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The Scottish Parliament
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31 October 2024

Dear Convener,

PRE-BUDGET SCRUTINY 2025-2026

Further to your letter of 9 October I am writing to provide an update to the Committee in areas where further details were sought.

Post-school reform

The Committee welcomes the commitment to be kept updated on progress on the reform of the post-school landscape. They urge the Scottish Government to listen to concerns regarding the pace of change and requested that the Scottish Government provides indicative timescales for the current ongoing work strands in relation to post-school reform.

I want to reiterate to the Committee how important the post-school reform agenda is. Given its scale, complexity, and significance, we must get this right. For that reason, I think it is important that we have taken some time to clarify our plans and priorities. This will allow us to move at greater pace further down the line.

There is considerable work underway across all the five interconnected strands and we will continue to engage with colleagues across the system to advise of timescales where possible. As you are aware the programme is phased over 10 years, and we expect major deliverables to be achieved throughout.

Our early priorities include: leading a new, national approach to skills planning and working with partners to strengthen regional approaches; reforming the education and skills funding system so it is easier to navigate and more responsive to learners and skills priorities, initially by introducing a Bill to simplify the post-school funding body landscape; apprenticeships reform to reduce the complexity, build up an understanding of the post-school qualifications landscape, and continuing to work closely with partners to improve careers support.

As the Committee has acknowledged, taking forward reform during a time of financial challenge is difficult. During this period Scottish Government will continue to maintain their

strong commitment to funding and supporting colleges, and students. Despite facing the most challenging fiscal position since devolution, the 2024-25 Budget allocated nearly £2bn through the SFC to colleges and universities – supporting their delivery of high-quality education, training, and research.

James Withers' review and Scottish Government's own Purpose and Principles report were both very clear that there is complexity within the system that leads to inefficiency and to a lack of clarity on the return for public investment. The work we have begun as part of the reform agenda will address this. And our college and university sectors are well placed to respond to, and indeed are currently responding to, the changes being brought forward.

I will continue to engage with sector representatives as the reform work develops and through the groups we already have in place, including the Colleges Tripartite Alignment Group and Universities Tripartite Group. I most recently met with all college chairs at the end of September, and DG Education and Justice will meet with them in November.

With public finances at their most strained since devolution, college boards and university courts will continue to play a vital role in encourage and delivering inventive and robust leadership. Institutions will also need to continually reassess operational models and explore avenues for cost reduction and revenue creation in this demanding climate.

As promised, I will continue to regularly keep the Committee updated so that you are sighted on the progress that is being made.

Budget 2024-25 allocations and financial sustainability of colleges and universities

The Committee asks the Scottish Government to set out what consideration is being given to the growth of part-time learning and how it plans to ensure colleges are funded appropriately to deal with this change. In addition, the Committee requests further details, including timescales, on the work being undertaken to address the lack of equality between part-time and full-time students in relation to financial support.

Our colleges can continue to evolve their offer, whether full-time, part-time or a tailored mix, taking account of the diverse needs of learners, as well as short courses aimed at upskilling and reskilling. I see many colleges responding flexibly to the skills demands of the region and communities they serve by tailoring their offer in line with the economic needs of their regions, and through working closely with employers.

The Scottish Funding Council (SFC) has proposed modifications to the college funding model to provide short-term relief to colleges and has expressed plans to revamp the funding model for future sustainability.

Through the College Alignment Tripartite group, the SFC is exploring with Colleges Scotland the potential to identify tailored and transitional funding arrangements for individual colleges to support them in reshaping their course provision to suit the needs of learners and local businesses. In considering and submitting their proposals for this transitional funding, which recognises the additional costs involved in making such changes, colleges will wish to evaluate and assess the needs of the regions they serve. This could include the types of course delivered including part-time offerings.

The Scottish Government recognises the need to improve the parity of living cost support on offer for those wishing to study part-time or flexibly. As noted by the Committee, there will be significant cost implications associated with providing living cost support for part-time

learners which will take time to navigate. We are therefore considering an incremental approach to the implementation of any changes, ensuring that the impact on our most vulnerable student groups are at the forefront of our thinking during policy development.

As an initial step we have opened up access to living cost support for disabled students who are studying a full-time distance learning course as a result of being unable to attend a campus-based course because of their disability.

We are in the process of considering how best to engage with the sector in order to provide stakeholders, current and prospective students with the opportunity to feed into the discussion. We endeavour to keep the committee apprised on this work as it progresses.

Financial flexibilities

The Committee requests that the Scottish Government keeps the Committee updated on progress on financial and operational flexibilities available to colleges, and on agreements reached with the Tripartite Group on this issue. The Committee requests that the SFC provides an update on its current review of college teaching funding and when it expects to conclude its review. In addition, the Committee asks for an update from the Scottish Government and the SFC in respect of discussions on the ONS reclassification of colleges in England and how flexibilities could be applied in Scotland.

As the Committee notes the Colleges Tripartite Alignment group continues to discuss and progress flexibilities for the college sector and will continue to do so. Minutes and papers from meetings are publicly available on the Scottish Government [website](#) but I am of course, happy to provide additional detail and updates to committee.

The SFC is reviewing its college funding distribution model including its approach to rurality, place, and institutional performance. This will include analysis of the range of models used in other countries. However, in the context of the reform agenda, SFC recognises that the review will require consideration of any new responsibilities following Government's consideration of the recent consultation exercise.

While the SFC await that outcome, they will continue to evolve the existing model for AY 2025-26 to consider factors such as rurality and fair access. The SFC will build on the changes introduced in the AY 2023-24 and are being consolidated in AY 2024-25. The SFC is very aware that transition to a new distribution model must come through evolution to avoid shocks to college sustainably. The SFC will continue to work with the sector, including through the College Tripartite Group, to ensure stability during the transition and implementation period.

In terms of ONS classification, Committee will be aware that both English and Scottish colleges are classified in the public sector. In addition, Scottish colleges are in a different position to English colleges because they are also governed by the fiscal framework which determines how the Scottish Government is funded and must comply with the rules laid out in the Scottish Public Finance Manual. The Scottish Funding Council's College Funding Group are considering the ONS classification and associated implications within the context of their wider work to review the college funding model.

Flexible Workforce Development Fund and long-term planning

The Committee shares the concerns regarding the negative impact of the removal of the Flexible Workforce Development Fund and invites the Scottish Government to respond to

calls from colleges and the business sector and from the SFC, to reinstate this fund in the forthcoming budget.

The Committee notes the call for a five-year plan for colleges and the Minister's position that colleges are clear about what is required of them and what their priorities are in the longer term. The Committee welcomes the Minister's commitment to reiterate the Scottish Government's position regarding the longer-term strategic direction with colleges, and also asks to be kept updated on developments in this area.

I appreciate the concerns raised by the Committee regarding the negative impact of the removal of the Flexible Workforce Development Fund (FWDF). I am fully aware that colleges and the many businesses of all sizes who benefitted from the FWDF each year continue to be very disappointed by the withdrawal of this funding and I share that disappointment. Both the Cabinet Secretary for Education and Skills, Jenny Gilruth, and I tried to preserve the FWDF offer, recognising the value and the positive impact it has had on individuals, the colleges sector, and employers across Scotland. However, due to the extremely challenging fiscal context this was simply not feasible.

As the Committee is aware, the significant budget constraints facing Government are likely to continue. At the moment I am unable to identify any viable options for reinstating the Fund, but I remain open to suggestions from Committee members, colleges, or the Scottish Funding Council.

As part of our programme of reform in post-school education, we will use what we have learned from the experience of FWDF to ensure we have a skills system that is simple, straightforward, agile, and responsive to the needs of Scotland's learners and employers. Through the work of the Tripartite Alignment Group, Colleges Scotland are currently collating case studies from across the college sector of best practice in securing commercial funding streams, as well as establishing an understanding of the barriers and opportunities that exist in relation to increasing non-public investment into the sector.

Colleges have clarity of what we expect of them in relation to the reform of the post school education and skills system. The priorities for colleges include: better alignment with local economic needs; close interaction with employers; and to be at the heart of skills planning in their regions. As work on the reform programme progresses, we will continue to work with them, as well as with employers and learners, to ensure we get this right.

College lecturers pay settlement

The Committee was concerned to hear that it is not currently known where this additional recurring £4.5 million allocation will be funded from and whether it will result in any in-year revisions to the higher education budget. The Committee recommends that the Scottish Government provides further details on how any recurring funding will be found in subsequent years.

The recent college lecturers pay agreement is a strong package for college staff and despite the pressures on public finances, the Scottish Government has committed to making £4.5 million available from next year's (2025-26) budget to support this deal. In the challenging fiscal environment we face, we will be taking tough decisions around Budget 2025-26, including decisive steps to ensure our public finances remain on a sustainable trajectory, targeting our funding and prioritising our spending.

Work is ongoing on the draft budget for 2025-26 and future budgets will continue to be set through the annual parliamentary budget Bill process and based on the latest available fiscal information. We cannot pre-empt the outcome of the budget process for 2025-26 or for future years.

Fair work

The Committee recommends the Scottish Government provides further clarity on whether providing the SFC with the power to intervene where a college is not meeting its fair work requirements would require a legislative change and, if so, whether this would be through primary or secondary legislation. The Committee also requests that the Scottish Government provides further details on the timescales associated with reviewing the SFC's powers specifically in relation fair work.

The Scottish Government remains absolutely committed to the Fair Work Framework and we have set out consistently that we expect colleges to adopt Fair Work principles. The Fair Work agenda remains central to our strategy and highlights the importance we place upon Fair Work principles and the involvement of trade unions. Implementation of Fair Work First must be the guiding criteria to promote fairer work practices for staff within the college sector and I made this clear within the Letter of Guidance I issued to the SFC on 29 March 2024.

Colleges are responsible for making workforce-related decisions in line with legislative requirements, the Code of Good Governance for Scotland's Colleges and the SFC's Financial Memoranda. College Boards are responsible for monitoring the performance of colleges and I expect there to be appropriate systems in place to ensure they are following due process, and all staff are treated fairly, across all of Scotland's colleges.

The Scottish Government expects the SFC to continue to promote Fair Work principles and monitor adherence across the college sector. We are currently considering the powers of the SFC as part of our reform programme, and I will look to update the Committee on progress of this work in due course.

International student numbers

The Committee notes the evidence in relation to the current university funding model's reliance on income from international students and the work being done by the Scottish Government to broaden the cohort of international students to lessen the exposure to certain markets and to help the university sector respond to concerns around a fall in international applicants.

The Committee considers that this work must be undertaken as a matter of urgency and asks the Scottish Government to keep the Committee updated on its progress.

Scotland needs an immigration system that supports our higher education sector to deliver the best learning, the best research and the best experience for international students who choose to study in Scotland.

The Scottish Government fulfilled a Programme for Government commitment by publishing its first International Education Strategy (IES) on 7 February 2024, setting out how we will work with partners to promote Scotland's education offer globally, including how we will maintain our links with the EU.

The IES is focused on three key themes: attracting and diversifying the international student population; maximising the economic benefits of international higher education; and promoting Scotland's as a world leader in research and knowledge exchange.

Following the publication of the International Education Strategy (IES) in February 2024, a Governance Group was established to provide oversight to the implementation of the IES and to collaboratively drive forward its commitments. The Group will meet for the third time in November and has supported the delivery of several actions including: the refresh of the study pages of Scotland.org, due to be launched in November; the continuing work of Connected Scotland to maximise the reach of our global networks; the implementation of year 2 of the Test and Learn Scottish Education Exchange Programme (SEEP); the development of Scotland's Migration Service; the expansion of Trans National Education (TNE); optimising the plan of Ministerial visits and events to share Scotland's Higher and Further Education messaging; feeding into the development of Horizon Europe and Framework Programme 10 (FP10); and continuing to expand Scotland's international networks.

Ensuring universities are on a sustainable trajectory is at the heart of our considerations to reform the post-school system, so that the significant investment we are making delivers the best outcomes for learners, the economy and society. As autonomous institutions, universities have the key role in mitigating financial pressures and external risks. However, Scottish Government and the Scottish Funding Council are engaging with the university sector on an ongoing basis on financial sustainability risks and universities developing their own mitigation strategies. I will continue to keep the Committee updated on this issue.

Employer Levy

The Committee asks the Scottish Government if it has any plans to discuss this issue with the UK Government.

This is a reserved matter and there are no current plans to discuss this.

Tuition Fees

The Committee asks the Scottish Government to set out its view on the points made regarding free tuition for all Scottish students representing poor targeting of resources. The Committee asks the Scottish Government to set out its views on the alternative funding models as set out in evidence to the Committee and whether it has any plans to consider further changes to the current funding model for higher education.

Our resolute commitment to free tuition and our enhanced student support offering means that in Scotland access to university remains based on the ability to learn and not the ability to pay. This policy ensures that there is an equal opportunity of a university education available to everyone, regardless of their income or background. This commitment to free tuition means that unlike elsewhere in the UK, Scottish students studying in Scotland do not incur additional debt of up to £27,750.

Our student support offering and policy on free tuition supports over 115,000 students. Higher Education Statistics Agency (HESA) data shows since the free tuition policy was put in place, the number of Scottish students entering full-time first-degree courses at university has increased by 27%. Latest UCAS data for the 2024 recruitment cycle, highlights record numbers of Scots securing a university place in Scotland, and record numbers from deprived areas.

The Scottish Government are aware of alternative funding proposals for provision of higher and further education as developed in other parts of the UK. While we will monitor any proposal in the broader context of post-school reform, the Scottish Government retains its absolute commitment to free higher education tuition for Scottish domiciled students. Proposals that relate to apprenticeship levies will be reserved to UK Government.

Student Loans

In addition, the Committee requests a response from the Scottish Government on the view that the current student loans system favours predominantly male graduates, to the detriment of less well-paid female graduates.

The current terms and conditions of student loan repayment for Scottish borrowers, including the repayment threshold and interest rates, are set and controlled by the Scottish Government. All Scottish borrowers are subject to the same terms and conditions, regardless of their gender. As a result, these terms and conditions do not take into account any gender pay gap or any periods where an individual has taken a career break or a form of family leave such as maternity and paternity leave.

The repayment threshold for Scottish borrowers is the most favourable across the UK, currently set at £31,395. This means that borrowers will only start to repay their loan automatically when their earnings are higher than the threshold rate. Borrowers will also only be required to make repayments at 9% of any earnings above the repayment threshold. Those earning below the threshold rate or not currently in employment will not be required to make repayments to their student loan. This also means that lower earners who are taking longer to pay off their student loan are more likely to have their debt written off once they meet the maximum 30 year repayment period. However, individuals also have the capacity to make voluntary repayments to the Student Loans Company if they are concerned about their student loan balance and are able to make these additional repayments.

Scottish teachers' superannuation scheme

The Scottish Government will support the university sector as far as possible through the allocation of consequential funding to meet additional costs resulting from increased employer contribution rates for the Scottish Teachers Pension Scheme (STPS), within the funding constraints we face.

Work is ongoing by officials to determine the full extent of additional costs for employers resulting from increased employer contribution rates across all unfunded public service pension schemes, including STPS. Once this work is completed, final decisions on allocation of consequential funding will be made across portfolios as part of the Spring Budget Revision.

Widening access

The Committee notes the 2030 widening access target is now approaching and requests an update on work being done by the Scottish Government in relation to the four recommendations made by the Access Data Short-life Working Group, including information on planned timescales for this work.

In addition, the Committee asks the Scottish Government whether it intends to introduce legislation in this area which would allow other measures, such as Free School Meals, to be used in relation to widening access.

The Scottish Government continues to work with the Commissioner for Fair Access and sector representatives on measures in addition to SIMD that may be used to support universities and colleges to make contextualised admissions.

The Short-life Working Group's report recommended that free school meals (FSM) be pursued as such a metric in the first instance. Officials are now progressing work to overcome data sharing barriers, including rolling out a free school meal data sharing pilot in the North-East.

Evaluation of any outcomes will provide important evidence for any national data sharing protocols as well as for the suitability of FSM as a possible nationwide additional measure. Officials continue to explore all possible options that may be available, including, engaging with UCAS on their recently introduced approach for applicants to self-report FSM status.

Other individual level metrics such as the Scottish Child Payment and School Clothing Grant, which would contribute to a basket of measures, are also being considered as well as the impact of rurality on access to higher education.

Scottish Government remains absolutely committed to making as much progress towards the Commission for Widening Access's targets as possible, and we are actively working in partnership with the sectors in advance of the 2026 target (to have 18% SIMD20 entrants by 2026). It should however be noted that continued use of a single measure has hit an inevitable ceiling and the educational landscape which existed when the commitment to substantially eliminate the gap was made is markedly different. The pandemic and the cost-of-living crisis has deepened inequity; but it further necessitates our relentless focus on widening access. I will look to update the Committee on progress of this work in due course.

Student mental health support

In light of cessation of funding for student mental health programmes and the mainstreaming of student mental health, the Committee seeks an assurance from the Scottish Government that the Student Mental Health Action Plan will enhance student mental health and wellbeing provision within the Scottish further and higher education systems.

The Committee asks to be kept updated on the progress of the five actions within the Student Mental Health Action Plan and the review of the role of the Student Mental Health and Wellbeing Working Group.

Our new Student Mental Health Action Plan, published on 13 September, seeks to move to a mainstreamed approach to student mental health which will help students better access services. The Scottish Government is considering how best to support delivery of the Action Plan's five actions including oversight and support, and we are happy to commit to keeping the Committee updated on progress.

As a first step, we will shortly be engaging with the higher and further education sectors and health and other public and third sector organisations to update them and request their support and participation going forward.

Yours sincerely

GRAEME DEY MSP

Minister for Higher and Further Education; and Minister for Veterans