Thank you for your invitation to attend the meeting of your Committee on 24 June as part of your examination of Scotland's Colleges 2015. Prior to the meeting, it may be useful to you to have our view on some of the key recommendations that are relevant to SFC.

The college sector has been through an unprecedented programme of change in both structures and in how it receives its funding through outcome agreements. The sector has managed these changes successfully. While delivering a significant degree of change, it has improved success rates for students and – in college outcome agreements for 2015-16 – is demonstrating a swift and positive response to the Government’s agenda on Developing the Young Workforce, where we can see indicators of the benefit of larger, stronger colleges encouraged to engage with their regions through outcome agreements.

We acknowledge that there are lessons to be learned from this ambitious programme of change (as we discuss in our initial response to the report’s recommendation below).

The report has one recommendation that is specifically for SFC. It is that we ‘publish a clear and concise annual summary of colleges’ progress against outcome agreements’. Now that the outcome agreement system is becoming established – with robust evidence on delivery emerging from earlier outcome agreements – we agree the time is right to give greater focus to this matter. To that end, and since publication of the Auditor General’s report, we have published summary documents on outcome agreements, one covering the high-level data from both sectors (ie colleges and universities), and one for each sector, describing the progress with outcome agreement measures, as well as the future aspirations. Our intention is to publish reports that answer the questions ‘how well is the sector doing?’ and ‘how do we know?’ These documents give a sector wide assessment of the progress in the outcome agreements, at a national level. We have not so far published similar information at college and regional level (in most of Scotland these will, of course, be the same). The data, both on the targets set in individual outcome agreements, and the performance of individual colleges is largely available through other sources such as our college performance indicators and in the individual outcome agreements themselves. However, we will consider the extent to which we should replicate what we have done at national level at individual region/college level. In doing so, we shall need to consider the impact that more publicly publishing performance against individual targets would have on ambitious target setting by colleges in future outcome agreements. We will also seek to minimise any additional bureaucracy on the sector.

The report also has a series of recommendations for SFC and Government together. Our initial response to each of these is below:

**SFC and the Government specify how we will measure and publicly report progress in delivering all of the benefits that were expected of the merger.** As the Auditor General’s report notes, SFC carries out evaluations of mergers at around
six months and around 2 years. Where necessary we also consider continuing formal evaluations beyond this time period. We also monitor the quality of college provision through quality assurance processes we commission through Education Scotland. However, we understand that it is the benefits beyond the immediate operational ones on which the Auditor General is focusing.

The merger programme, together with the introduction of outcome agreements, represented an unprecedented level of change to Scotland’s college system, and it is not easy to disaggregate the impact of these individual changes. Consistent with the systemic nature of these changes, we have measured the benefits of the merger programme by looking at the outputs of the sector. An important test is whether the merged colleges are better serving students, and the early evidence here is good with successful completion rates for both HE and FE level full time courses continuing to rise. We noted this success in the outcome agreements publication to which I refer in paragraph 4 above.

The real test of the college system will be how well it responds to new priorities such as the implementation of the Government’s youth employment strategy, Developing Scotland’s Young Workforce. That programme will require colleges to be better able to engage with – and respond to – their local authority partners, work better with local employers, and – most importantly – be able or make an offer as part of Curriculum for Excellence that is valued pupils and parents.

**Publish financial information on the costs and savings achieved through the merger process.** Our view is that the most effective way to measure the financial savings of the merger programme at an aggregate level is through the real costs of the provision: how much learning is being delivered, what the total cost is, and how well quality is being maintained. It is through this method that we estimate that the merger programme will produce a real term efficiency saving of £50M by 2015-16. In addition to this high-level measure we also consider savings as part of the 2 year post merger evaluations. In those (Edinburgh is the only college one completed so far) we consider the level of savings achieved to match those compared to the original business case for the merger.

However, on both this point, and the matter of a wider review of the benefits of merger, we will work with the Government and with Audit Scotland on what more can usefully be done.

There were also two recommendations related to severances during the merger process:

- **Encourage college board members to attend, and monitor take-up of, the training on severance that is being developed by the SFC and the College Development Network.**
- **Monitor colleges’ compliance with requirements, guidance and good practice relating to severance arrangements.**

We agree with these recommendations and will take them forward. Because colleges now have to comply with the Scottish Public Finance Manual (something they did not have to do at the time of the mergers) they are now required to seek
permission in advance before committing to expenditure. However, it is important that board members in colleges are fully aware of their responsibilities.

I hope you find this written response useful. Of course we are very happy to answer further questions on any of the issues raised in the letter when we attend on the 24th.

Yours sincerely

Laurence Howells
Chief Executive