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Ms Audrey Cumberford and Dr Paul Little
Review of the Economic Impact of Colleges
c/o City of Glasgow College
190 Cathedral Street
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09 JANUARY 2020

REVIEW OF THE ECONOMIC IMPACT OF COLLEGES

Dear Audrey and Paul,

As Fellows of the Royal Society of Edinburgh (RSE), I was particularly pleased that you were commissioned by Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work to undertake a review of the economic impact of Scotland's colleges. The RSE responded to Sir Anton Muscatelli's separate review into the economic impact of Scotland's universities and we are pleased that the Scottish Government recognised the importance of ensuring that a similar review of college economic impact be undertaken.

In reviewing the economic impact of colleges, it is important that this forms part of a wider, integrated approach to equipping learners with the education and skills they need to enable them to contribute positively to the economy and society more broadly. This requires coordinated effort from schools, colleges, universities and employers. The ongoing work of the Enterprise and Skills Strategic Board is crucial in this regard. We are keen to engage with the Strategic Board through the work of our Economy and Enterprise Committee and our Education Committee. In addition, as you know, the RSE has also been exploring the potential for a wide-ranging project on Tertiary Education Futures which would consider the future of colleges and universities in Scotland in a forward-looking, inclusive and holistic way.

Mindful of the tight timescale in which you are working, the RSE's Economy and Enterprise Committee has collated the following points for your review. Please do not hesitate to get in touch should you wish to discuss them further. I look forward to receiving the output from your review and I would be very pleased to discuss how the RSE can develop further its links with Scotland's colleges.

With all best wishes,

A handwritten signature in blue ink that reads 'Rebekah Widdowfield'.

Dr Rebekah Widdowfield
Chief Executive



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Main Points

Financial and regionalisation context

1. The importance of colleges in the Scottish economy has arguably increased over recent years, while their funding has not increased to the same extent as the funding of the Scottish universities' sector. The Audit Scotland, '[Scotland's Colleges](#)' 2019 report highlights the challenging position facing the sector with 12 from 26 colleges forecasting financial deficits by 2022-23. While the Scottish Government is increasing revenue investment in colleges, much of this additional funding is being used to cover the costs arising from harmonising pay, terms and conditions across the sector. The college sector continues to experience considerable financial pressure which has consequences for its ability to be as responsive and innovative as it and businesses would like.
2. The importance of colleges must be seen as relating to the Government's objectives of inclusive growth; and how their activities meet the economic and wider needs of Scotland and those entering and participating in the Scottish labour force. Their perceived growing importance can be related to several factors, such as the renewed focus on the expansion of apprenticeships, the demand for skills in key sectors, including hospitality and tourism, and the role of colleges in providing lifelong learning and reskilling of the workforce.
3. Colleges are particularly important in rural Scotland, as they have an integral part to play in preparing, attracting and retaining work-ready young people with the skills which are crucial to growing rural economies. Their role is also key in the retraining and upskilling of the current workforce which is covered in point 10.
4. The regionalisation of colleges in Scotland was largely welcomed and supported. However, challenges remain in ensuring that regional colleges develop strong governance structures and that large regional colleges build capacity to marshal skills training in their localities. There is a continuing need to assess the extent to which the aims of regionalisation are being met, and to ensure that appropriate baseline information is available to measure progress.
5. The reclassification of Scotland's colleges as public bodies has impacted on their ability to generate non-government income, including from commercial activity and their scope to engage in longer term partnerships. The review should consider whether greater flexibility can be provided to address this issue.

Colleges: collaboration and innovation

6. Colleges must deliver a wide range of courses relevant to the differing types of economy within which they operate. Their rapid and effective responsiveness to local industry demand is critical to the achievement of inclusive economic growth. Innovation can be demonstrated in regionally relevant course content, course delivery (e.g. flexibility for students and businesses in the means by which skills are developed) and through in-work learning. Colleges should be encouraged to work more closely with industry to develop course content and means of delivery. Industry figures could sit on course advisory groups, to the mutual benefit of business and colleges – and of course students. Some existing examples of good practice are highlighted below.
 - Audit Scotland [Scotland's Colleges](#) 2018 report outlined progress on regionalisation in the three multi-college regions (Glasgow, Highlands and Islands and Lanarkshire). The report highlighted some positive regional initiatives led by Glasgow Colleges Regional Board (GCRB). These included coordinating curriculum hubs that jointly plan the courses colleges provide, to align the regional curriculum to regional and national economic and employer needs.
 - Colleges have led the development of the STEM hub network of colleges, universities and employers working with primary and secondary schools on more joint learning opportunities. Connected to this, through the Energy Skills Partnership, Scotland's regional colleges are working together to match the supply and demand of skills in the energy, engineering and construction sectors, thereby minimising the potential for duplication of effort.



7. The Scottish Government's Flexible Workforce Development Fund (FWDF) has helped to bring together colleges and employers, including the development of joint training courses, thus enabling colleges to respond to local industry demand. It is estimated that Scotland's share of the UK apprenticeship levy amounts to around £230m annually. This is allocated to the Scottish Government via the block grant; it is therefore for Scottish Government to determine how this funding is to be used. The Scottish Government has chosen to invest £30m (£10m in each of the last three years) in the FWDF. It will be important to consider the extent to which the scale of this investment enables the development of bespoke training provision jointly designed by colleges and employers as opposed to 'off-the-shelf' courses. The transparency, effectiveness and returns for business of the FWDF should be evaluated and compared with the application of the apprenticeship levy in other parts of the UK. It will be particularly important to consider the impact on those employers with cross-border business interests.
8. Linked to the above point, apprenticeships are currently administered through Skills Development Scotland. While this has helped streamline investment in skills and training provision, consideration should be given to whether this model accommodates fully employers and learners' needs. Scope for increasing the opportunities for colleges to work directly with employers could provide for more creative and bespoke provision currently outside of the apprenticeship framework.
9. Following a pilot year in 2018/19, the Scottish Government has again made up to £500,000 available for the College Innovation Fund to support colleges to work with businesses on innovation activity in 2019/20. This is a very important development in response to Professor Graeme Reid's FRSE review of the Innovation Centres in 2016, which highlighted the importance of ensuring that there is scope for colleges to participate in the Innovation Centres. Strong connections need to be made between Scotland's colleges and our most innovative enterprises.

Lifelong learning and upskilling

10. Scottish Government policy for college funding has prioritised full-time course provision for 16-24-year olds. This was an appropriate and understandable response to the economic downturn, when around 25% of Scotland's 16-24-year olds were unemployed in 2012. While still an issue, youth unemployment has declined to around 10%. Funding of college provision should be diversified to ensure that it is able to meet and stimulate the demand for lifelong learning and workforce upskilling. As well as the need to grow Scotland's productivity, this is increasingly important as people change career paths much more frequently than before coupled with the need to rise to the opportunities and challenges presented by increasing technological development, including automation.

Impact and Evaluation

11. The wide-ranging impact of colleges can be difficult to measure, especially given the fluidity with which learners move in and out of the college system. Working together, colleges, the Scottish Funding Council and employers should further develop and maintain approaches to measuring this breadth of impact. It is worthy of note that a significant proportion of college students come from the 20% most deprived areas as measured by the Scottish Index of Multiple Deprivation. Colleges therefore play a crucially important role in improving the futures of disadvantaged learners while at the same time boosting the economy through developing a more skilled workforce.

Labour market implications

12. The ONS UK Labour Force Survey shows that the distribution of the workforce by level of qualification between Scotland and rUK is generally very similar. One clear exception to this is the share of employment at NVQ Level 4. Many of the qualifications provided by Scotland's colleges are at this level. Scotland's share of employment at this level exceeds that in rUK by more than 7%. This is a remarkable difference and is almost entirely driven by the proportion of NVQ level 4 workers in Scotland with HNC/HND/BTEC qualifications accounting for more than



two-thirds of this group and being more than double the equivalent proportion in rUK. This suggests that the Scottish college system is more effective at delivering these qualifications. It would be useful to undertake a comprehensive analysis of the demand for, and supply of, these types of qualifications in Scotland and the relationship with wages. This links to the preceding point on impact.

