Public Audit Committee

2nd Report, 2014 (Session 4)

Scotland's colleges 2013

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Public Audit Committee

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Public Audit Committee

Remit and membership

Remit:

The remit of the Public Audit Committee is to consider and report on—

(a) any accounts laid before the Parliament;

(b) any report laid before or made to the Parliament by the Auditor General for Scotland; and

(c) any other document laid before the Parliament, or referred to it by the Parliamentary Bureau or by the Auditor General for Scotland, concerning financial control, accounting and auditing in relation to public expenditure.

(Standing Orders of the Scottish Parliament, Rule 6.7)

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Committee Assistant
Parminder Kaur
INTRODUCTION

1. This report sets out the Committee’s findings in relation to its scrutiny of the Auditor General for Scotland’s (AGS) reports *Scotland’s colleges: current finances, future challenges (the AGS 2012 college report)* and *Scotland’s colleges 2013 (the AGS 2013 college report)*. The Committee’s consideration of these reports was also underpinned by its earlier scrutiny of the AGS report *Learning the lessons of public body mergers (the AGS mergers report)*, which examined mergers across the public sector and provided best practice guidance for planned future mergers as part of wider public sector reform.

BACKGROUND

2. College’s income fell by nine per cent in real terms from £741.6 million in the academic year 2010-11 to £690.1 million in 2011-12\(^1\). Much of this reduction was due to a decrease in Scottish Government grant support provided through the Scottish Funding Council (SFC) (from £561.2 million in 2010-11 to £505.5 million in 2011-12) and which accounts for around three-quarters of the college sectors income in 2011-12. In response to the reduction in income, colleges reduced their expenditure by 13 per cent.\(^2\)

3. The AGS reported that Scottish Government annual revenue grant funding is expected to fall by £62 million in real-terms (11 per cent), from £555.7 million in 2011/12 to £521.7 million in 2014/15. This includes a number of budget increases

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\(^1\) Colleges’ financial year currently runs from 1 August to 31 July, the same as the academic year. The Scottish Government's financial year runs from 1 April to 31 March. Therefore this report ‘2011-12’ is used when referring to colleges’ financial year, and ‘2011/12’ when referring to the Scottish Government’s financial year.

between 2011/12 to 2014/15 totalling £128.5m, announced by the Scottish Government since October 2011.³

4. At the time of the Committee’s inquiry, Scotland’s colleges were in the process of implementing significant structural reform. According to the AGS, reforms are expected:

- to create better outcomes for students by providing learning opportunities which are more aligned with the needs of local employers;
- to deliver further efficiencies; and
- to allow further real-terms reductions in funding until the end of the current spending review in 2014/15.⁴

5. Many of the changes are being introduced alongside the Post-16 Education (Scotland) Bill. They involve colleges merging or forming federations and will result in the creation of 13 new college regions. The number of colleges was due to reduce from 37 to 21 by the end of the process.⁵

6. The Committee welcomes the AGS finding that the overall financial standing of the college sector in 2011-12 continued to be generally sound, especially given the levels of change taking place within the sector.⁶

7. Most of the college mergers were due to be completed by the end of 2013. The AGS 2013 colleges report was one of a number of reports which have commented on public sector mergers since the publication of the AGS mergers report. Given the significant level of reform happening in the further education sector, much of this through mergers, the Committee took evidence from a number of colleges, the Scottish Funding Council and the Scottish Government (See Annex B for a list of those who provided evidence), to explore the impact of college structural reform and funding cuts and the progress that the sector was making in the interim. The Committee thanks all those who provided it with evidence.

8. The AGS publishes a report annually on colleges’ finances and gives evidence on its findings to the Public Audit Committee. The AGS 2012 college report explored colleges’ financial position prior to structural reform and the planned reductions in funding. The AGS 2013 college report provided an update of colleges’ current financial position and a high level update on the college reform progress (as they were ongoing). It also made recommendations to help the Scottish Government, Scottish Funding Council (SFC) and colleges implement the structural reforms whilst ensuring the financial sustainability of the college sector.⁷

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³ Scotland’s colleges 2013, paragraphs 58, 59 and Exhibit 12. The Scottish Government announced the following budget increases: 2011/12-£11m; 2012/13 - £39.5m; 2013/14 - £27m; and 2014/15 - £51m. Total - £128.5m.
⁴ Scotland’s colleges 2013, paragraph 5.
⁵ Scotland’s colleges 2013, pages 20 and 21.
⁶ Scotland’s colleges 2013, paragraph 26.
9. The AGS has committed to review progress towards college structural reforms and their financial stability, as well as progress towards recommendations made in the AGS 2013 college report, in the next college report due later in 2014 (the AGS 2014 college report). The Committee has therefore identified, in this report, some areas it would wish the AGS to follow up on in AGS 2014 college report and future college reports.

Previous scrutiny of college mergers

Learning the lessons of public body mergers (The AGS mergers report)

10. The Committee has a continuing interest in public sector reform. The AGS mergers report reviewed progress of restructuring in the Scottish public sector. The Scottish Government intended reforms to deliver a more effective public sector, by streamlining the number of public bodies through mergers to create new organisations, or the transfer of bodies into existing organisations.

11. The AGS merger report examined the effectiveness of a number of previous mergers and provided a good practice guide to help the Scottish Government and public bodies ensure effective planning and implementation of future mergers.

12. At its meeting on 26 September 2012, the Committee received oral evidence from the Scottish Government, including representatives involved in college mergers which were due to continue throughout 2013. The Scottish Government assured the Committee that lessons would be learned from previous mergers and that recommendations and accompanying good practice guidance from the AGS mergers report would be applied to future mergers, including college mergers.

Scotland’s colleges: current finances, future challenges (The AGS 2012 college report)

13. The AGS 2012 college report explored colleges’ financial position prior to structural reform and the planned reductions in funding. The Committee explored issues raised in the report, in oral evidence with the AGS on 24 October 2012.

14. Given that at that time college mergers were at an early stage, the Committee asked the Scottish Government to confirm how it would use the AGS mergers report to inform forthcoming college mergers. The Scottish Government confirmed that SFC merger guidance was underpinned by the good practice guidance contained within the AGS report.

15. The Committee would welcome further consideration by the SFC of how college mergers have performed against this guidance.

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8 Scotland’s colleges 2013, paragraph 38.
12 Scottish Government. Written submission, 14 November 2012.
SCOTLAND’S COLLEGES 2013

Progress of college reforms

16. In the AGS 2013 colleges report, the AGS confirmed that there was evidence that the structural reforms were making good progress, although Audit Scotland had not carried out a full audit as they were still ongoing. In particular, the AGS highlighted that there was evidence of colleges adopting good practice and seeking to learn the lessons from completed mergers; and that staff who had been involved in completed mergers were also advising on mergers in other regions.13

17. The AGS mergers report outlines good practice guidance that organisations should carry out post-merger evaluations six months after a merger. The SFC informed the Committee that it would carry out an early evaluation six months following reforms and a full evaluation after two years.14

18. The Committee welcomes the progress highlighted by the AGS, however, it notes that at the point of the AGS 2013 college report’s publication, much of the reform and many of the mergers were still in progress and some were not due to be completed until the end of 2013. The Committee notes that it will have an opportunity to examine college reforms later in 2014, when it receives an update in the AGS 2014 college report.

19. The Committee would welcome an update from the AGS in future AGS college reports, on the extent to which the recommendations set out in the AGS 2012 and 2013 college reports and the AGS mergers report, have been implemented in relation to college mergers.

The impact of structural reform on college finances

Savings expected from college reforms

20. In November 2012, the SFC informed the Committee that it expected to see annual efficiency savings from college reforms to reach about £50 million by 2015-16, once the reform programme was complete and the resulting efficiencies had been fully realised. It confirmed, however, that it had adopted a conservative approach to estimating the savings expected, as colleges had already began to reduce their costs in response to decreased public spending, impacting their capacity to create further savings. The SFC also recognised that some savings from reforms could take time to materialise and may require future investment to be achieved.15

21. The AGS reported that in February 2013, the Scottish Government announced £61 million of additional funding for the college sector for 2013/14 (£10 million) and 2014/15 (£51 million) and that this may affect the level of efficiency savings which colleges were required to deliver.16
22. In November 2013, the SFC explained that it still expected annual savings of £50 million every year from 2015-16 and that it would monitor progress through ongoing dialogue with colleges and through post-merger reviews. The SFC elaborated further—

“the sector is more efficient as a result of the reform programme. Between 2012-13 and 2015-16, the volume of activity we will ask colleges to deliver will increase by over 7%, while at the same time there will be a real-terms reduction in the value of funding of around 4.5%. The combined real terms efficiency gain equates to £49m. This will be achieved as a result of the reform programme - through staff restructuring and economies of scale – largely through mergers.”

23. The AGS commented that colleges were operating to tight financial margins and that some colleges appeared to be more financially sustainable than others. The Committee therefore notes that achieving future efficiency savings, whilst maintaining the quality and level of provision of education required to meet the Scottish Government’s objectives, could pose challenges.

24. The Committee notes that the Scottish Government has since provided further funding (see paragraph 3) between 2011/12 and 2014/15 to partially offset funding reductions. However it would welcome clarification from the Scottish Government of the outcomes expected to be delivered by the further funding and the extent to which this funding will offset the level of savings that colleges are expected to deliver.

25. The Committee would welcome the AGS’s comments on the robustness of figures on expected efficiency savings arising from college reform in the AGS 2014 college report.

**UK Office of National Statistics reclassification**

26. In October 2010, the UK Office of National Statistics (ONS) reclassified incorporated further education colleges as part of central government for financial and budgeting purposes. The AGS confirmed that this will mean that from 1 April 2014—

- “All college income and expenditure will count as part of the Scottish Government's own income and expenditure.
- All college expenditure (net of income) will be funded from the Scottish Government's overall budget (often referred to as "budget cover").
- Any expenditure funded from colleges' reserves or commercial borrowing will also require budget cover.
- Any surplus reported by a college will be treated as an underspend against the budget limit in the year it is incurred, and would not be automatically available for spending in the subsequent year. Any underspend rolled forward will require additional budget cover to allow it

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17 [Scottish Parliament Public Audit Committee, Official Report, 6 November 2013, Col 1723.](#)
18 [Scottish Funding Council, Written submission, 13 November 2013.](#)
19 [Scotland's colleges 2013, page 9 key message 2.](#)
20 [Audit Scotland, Written Submission, 27 November 2013.](#)
Public Audit Committee, 2nd Report, 2014 (Session 4)

to be spent. The spending of accumulated reserves will, therefore, also require budget cover from within the Scottish Government's overall budget limit.

- Colleges’ financial year will change from 1 August - 31 July (the academic year) to 1 April - 31 March.\(^{21}\)

27. To address the consequences of the ONS reclassification decision, the UK Government passed the Education Act 2011 which reclassified further education colleges in England as the Non-Profit Institutions Serving Households (NPISH) sector from 1 April 2012. This will remove public control over further education colleges in England and as a consequence further education colleges will not require to operate within the same budgetary controls as set out above.\(^{22}\)

28. The Committee heard from the college representatives that they would have preferred that ONS college reclassification had not happened.\(^{23}\)

29. The Committee sought clarification from the Scottish Government on the approach it has taken to the ONS reclassification of colleges and in particular why it has not sought to reclassify further education colleges in Scotland in a similar manner to those in England. The Cabinet Secretary for Education and Lifelong Learning informed the Committee—

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“I have been clear from the outset that I consider the decision to reclassify our colleges – a decision that pre-dated our reforms - as both unhelpful and unwelcome… In Scotland, we believe government funding for education exists to build a greater good and that successful outcomes are founded on partnership with colleges. Forcing colleges into the private sector would compromise these ambitions….

It is clearly a matter for England how it chooses to respond to ONS reclassification. In Scotland, however, we are firmly of the view that the pursuit of enhanced democratic accountability must not be compromised by accounting changes. I am therefore confident that building on our existing arrangements through the new legislation is the right solution for Scotland.”\(^{24}\)
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Arms-Length Foundations

30. In Scotland, colleges will be able to create Arms-Length Foundations (ALFs) so they can transfer any current accumulated cash reserves and any future annual surpluses to the ALF, for use in future years, without it counting against Scottish Government budget limits. ALFs will be required by statute and by Scottish Charity Regulator (OSCR), to operate in their own best interests.\(^{25}\)

\(^{21}\) Audit Scotland. Written Submission. 27 November 2013.


31. The AGS explained that ALFs will be trusts which will be independent of colleges, sit outside the boundaries of public expenditure and be subject to oversight by OSCR. They will be administered by a board, which is likely to consist of trustees appointed by the board, members of the relevant college board of management (which should be a minority), and individuals appointed by the college as trustees.\(^\text{26}\)

32. Edinburgh College explained that there was an umbrella trust ALF created by the SFC which colleges could join to transfer funds, or college boards could set up their own trusts as some colleges thought it might give them more flexibility in what they could do.\(^\text{27}\) Audit Scotland confirmed that as at November 2013, seven colleges had opted to be part of the umbrella trust. The umbrella trust will also act as a fall-back, should colleges not have set up their own trusts by end March 2014.\(^\text{28}\)

33. The Committee sought clarity on the types of surplus cash which would be transferrable to the ALFs, such as whether all unspent funding from the SFC, all surplus income created through commercial activities or through fund raising be transferrable to the ALFs. The SG confirmed—

“There is no distinction between the types of income colleges generate under reclassification, including HE funding. Any cash available to colleges, as either reserves before the 31 March 2014, or thereafter as a surplus at the end of each financial year, will be eligible for transfer to an ALF.”\(^\text{29}\)

34. The Committee heard that there were some unknowns surrounding the ALFs. In evidence, West College expressed uncertainties around how ALFs would be set up to protect college reserves for future investment, as self-generated income is used to fund most of its activities outwith payroll (they added that SFC grant funding mainly covers payroll).\(^\text{30}\)

35. Perth College had opted to use the SFC’s umbrella trust and explained that, given the number of colleges which will use that trust—

“We have been promised partition, whereby what [surpluses] we put in will be preserved for the good of our locality, but we are not clear how long into the future that partition will last.”\(^\text{31}\)

36. The Committee asked how ALFs would be set up to ensure that funds transferred to them by a college would be returned to the college in the way it had hoped. The Scottish Government informed the Committee—

“The first thing that we are taking care to describe is the articles of association. Those are closely defined so that they reflect the purpose for a college or the colleges in a region and are in line with the ministerial and

\(^{26}\) Audit Scotland. Written Submission. 27 November 2013.  
\(^{28}\) Audit Scotland. Written Submission. 27 November 2013.  
\(^{29}\) Scottish Government. Written submission, 15 January 2014.  
college priorities. The defining and describing of those articles of association is an important safeguard, because the spend and activity of the arm’s-length foundation will be evaluated against them.

…the arm’s-length foundation will be subject to the law on charitable organisations and to scrutiny and audit by OSCR. Another issue is that, to access funding, colleges will apply to the arm’s-length foundation for the money that they require. As soon as that money goes to the colleges, it will be subject to the same kind of scrutiny as any other finance would be.”

37. The Scottish Government confirmed that the Trustees of the arms-length body would make the decision regarding whether the College received the funds it had requested. It also confirmed that even although the Colleges would have no say over whether they receive the requested funds, the arms-length bodies would be expected to be transparent about the basis on which they evaluate the request.

38. In response to concerns that ALFs could change their articles of association in future, the Scottish Government informed the Committee—

“Broadly speaking, the law allows the Members of a Company to amend the Articles of Association, provided they are able to provide the necessary level of support for the proposed changes.

However, where that company is also a registered charity (which ALFs will be), its ability to amend its constitution is subject to much greater restriction from both a company law and a charity law perspective. The Office of the Scottish Charity Regulator (OSCR) would need to be consulted in advance of any change to the Articles of Association, and the charity would need to prove to OSCR that its funds would still be applied exclusively for charitable purposes.

Both OSCR and the Court of Session have wide-reaching powers to supervise charitable activities, and existing company law expressly provides that any attempt to widen the scope of a charity’s constitution beyond what would satisfy the charity test would be invalid.”

39. The Committee notes that the approach taken by the Scottish Government and the SFC will enable colleges to transfer cash surpluses to ALFs for use in future years. This approach should, according to the Scottish Government, enable colleges to access funding for future investments which accord with the ALFs’ articles of association.

40. The Committee is concerned, however, that due to their independence, there is a risk that the priorities of ALFs and the priorities of relevant colleges could diverge.

34 Scottish Government. Written submission, 15 January 2014.
41. The Committee notes the evidence presented that the boards of ALFs are independent and that members of these boards are independent of any organisation that nominates them. We have reservations that this structure will not provide the scrutiny and accountability for the use of public funds that this Committee would expect.

42. The Committee would therefore seek further clarification from the Scottish Government as to how it intends to manage these potential risks.

43. The Committee also requests further information from the Scottish Government and the SFC on—
   - How surpluses put into the umbrella ALF will be partitioned by college or region, and how these will be safeguarded by the articles of association.
   - What safeguards will be put in place to ensure that trustees cannot interpret their articles of associations in a way that is inconsistent with the college’s interests; and ensure that colleges have access to all of the reserves they have transferred to the ALFs?

Future funding methodology

44. As part of ONS reclassification of colleges as public bodies, the SFC confirmed that the funding methodology for colleges will also change. The SFC explained that colleges will become more like non-departmental public bodies that draw their cash down as it is required. They will have less cash and the SFC will have more interaction with colleges about the precise amount of cash they need each month. The SFC added that this varied from the previous system where there was a fixed yearly prediction of colleges’ monthly grant funding and they had their own reserves which acted as cash buffers if required.\(^{35}\)

45. Colleges said that there was uncertainty surrounding the changing funding methodology, particularly for students who require extended learning for support (ELS). Glasgow Clyde College informed the Committee—

   “At present, such students go through an assessment process and we put together a package that allows them to remain in college and be successful. That is done individually. Those students simply gather weighted student units of measurement, and we draw down funding to allow that provision to continue. Our understanding is that, from the funding council’s perspective, that approach might not be viable in future, and that extended learning support, which has been growing year-on-year, might be not necessarily capped but limited in some way.”\(^{36}\)

46. The SFC confirmed to the Committee that it expected SFC grant support per full time equivalent (FTE) student to reduce. The SFC also confirmed that in relation to the allocation of regional funding, it would continue to have dialogue

with colleges, “to ensure that colleges move smoothly from the old system to the new one.”

47. In response to whether the new funding methodology would have a disproportionate and negative impact on those requiring ELS, the SFC added—

“I see no reason for that to be the case. What we are hearing today is part of the transition to what might be our new method of funding, which we have not fully determined and which we are working through with the colleges. We are absolutely committed to that not being the case and to the fact that changes to our funding method will not impact disproportionately on people with disabilities or additional education needs.”

48. The Committee recognises the value of ELS in ensuring that further education remains accessible to all students. The Committee was concerned to hear that uncertainties remain around how future funding methodologies will work for the provision of ELS.

49. The Committee would therefore welcome clarification from the SFC on how the future funding methodologies will work and how and when this information will be provided to colleges and put into the public domain.

50. The Committee recommends that the SFC, along with the Scottish Government, monitors the impact of future funding methodologies on ELS provision, to ensure that any negative impact can be identified and mitigated where appropriate.

Regional funding

51. Whilst ten college regions will consist of just one college (following mergers), Glasgow and Lanarkshire regions will consist of several colleges working in federations with each other. The Committee explored how the SFC would monitor the flow of funding from regional boards to colleges in federations. In particular it explored how the SFC would monitor funding to the UHI, which has a different set up to other regions. In the UHI, the University Court is due to act as the regional board and will be responsible for the flow of funds to the UHI region. The region will comprise the five incorporated colleges and eight other colleges and research institutes, which already made up the UHI area. There were no mergers in the region.

52. The SFC confirmed that it would monitor funding to ensure that the maximum is used to support the delivery of learning. The Scottish Government confirmed that the Financial Memorandum supporting the Post-16 Education (Scotland) Bill set out how much it was likely to cost to set up regional strategic bodies in multi-college regions and that it would continue to monitor this.

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38 Scottish Parliament Public Audit Committee, Official Report, 6 November 2013, Col 1731.
53. The Committee notes the Scottish Government’s commitment to ensuring that the maximum of funding is directed to support learning.

54. The Committee recommends that the SFC continues to monitor the flow of funds within regions, paying particular attention to whether the size of the board’s administrative centre and/or the number of colleges within a region has an impact on the how funds are directed towards learning.

55. The Committee would welcome, in the AGS 2014 college report or future college report, an assessment of how the estimated costs to set up the multi-college regional boards, outlined in the Financial Memorandum supporting the Post-16 Education (Scotland) Bill, compare with the actual final costs.

Measuring the impact of reforms on the quality of education

Student numbers and demographic

56. The AGS reported that, between 2010-11 and 2011-12, the number of students (measured by headcount) decreased by around 48,000 (16 per cent). The AGS also confirmed that since 2008-09 the number of part time students has decreased by over 40 per cent, while the number of full-time students has increased by about 15 per cent. West and Glasgow Clyde Colleges confirmed that their student numbers by head count had reduced (West College by 10,000, Glasgow Clyde by 14,700), however they stated that the quality of provision they provided had improved. West and Glasgow Clyde Colleges also confirmed that there was a reduction in the level of provision that they are able to deliver.

57. The Scottish Government explained that it measured learning activity by full time equivalents (FTE), rather than by student head count, to allow for a like for like and more robust comparison. It confirmed that targets set by Ministers for colleges had been exceeded by 3000 FTEs. The AGS reports that the total number of students attending colleges expressed as FTEs has remained broadly constant at about 120,000 to 125,000 a year.

58. Many of the changes in the student population (with more full-time students, compared to part-time and evening learners) were attributed to the Scottish Government requiring that colleges prioritise full-time courses for 16 to 24 year olds, which the SFC explained improves their entry into the labour market and ensures regional needs are met. The SFC added—

“In line with Scottish Government guidance, we are funding the college sector in a way which is allowing the volume of learning to be maintained. It is for each college to determine the curricular offer that best meets the needs of their region, consistent with the government’s policy priorities. In doing so, we

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41 Scotland’s colleges 2013, paragraphs 32, 72-73.
44 Scotland’s colleges 2013, paragraphs 32, 72-73.
expect them to deliver a balanced portfolio of courses that responds effectively to the differing needs of learners and employers.”

59. The Committee explored the impact of prioritising younger students and full-time education on particular groups who tend to study part-time, such as older people or women returning to work after having children. Colleges confirmed that the provision of part-time courses and evening courses had been reduced in response to budget cuts and Scottish Government priorities. Glasgow Clyde College confirmed—

“we have certainly seen a reduction in the number of classes that are offered in the evenings. At one point, a local FE college might have been open for four or five evenings a week. As part of our response to our budget cuts, we have looked at trying to concentrate facility use, and that has led to a reduction in access in the evenings. That makes it harder for people who are in full-time employment to go and upskill.”

60. West and Glasgow Clyde Colleges both recognised the biggest drop in numbers was for the 25-plus age group and acknowledged that the reduced provision of part-time and evening courses was a factor contributing to this change.

61. The Scottish Government confirmed that the number of older learners had reduced and therefore (see paragraph 3) it was supplying funding to increase numbers and support older learners and part-time students to reverse this trend. In response to the outcomes the Scottish Government expected to be delivered by this extra funding, it explained—

“the SFC allocated £6.6m of additional funding for part-time provision for these purposes in 2013-14. This will have the effect of securing provision for around 2,000 full-time equivalent students. Details of the planned outcomes will be contained in college outcome agreements for 2013-14 and 2014-15.”

62. The Committee welcomes the announcement of additional funding of £6.6 million, however it is unclear what outcomes are expected to achieved, particularly for older and part-time learners. The Committee would therefore welcome clarification from the Scottish Government on the expected outcomes and how it will measure progress.

63. The Committee would also welcome an update in the AGS 2014 college report and future college reports on the outcomes achieved by the additional funding of £6.6 million.

Staff reductions and impacts on class sizes and learning hours

64. One of the key ways in which colleges have sought to reduce expenditure and make savings, is by decreasing staff costs. The AGS reports that in cash

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terms, staff costs have decreased the most, due to a reduction in staff from 12,800 full-time equivalents (FTE) in 2010-11, to 11,600 FTE staff in 2011-12. Most of the reductions are to teaching staff, who account for 70 per cent of staff costs.  

65. Staff costs contribute to 60 per cent of a college’s costs. The AGS reports that there are risks that need to be managed associated with concentrating savings on staff, such as striking the balance between reducing staff further and maintaining the quality of education. In evidence, colleges confirmed that more staff cuts were likely in future to achieve savings, but not on the same scale as in previous years. The Scottish Government also confirmed that colleges—

“are looking closely at their staffing structures, particularly as they merge and have merged. They have had to look closely in a strategic fashion at resources across what is now, for many of them, a regional organisation. They have had to look at voluntary severance and reconstructing their staffing structures to respond to the mergers and reform initiatives that have taken place over the past few months. There is no doubt that that has meant that some people have left the college sector.”

66. To maintain course provision with reduced staffing numbers, Perth and Glasgow Clyde Colleges both confirmed that they had increased class sizes where it was manageable. For example, theory work could be provided to larger groups in lecture theatres, then classes could be split into smaller groups for practical work. Glasgow Clyde confirmed that it was looking at new learning methodologies and the use of IT. Whilst Perth College stated that it could remove learning hours and still receive the same funding under the current funding methodology, but it had resisted doing so as it was determined to deliver what is appropriate.

67. The Scottish Government confirmed that it expected staff numbers to fall further and/or class sizes to increase, however it stated that class size is often dictated by the nature of the course. It added that using class size or number of hours in the classroom was not necessarily an accurate comparator, given that colleges (such as Dundee and Angus College) were looking at ways of delivering learning through IT to increase independent learning as part of courses. The Scottish Government stated—

“Having more teaching hours, which are measured in terms of hours in the classroom, does not make for an easy and comparable approach to qualitative results. As it happens, those students have fewer hours in the classroom, but their results are going up and they are successful learners in the context of the curriculum for excellence.”

68. In response to the question of whether there was evidence linking class size to quality of education, similar to that in primary school learning, the Scottish Government said—

50 Scotland’s colleges 2013, paragraphs 30-31.
51 Scotland’s colleges 2013, paragraph 65.
“I cannot say that there is no such evidence, but colleges are thinking very carefully – as demonstrated by the example of Dundee and Angus College – about getting the right mix. That mix, unlike in schools, includes job training, theoretical training, independent learning and classroom time for theoretical learning. Colleges consider that mix carefully as part of their response to Government’s target for full-time equivalent places.”

69. The SFC explained how it monitors the quality of education—

“We monitor the quality of education through two routes, one of which is the activities of Education Scotland, which acts on our behalf to review colleges, their provision and how they organise their quality arrangements. We are not seeing any particularly worrying signs from that route.

We also manage the quality of education through our outcome agreements, in which regions are asked to articulate their targets for improving or maintaining retention. I am delighted that colleges have been able to commit to improving retention rates next year. We expect that to continue and we will ask the larger regional colleges to keep a relentless strategic focus on improving their service to their students and their communities. Through the vehicle of outcome agreements, we should be able to demonstrate that much more effectively than we have ever done in the past.”

70. The Committee notes that reductions in teaching staff mean that colleges are increasingly looking at delivering learning through balancing increased class sizes whilst maintaining the quality and provision of education.

71. The Committee welcomes Education Scotland’s and the SFC’s commitment to monitoring the quality and provision of education, but would request an update from the SFC on how it will ensure that increased class sizes and new learning methodologies are not negatively impacting on the quality and provision of college education.

72. The Committee would also welcome an update from the SFC on how it will encourage the sharing of best practice between colleges to drive quality within the sector.

Measuring demand and meeting future priorities

73. The AGS states that the Scottish Government published a report in March 2013 which outlined different processes used by colleges for dealing with applications for college places, which could impact on applicants’ choices and opportunities for progression. The report included recommendations to improve the application process and associated information for both learners and colleges. The AGS recommended that the college sector implement these recommendations and other improvements to monitor the demand for college places to help meet both national priorities and local needs for further education.
74. Glasgow Clyde College and West College outlined concerns they had had with providing a national IT solution for college applications. Glasgow Clyde College suggested that given the range of people who attend college, such as people with literacy problems and personal difficulties, to graduates coming back to college to get vocational education, an approach was required which extracted data from existing college applications to allow trends across applications to be measured.58

75. In terms of whether demand was increasing, the Scottish Government stated—

“It is very difficult to estimate demand as a single entity. It goes back to the issue of waiting lists: we examined the proposition that demand was equivalent to waiting lists and found that it was not because the waiting lists of individual courses contained such a substantial element of duplication. It is therefore very difficult to estimate demand as a whole and to meet demand in a single way.”59

76. In response to how it would improve the application process to ensure that multiple applications by students were taken into account when monitoring demand, the Scottish Government explained that—

“…Education Scotland is doing some work with Tayside and Fife, where students who live in one region might well end up applying to that region or to the one that happens to be very close to their home. That has the potential to be quite difficult to handle administratively and—if we are not careful—to skew the figures.

…IT will help to streamline the new landscape and ensure that admission policies are helpful. As new colleges are set up and mergers take place, we will want to ensure that the IT capacity helps the administrative support for admissions processes and indeed for accessing data. We are heavily dependent on the accuracy of data to ensure that, as you say, we tidy this up.”60

Meeting future demand
77. The Committee explored how colleges would be able to meet any future priorities of the Scottish Government in other areas of learning which could increase demand. For example, the final report of the Commission for Developing Scotland’s Young Workforce (the Commission), which is due to be published in the second quarter of 2014, is expected to make recommendations regarding improving work prospects for the over 14s through college education and modern apprentices.61

78. The Committee heard that colleges will have a strong role to play in responding to the Commission’s final report and that they were already responding to and delivering the interim report’s recommendations. West College stated that if additional activity is required as a result of the Commission’s report, more resource may need to come into the college sector to allow demand to be met, otherwise, colleges would have to look at replacing existing provision as they are delivering to their maximum capacity. Perth College added that some displacement activity could be achieved within the existing school-college partnership, but there would be less opportunity to utilise school staff if colleges were more involved in delivering education in the senior phase.  

79. The Committee believes that it is essential that an accurate picture of demand for college places across Scotland be established, in order to identify where there may be pressures in meeting the demands of future changes in priority, or changes in course provision.

80. The Committee notes that Education Scotland is looking at the application process and would welcome an update from it on what progress there has been towards improving the application system, including accounting for multiple applications from individual students and how it is assisting colleges to do so.

81. The Committee notes that recommendations from the Commission’s final report could place increased demand on college resources given comments that colleges are already operating at maximum capacity.

82. The Committee would therefore welcome, after the publication of the Commission’s final report, an update from the Scottish Government on its response to all recommendations. The Committee would also welcome a response from the Scottish Government as to how it proposes to ensure that colleges are properly funded to implement these recommendations.

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ANNEXE A: EXTRACT FROM THE MINUTES OF THE PUBLIC AUDIT COMMITTEE

10th Meeting, 2012 (Session 4) Wednesday 20 June 2012

Section 23 report - Learning the lessons of public body mergers: The Committee took evidence on the Auditor General for Scotland's report entitled "Learning the lessons of public body mergers" from—

Mr Robert Black, Auditor General for Scotland;
Barbara Hurst, Director, Dick Gill, Portfolio Manager, and Andra Laird, Project Manager, Performance Audit Group, Audit Scotland.

Consideration of approach - Learning the lessons of public body mergers (in private): The Committee considered its approach to the Auditor General for Scotland's report entitled "Learning the lessons of public body mergers" and agreed to invite the relevant Scottish Government Accountable Officer to give oral evidence on the report at a future meeting.

13th Meeting, 2012 (Session 4) Wednesday 26 September 2012

Section 23 report - Learning the lessons of public body mergers: The Committee took evidence on the Auditor General for Scotland's report entitled "Learning the lessons of public body mergers" from—

Paul Gray, Director-General Governance and Communities, Dr Andrew Scott, Director, Employability, Skills and Lifelong Learning Directorate, and Christie Smith, Deputy Director, Police and Fire Reform Division, Scottish Government.

Consideration of evidence - Learning the lessons of public body mergers (in private): The Committee considered the evidence received at agenda item 3 and took evidence from—

Angela Cullen, Assistant Director, and Andra Laird, Project Manager, Performance Audit Group, Audit Scotland.

The Committee agreed to invite the relevant accountable officers from Skills Development Scotland and the Police Service of Scotland to give evidence to the Committee at a meeting anticipated to be in winter 2013.

18th Meeting, 2012 (Session 4) Wednesday 05 December 2012

Section 23 report - Learning the lessons of public body mergers: The Committee considered and agreed to note the response from the Scottish Government on the Auditor General for Scotland's report entitled "Learning the lessons of public body mergers".
14th Meeting, 2012 (Session 4) Wednesday 24 October 2012

Section 23 report - Scotland's colleges - Current finances, future challenges: The Committee took evidence on the Auditor General for Scotland's report entitled "Scotland's colleges - Current finances, future challenges" from—

Caroline Gardner, Auditor General for Scotland;
Ronnie Nicol, Assistant Director, and Graeme Greenhill, Portfolio Manager, Performance Audit Group, Audit Scotland.

Consideration of approach - Scotland's colleges - Current finances, future challenges (in private): The Committee considered its approach to the Auditor General for Scotland's report entitled "Scotland's colleges - Current finances, future challenges" and took evidence from—

Caroline Gardner, Auditor General for Scotland;
Ronnie Nicol, Assistant Director, and Graeme Greenhill, Portfolio Manager, Performance Audit Group, Audit Scotland.

The Committee agreed to write to the Scottish Government on issues raised during the discussion.

18th Meeting, 2012 (Session 4) Wednesday 05 December 2012

Section 23 report - Scotland's colleges – Current finances, future challenges: The Committee considered correspondence from the Scottish Government and the Scottish Funding Council on the Auditor General for Scotland's report entitled "Scotland's colleges – Current finances, future challenges". The Committee agreed to take oral evidence on the progress of college mergers at a meeting anticipated to be in winter 2013.

13th Meeting, 2013 (Session 4), Wednesday 2 October 2013

Section 23 report - Scotland's colleges 2013: The Committee took evidence on the Auditor General for Scotland's report entitled "Scotland's colleges 2013" from—

Caroline Gardner, Auditor General for Scotland;
Ronnie Nicol, Assistant Director, Graeme Greenhill, Portfolio Manager, and Phil Grigor, Project Manager, Performance Audit and Best Value Group, Audit Scotland.

Consideration of approach - Scotland's colleges 2013 (in private): The Committee considered its approach to the Auditor General for Scotland's report entitled "Scotland's colleges 2013" and took evidence from—

Caroline Gardner, Auditor General for Scotland;
Ronnie Nicol, Assistant Director, Graeme Greenhill, Portfolio Manager, and Phil Grigor, Project Manager, Performance Audit and Best Value Group, Audit Scotland.
The Committee agreed to take evidence from the Scottish Funding Council, agreed colleges and the Scottish Government Accountable Officer on issues raised during its discussion. The Committee also agreed to write to Audit Scotland and the Scottish Government on issues raised during its discussion.

14th Meeting, 2013 (Session 4), Wednesday 6 November 2013

Section 23 report - Scotland's colleges 2013: The Committee took evidence from—

Audrey Cumberford, Principal and Chief Executive, West College Scotland; Margaret Munckton, Acting Principal and Chief Executive, Perth College; Susan H Walsh, Principal and Chief Executive, Glasgow Clyde College; Alan Williamson, Director of Finance, Edinburgh College; Laurence Howells, Interim Chief Executive, Martin Fairbairn, Senior Director – Institutions and Corporate Services, and John Kemp, Director – Colleges and Post-92 Universities, Scottish Funding Council.

The Committee agreed to seek written evidence on issues raised during its oral evidence.

Consideration of approach - Scotland’s colleges 2013 (in private): The Committee agreed to defer this agenda item to its meeting on 20 November 2013.

15th Meeting, 2013 (Session 4), Wednesday 20 November 2013

Consideration of approach - Scotland’s colleges 2013 (in private): The Committee considered the evidence received at its meeting on 6 November 2013 and took evidence from—

Caroline Gardner, Auditor General for Scotland; Ronnie Nicol, Assistant Director, and Graeme Greenhill, Portfolio Manager, Performance Audit and Best Value Group, Audit Scotland.

The Committee agreed to write to the Scottish Government and Audit Scotland to request written evidence on issues raised during its discussion.

16th Meeting, 2013 (Session 4), Wednesday 4 December 2013

Section 23 report: Scotland's colleges 2013: The Committee took evidence from—

Leslie Evans, Director-General Learning and Justice, Andrew Scott, Director of Employability, Colin Robertson, Team Leader, Sponsorship and Funding, and Melanie Weldon, Team Leader, Post 16 College Regionalisation, Scottish Government.
Consideration of approach - Scotland's colleges 2013 (in private): The Committee considered the evidence received at agenda item 3 and took evidence from—

Caroline Gardner, Auditor General for Scotland; Ronnie Nicol, Assistant Director, and Graeme Greenhill, Portfolio Manager, Performance Audit and Best Value Group, Audit Scotland.

The Committee agreed to seek written evidence from the Scottish Government on issues raised during discussion, and to consider a draft report at a future meeting.

4th Meeting, 2014 (Session 4) Wednesday 05 March 2014

Section 23 report - Scotland's colleges 2013 (in private): The Committee considered and agreed a draft report on the Auditor General for Scotland's report entitled “Scotland's Colleges 2013” and agreed arrangements for its publication.
ANNEXE B: ORAL EVIDENCE AND ASSOCIATED WRITTEN EVIDENCE

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Public Audit Committee’s webpages, at:
http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29860.aspx

LEARNING THE LESSONS OF PUBLIC BODY MERGERS

10th Meeting, 2012 (Session 4) Wednesday 20 June 2012

ORAL EVIDENCE
Mr Robert Black, Auditor General for Scotland;
Barbara Hurst, Director, Dick Gill, Portfolio Manager, and Andra Laird, Project Manager, Performance Audit Group, Audit Scotland.

13th Meeting, 2012 (Session 4) Wednesday 26 September 2012

ORAL EVIDENCE
Paul Gray, Director-General Governance and Communities, Dr Andrew Scott, Director, Employability, Skills and Lifelong Learning Directorate, and Christie Smith, Deputy Director, Police and Fire Reform Division, Scottish Government; Angela Cullen, Assistant Director, and Andra Laird, Project Manager, Performance Audit Group, Audit Scotland.

SCOTLAND’S COLLEGES – CURRENT FINANCES, FUTURE CHALLENGES

14th Meeting, 2012 (Session 4) Wednesday 24 October 2012

ORAL EVIDENCE
Caroline Gardner, Auditor General for Scotland;
Ronnie Nicol, Assistant Director, and Graeme Greenhill, Portfolio Manager, Performance Audit Group, Audit Scotland.

ASSOCIATED WRITTEN EVIDENCE

- Audit Scotland Briefing paper on College Sector Budgets 2011/12 -2014/15 (301KB pdf)
- Correspondence from the Convener of the Public Audit Committee to the Director-General Learning and Justice, Scottish Government (122KB pdf)
- Correspondence from Scottish Government, dated 14 November 2012 (190KB pdf)
- Correspondence from Scottish Funding Council, dated 14 November 2012 (214KB pdf)
Public Audit Committee, 2nd Report, 2014 (Session 4) — Annexe B

SCOTLAND’S COLLEGES 2013

13th Meeting, 2013 (Session 4), Wednesday 2 October 2013

ORAL EVIDENCE
Caroline Gardner, Auditor General for Scotland; Ronnie Nicol, Assistant Director, Graeme Greenhill, Portfolio Manager, and Phil Grigor, Project Manager, Performance Audit and Best Value Group, Audit Scotland.

14th Meeting, 2013 (Session 4), Wednesday 6 November 2013

ORAL EVIDENCE
Audrey Cumberford, Principal and Chief Executive, West College Scotland; Margaret Munckton, Acting Principal and Chief Executive, Perth College; Susan H Walsh, Principal and Chief Executive, Glasgow Clyde College; Alan Williamson, Director of Finance, Edinburgh College; Laurence Howells, Interim Chief Executive, Martin Fairbairn, Senior Director – Institutions and Corporate Services, and John Kemp, Director – Colleges and Post-92 Universities, Scottish Funding Council.

16th Meeting, 2013 (Session 4), Wednesday 4 December 2013

ORAL EVIDENCE
Leslie Evans, Director-General Learning and Justice, Andrew Scott, Director of Employability, Colin Robertson, Team Leader, Sponsorship and Funding, and Melanie Weldon, Team Leader, Post 16 College Regionalisation, Scottish Government.

WRITTEN EVIDENCE

- Scottish Government to Public Audit Committee, dated 15 January 2014 (209KB pdf)
- Public Audit Committee to the Scottish Government, dated 9 December 2013 (135KB pdf)
- Audit Scotland to Public Audit Committee, dated 27 November 2013 (274KB pdf)
- Scottish Government to Public Audit Committee, dated 25 November 2013 (63KB pdf)
- Public Audit Committee to the Scottish Government, dated 21 November 2013 (64KB pdf)
- Scottish Funding Council to Public Audit Committee, dated 13 November 2013 (256KB pdf)
- Public Audit Committee to Scottish Funding Council, dated 8 November 2013 (124KB pdf)
- Scottish Government to Public Audit Committee, dated 29 October 2013 (67KB pdf)
- Public Audit Committee to the Scottish Government, dated 15 October 2013 (59KB pdf)
- Audit Scotland to Public Audit Committee, dated 25 October 2013 (296KB pdf)
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