the interests of the Scottish University Sector. In respect of the Teaching Excellence Framework, I would like to reaffirm the view of Scottish Ministers that the existing Quality Enhancement Framework approach to quality assurance in Scotland remains the key determinant of assessing the provision of quality learning in Scottish universities. The SFC should therefore work with the Scottish Government and sector partners to mitigate the impact on quality assurance in Scotland of expected changes to the UK Quality Code.

Higher Education Governance

47. I look to the SFC to ensure that higher education institutions are taking the action necessary to ensure that their governing instruments are amended as necessary to enable them to meet the requirements of the Higher Education Governance (Scotland) Act 2016 in line with the timescales set out in the commencement regulations. Alongside this, the SFC must give careful consideration to the revised Scottish Code of Good HE Governance in the context of the 2016 Act and its duty under the Post 16 Education (Scotland) Act 2013 to

require institutions to comply with any principles of governance which appear to the Council to constitute good practice in relation to higher education institutions.

And, in line with the approach set out for colleges, and the importance this Government places on the principles of the Public Sector Pay Policy, I welcome the SFC's undertaking to work with the Higher Education sector to support more transparent governance arrangements, particularly in relation to decisions on remuneration at senior levels.

48. I am aware of, and welcome, the progress that many institutions have already made towards gender balance on their boards and, where there are imbalances, of the steps being taken by the institutions to address these. I wish to see rapid progress made by our higher education institutions in addressing imbalances in gender representation on Boards and also in their senior ranks. It is important that institutions reflect the wide diversity within Scotland's society and the student population that they serve.

49. The SFC should work with Scottish Government and the sector to develop arrangements for reporting against the requirements of the Gender Representation on Public Boards (Scotland) Act 2018, in line with guidance which will be consulted on and developed over the coming months. It is intended that these arrangements will avoid duplication as far as possible. The SFC should also ensure that institutions highlight how they are proactively promoting gender balance on their Boards and at senior levels and all activity towards achieving these outcomes through their Outcome Agreement or Gender Action Plan.

SG strategic priority

Internationally competitive and impactful research

SFC strategic outcome: World-leading research

Europe and International

50. Relationships with other countries support the quality and diversity of Scotland's further education, higher education and research through the development of collaborative partnerships, the sharing of best practice and the ability to attract students and staff from a wide range of backgrounds and with valuable skills. This includes relationships within the European Union and further afield.

51. The withdrawal of the UK from the EU has the potential to have a significant impact on our colleges and universities and their ability to continue to attract talented students and staff, as well as European programme funding. Scottish Ministers firmly believe that the best outcome is to maintain our existing relationship with the EU and that, if that is not possible, we must stay in the single market and customs union.

52. Scotland as part of the UK remains a member of the European Union and so remains eligible to apply to participate in European programmes. The agreement between the UK Government and the EU (December 2017) suggests that eligibility to participate should continue until 2020.

53. I look to the SFC to continue to work with the sector and partners through Connected Scotland, the emerging 'Scotland is Now' nation branding strategy and other partnerships to identify opportunities to communicate that our colleges and universities remain open to

students and academics from across the world and committed to teaching, research and mobility collaborations with our European and international partners.

Core Research budget

54. I welcome the increase in the level of Research Excellence Grant (REG), Research Postgraduate Grant (RPG) and University Innovation Fund (UIF) in AY 2018-19. I expect the Funding Council to ensure that this is used to maintain world-leading research and innovation in our universities.

SG strategic priority

Effective knowledge exchange and innovation between universities and colleges and industry.

SFC strategic outcome: Greater innovation in the economy

Innovation and entrepreneurship

55. The Scottish Government published the CAN DO Innovation Action Plan in January 2017. Our universities have a pivotal role in driving up levels of business innovation by making the best use of university knowledge (and as outlined in Objective 4 of the Action Plan). I expect the SFC to work closely with the sector to use the University Innovation Fund to drive increasing engagement with businesses in support of the Action Plan.

56. I welcome the progress that has been made to implement the second phase of the Innovation Centre programme, building on the success of the first phase and the recommendations of the Reid Review. It is important that this is a true partnership endeavour reflecting the ethos of the Enterprise and Skills Review, with SFC working in partnership with Scottish Enterprise and Highlands & Islands Enterprise to ensure the second phase appraisal process is proportional and progressed at pace while ensuring due diligence. I look to the SFC to continue to ensure that the recommendations of the Reid Review are fully reflected in the second phase of the programme to ensure long term economic outcomes are delivered across sectors.

57. The SFC should continue to encourage an enhanced involvement for colleges in the Innovation Centre Programme. This should include the on-going development of the College Innovation Fund through FUTUREquipped and the College Innovation Accelerator Fund (CIAF) providing colleges with resource to release their internal capacity to engage more fully in the innovation support ecosystem for Scotland's businesses.

58. Our universities and colleges play a key role in supporting an entrepreneurial culture in Scotland. It is key to ensuring that students are exposed to entrepreneurial thinking so that they develop an understanding that an entrepreneurial journey is possible and beneficial throughout their life and work. To this end, I look to the SFC to drive acceleration of work between the sector and partners within the framework of the CAN DO Innovation Action Plan.

Industrial Strategy and UK Research and Innovation (UKRI)

59. It is important that the UK Industrial Strategy and the emerging UKRI deliver for the whole of the UK including Scotland. I look to the SFC to support universities in collaborations with businesses and other partners across Scotland to maximise the emerging opportunities, including leveraging in additional UK competitive funding for research and innovation in Scotland. I also expect the SFC to collaborate with Research England and the other funding bodies on shared UK-wide projects, such as the research infrastructure roadmap and next Research Excellence Framework.

SECTION 2: SFC's operations, governance, collaboration with partners and your role in advising Government on policy and strategy

SG strategic priority: SFC operating as a highly effective public body.

A. INVESTMENT DECISIONS AND FINANCIAL ACCOUNTABILITY

Strategic Funds

60. Having funds available to invest in Further and Higher Education projects which contribute to meeting Scottish Government strategic objectives is something that I welcome and would like to see continue. In line with the Audit Scotland commentary, I would stress the importance I attach to ensuring that projects prioritised for funding are clearly linked to Scottish Government strategic objectives. As part of this, I would expect the SFC to continue to examine currently-funded projects with a view to assessing their consistency with Scottish Government strategic objectives. I am also keen for the SFC to adopt an approach to the use of Strategic Funds where funded projects set out a pathway to becoming self-sustaining where appropriate.

European Structural Funds

61. In collaboration with Skills Development Scotland and colleges, I expect the SFC to continue to maximise the opportunities available through the current European Funding programme, paying particular attention to your responsibility to comply with regulations and audit procedures.

62. Between April 2018 and March 2019, the SFC will continue to manage its European Structural Fund programmes (ESF). ESF activity is delivered by colleges in addition to SFC core activity. In collaboration with SDS, the SFC will deliver its component of the Developing Scotland's Workforce (DSW) programme. This programme will be delivered pan Scotland and will focus on higher level skills to meet regional demand by providing courses linked to Scotland's Smart Specialisation sectors and key growth sectors in Scotland.

Long-term financial planning

63. I look to the SFC to advise Ministers on the long term financial needs of the sectors, taking account of demography, significant financial pressures and options for greater efficiencies and cost savings.

Financial transactions

64. The SFC has been allocated £40m of financial transactions to support capital activity in the university sector. I expect the SFC to work collaboratively with the sector to determine the most effective way in which these can be used.

NPD expenditure.

65. The budget allocated to the SFC also includes £29.3m to cover College NPD expenditure. I expect the SFC to use this funding to cover the unitary charge payments required for college NPD projects in 2018-19.

Financial monitoring and reporting

66. The SFC will submit accurate reports and claims in relation to all programmes which they fund as per agreements established between the SFC and individual Scottish Government policy areas.

67. The SFC should continue to focus on ensuring the quality and robustness of financial reporting from the colleges sector and ensure effective, timely and efficient handling of any challenges which may arise.

B. GOVERNANCE AND OPERATIONS

Gender balance

68. The Gender Representation on Public Boards (Scotland) Bill has been passed by the Scottish Parliament and I welcome the objective set for public boards, including the SFC, that 50% of their non-executive members are women by the end of 2022, and for steps to be taken to encourage women to apply to become non-executive members of public boards. This is a key priority and I set out earlier in this letter (paragraphs 32 and 49) my expectations and ambitions for the SFC's work with the sectors.

Building organisational capacity and capability to improve outcomes

69. The SFC Board and its Committees will continue to play a key role in 2018-19 by providing scrutiny, challenge and oversight of the organisation's activities and delivery of the strategic objectives set by Ministers. I am grateful for the significant contribution Board Members make both individually and collectively and look to the SFC to ensure that their induction, talent development and succession planning arrangements continue to support Members, enabling them to contribute fully during their time on the SFC Board.

70. The SFC senior team and board should continue to engage closely with the Scottish Government's Sponsor Team to develop a package of measures aimed at improving collaboration between the two organisations, based upon a shared understanding of respective roles and responsibilities and making the best possible use of your cumulative knowledge, expertise and networks. I would welcome a regular update from the Chair on this activity, which I am keen to support and consider of critical importance.

71. In a time of increasing financial pressures, your Interim Chief Executive's role as Accountable Officer for public funds granted to colleges and universities remains a crucial one. I expect you, and your Board, to (i) make full use of the powers available to you to lever maximum impact from Government investment and (ii) ensure no ambiguity across either

sector about the importance of absolute compliance with the terms and conditions of grant set out in the SFC's Financial Memorandum. In this context, I welcome your engagement with Scottish Government officials to create a Framework Document.

Production of statistics, reporting and performance management

72. Statistical reporting on the performance of the HE and FE sectors continues to be an important function. The Office for Statistics Regulation has recently updated the Code of Practice for Statistics which gives new guidance on ensuing trustworthiness, quality and value of the statistics you produce and to ensure they serve the public.

73. To meet the high standards set out in this new code, you should identify and create a range of continuous improvements to your methods, processes and outputs. This should also include a staff development plan where all SFC staff should be aware of the requirements under the new code. Our Chief Statistician, who is responsible for adhering to the Code of Practice for Statistics, will be able to provide advice and guidance to support improvements in the production of statistics.

C. ADVISING GOVERNMENT ON POLICY AND STRATEGY COLLABORATION

74. I am grateful to the SFC for the valuable advice and guidance they provide to Government's policy development and for the expertise and challenge that your contribution injects. Your knowledge and input are an essential and influential part of our decision making process and I will look to you to continue and build on this in 2018-19, particularly as we look to progress our thinking in key policy areas including the learner journey and implementation of the student support review.

SPECIFIC REQUESTS OF PUBLIC BODIES

Issue	Further information	Basis of request
Community Planning	We expect those public bodies that will be subject to statutory community planning duties under Part 2 of the Community Empowerment (Scotland) Act 2015 to work with other partner bodies and communities within Community Planning Partnerships to identify, resource and manage effective delivery of shared priority outcomes for their localities. Other public bodies should consider and take reasonable steps to pursue opportunities for partnership working with other bodies, including local authorities, wherever this can support your respective business objectives.	Page 13 of the PfG; the Community Empowerment (Scotland) Act 2015
Digital services	Digital technology is a powerful enabler for improving public services and driving down the costs of delivery. We expect public bodies to deliver against Scotland's Digital Future: Delivery of Public Services by ensuring that digital transformation is embedded within your business strategy and corporate plan. In developing your digital public services, you should consider opportunities to support or benefit from the development of Scotland's national digital ecosystem. If you wish to assess the digital maturity of your organisation, develop business cases/procurements for digital services, or source expert digital staff, please contact the Central Government Digital Transformation Service. Such business change can be challenging and we therefore expect all bodies to make effective use of the Central Government ICT Project and Programme Assurance Framework .	Page 28 of the PfG; Scotland's Digital Future: Delivery of Public Services
Diversity on boards	<p>Most public bodies with boards have signed up to the commitment – 50:50 by 2020 – to improve diversity on boards including working towards gender balance on boards by 2020. As of April 2017 listed public authorities are required to publish the gender composition of their boards and to produce succession plans to increase the diversity of their boards by virtue of The Equality Act 2010 (Specific Duties) (Scotland) Amendment Regulations 2016. Guidance to support listed public authorities to implement the new duty will be developed by the Equality and Human Rights Commission and the Scottish Government. In addition, the new regulations also amend the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 by lowering the threshold for a listed public authority to report their gender pay gap and publish equal statements etc. from those authorities with more than 150 employees to those with more than 20 employees.</p> <p>You are encouraged to take positive action to support and enable greater diversity of Ministerial appointments, through:</p> <ul style="list-style-type: none"> • taking an active role in succession planning, and providing advice to Ministers about the board's membership needs, both for new and re-appointments; • ensuring that suggested criteria for the selection of new board members meet the needs of the body, are unbiased and are not unnecessarily restrictive; • taking action both during and between board member recruitment exercises to attract the broadest range of candidates to the work of the board; • providing mentoring, shadowing and training opportunities for potential board members; and • considering the role of nominations committees. 	Page 35 of the PfG
Equality	<p>Public bodies are reminded of the Public Sector Equality Duty (PSED) contained within the Equality Act 2010.</p> <p>Those bodies that are listed within the Scottish specific equality duties are legally required to:</p> <ul style="list-style-type: none"> • report on progress in mainstreaming the PSED in to the main business of the organisation; • set, every 4 years, equality outcomes and report on progress every 2 years. We would expect to see within the business plans of the listed body's clear links to their equality outcomes; • impact assess new and revised policies and practices as well as making arrangements for reviewing existing policies and practices; • gather and use and publish employee information; 	Public Sector Equality Duty within the Equality Act 2010 and the Scottish specific equality duties

	<ul style="list-style-type: none"> publish gender gap information (race and disability also from 2017) and an equal pay statement; and consider adding equality award criteria and contract considerations into procurement exercises. 	
Living Wage	Public bodies are encouraged to become Accredited Living Wage Employers , paying the Living Wage to their employees and people involved in delivering public contracts. We published statutory guidance for public bodies on how workforce-related matters, including the Living Wage, may be taken into account in public procurement processes.	Page 37 of the PfG
Young Workforce	You have a vital role to play in working with us to implement the Scottish Government's youth employment strategy, Developing the Young Workforce, for example, by recruiting and training young people, working towards achieving the Investors in Young People gold standard and engaging with the education system to provide development opportunities for young people. Development of procurement policies that encourage more employers to contribute to the development of Scotland's young people.	Cabinet Secretary for Fair Work, Skills and Training's letter to public bodies of 15 December 2014
Fair work	You will know that the Government previously commissioned the Working Together Review to examine progressive workplace policies and published a formal response in August 2015. We asked you to have regard to that report and the recommendation that public bodies should report publicly on their approach to industrial relations and its impact on workplace and workforce matters. A key part of the response was the establishment of the independent Fair Work Convention , who published their blueprint for fair work in Scotland in March 2016.	Page 37 of the PfG; Working Together Review: Progressive Workplace Policies in Scotland
Low Carbon sector and combating climate change	We look to all public bodies to help realise the significant opportunity for growing the low carbon sector both through leadership and directly through reduction of energy demand and integration of low carbon and renewable heat and energy technologies across estates. More generally, we expect our public bodies to lead by example in combating climate change and making a valuable contribution towards achieving our ambitious emission reduction target of 80% by 2050. 2017/18 will mark the third year of mandatory reporting from 180 listed public bodies on compliance with climate change duties. The mandatory reports for 2017/18 are due to be submitted to SG by 30 Nov 2018. Reporting advice, tools, guidance and training are available from the Sustainable Scotland Network (SSN) .	Pages 30-31 of the PfG; policy proposal to bring into force a public body duties reporting requirement under sections 46 and 96 of the Climate Change (Scotland) Act 2009
Efficiency	Although not explicitly mentioned in the Programme for Government, we continue to expect every public body to deliver efficiency savings of at least 3% per annum and to report publicly on the actions undertaken and the results achieved.	Efficient Government section of SG website