Correspondence from the Scottish Government, dated 14 November 2012, regarding the Auditor General for Scotland’s report entitled “Scotland’s colleges – Current finances, future challenges”

Dear Mr Gray

1. Thank you for your letter of 29 October about the recent report from Audit Scotland – “Scotland’s colleges – Current finances, future challenges” – and associated matters. You raise several questions about the Scottish Government’s programme of reform and I shall reply to each in turn.

2. However, it might be helpful if I begin by drawing the attention of your Committee to the strategic framework setting out the case for the Government’s wider post-16 education reforms. Putting Learners at the Centre, published in September 2011, made clear the Scottish Government’s priorities for this reform were jobs and growth, life chances, and sustainability. The strategic case for college regionalisation is predicated on effective delivery of these priorities, with regional planning and funding of the curriculum the central element and the means by which we would realise the overarching benefits: coherent, efficient provision relevant to local, regional and national skills needs. This approach recognised that while the scale and differentiation of the current arrangements has strengths, there is too much duplication and unnecessary competition. Very often colleges are competing for the same students and similar programmes are being run by institutions within a few miles of each other. Moreover, evidence from recent mergers shows that services to students can be sustained and improved by the creation of larger, more efficient colleges. That said, Putting Learners at the Centre also recognised regionalisation would take different forms; and that whilst the use of mergers to create regional colleges of scale was one means of securing coherent relevant provision, it might not be the best solution in all cases.

3. Since then, colleges have begun a process of significant structural change. This has seen the creation of 13 new college regions; two mergers in October 2012, in Edinburgh, and in the form of the new Scotland’s Rural College; a further sixteen colleges planning to merge in 2013 to create six new colleges (in Ayrshire, West, Glasgow South, Glasgow North, Fife, and Tayside regions); and six further colleges committing to create 2 federations (in Lanarkshire, and Aberdeen and Aberdeenshire).

4. That then, is the basis on which the Government’s reforms are taking place. I shall now address the specific questions you pose in your letter, in the order in which you put them.

(i) benefits and costs of regionalisation

5. Paragraphs 2 and 3 above set out the overarching benefits of regionalisation in improving the relevance, coherence, efficiency and sustainability of provision. Outcome Agreements are the principal means through which we shall measure these benefits, year on year. And while colleges are largely responsible for delivering the benefits (with partners, where appropriate), the Scottish Funding Council (SFC) will take strategic oversight of, and support for, delivery. To that end, it has developed a measurement framework, with five strategic priorities, and a set of underpinning measures and indicators, relating directly to Government priorities, allowing for consistent monitoring delivery of the benefits of regionalisation across Scotland. They are:
Priority 1: Efficient regional structures
To deliver efficient regional structures to meet the needs of the region.

Priority 2: Right learning in the right place
To contribute to meeting the national guarantee for young people, meeting the demands of the region, and where appropriate the nation.

Priority 3: High quality and efficient learning
To ensure that learners are qualified to progress through the system in both an efficient and flexible manner.

Priority 4: A developed workforce
To ensure learners are qualified and prepared for work and to improve and adapt the skills of the regional workforce.

Priority 5: Sustainable institutions
To secure well-managed and financially and environmentally sustainable colleges.

I attach below a link to the SFC guidance on college outcome agreements for 2013-14, of which the measurement framework is a core component. [http://www.sfc.ac.uk/guidance/outcomeagreements/CollegeOAGuidance.aspx](http://www.sfc.ac.uk/guidance/outcomeagreements/CollegeOAGuidance.aspx)

6. Most of the costs of regionalisation relate to restructuring, principally (though not solely) through mergers. This is addressed in the next section of my letter. There are also some costs associated with the forthcoming Post-16 Education (Scotland) Bill. The Financial Memorandum supporting the Bill will address the resource implications of its measures.

Benefits and costs of restructuring
7. The programme of merger and federation that I describe in paragraph 3 will deliver significant efficiencies in the years ahead. The Cabinet Secretary for Education and Lifelong Learning discussed the scale of those efficiencies with your colleagues on the Education and Culture Committee (ECC) on 23 October. Mr Russell said then the SFC’s current estimate of efficiencies was some £50 million. Since it is in the lead in supporting structural change in the college sector, I have asked the SFC’s Chief Executive to let you have its current assessment of the expected benefits and costs of restructuring. But in the meantime, Annex A, provides information on planned SFC funding in support of mergers as set out in Mr Russell’s recent letter to the Convener of the ECC. You will note that in addition to planned SFC funding, merging partners are encouraged to contribute to merger costs. Annex B provides a brief summary of the main non-financial benefits of mergers, based on the post-merger evaluations.

(ii) Public body mergers
8. You refer in your letter to the recent Audit Scotland (AS) report “Learning the Lesson of public body mergers”. This is a helpful means of supporting the implementation of our reform programme. We are using it to do so: the SFC’s merger guidance for colleges refers explicitly to the good practice guidance in the report, and draws upon it, while providing more detail where appropriate. More specifically, and again, consistent with the AS report, the SFC guidance:
- provides advice on leadership, governance and early appointment of Principals and the senior leadership team for a merged college;
- makes clear the expectation that merger development proposals should demonstrate value for money, sound academic performance, impact and have a strong evidence base, with baseline data for ease of performance monitoring;
- provides guidelines on the financial data required;
- provides advice on pre-merger planning phases, as well as post-merger evaluation arrangements;
- gives clarity on leadership, communication and culture development expectations and how support can be accessed from the Government’s Change Team; and
- clarifies expectations on external stakeholder engagement.

(iii) Outcome agreements
9. In the light of AS’s observations on the first round of Outcome Agreements (OAs), you sought assurances on their future development. OAs are the means by which the wider benefits of reform will be articulated, measured, monitored and delivered. I am happy to assure the Committee that future outcome agreements with college regions will have a greater focus on colleges’ contribution to the Government’s wider objectives. Indeed, the SFC’s recently published guidance on ‘Delivering College Outcome Agreements (AY 2013-14)’ is clear on this point. Further work will take place over the coming months to develop a consistent national approach to demonstrating colleges' impact in a number of priority areas including improving workforce skills and matching provision to regional needs.

(iv) Demand for college places
10. Ensuring colleges maintain the volume of learning provision as reform progresses is a top priority. That aim is reflected in our annual guidance letter to SFC and in outcome agreements. It is encouraging that 2012-13 outcome agreements show college provision (measured as Weighted Student Units of measurement – ‘WSUMs’) will increase slightly compared to the previous year. In addition, and as set out in the guidance letter, we have taken steps to secure further college provision necessary to maintain volume in 2013-14 through the new Employability Fund administered by Skills Development Scotland (SDS). Both SFC and SDS therefore have a key role to play in working with colleges to ensure delivery of this priority.

(v) Applicants for college places
11. You asked if we plan to collect data on college applicants. As part of our discussions with learners and other stakeholders, we are considering the case for a common application process for colleges. Clearly, the main objective is to help learners make more informed decisions about their post-16 learning, and to make the application process itself easier; but a tool of this type has potential to generate data to provide a clearer picture of supply and demand for college places. We are in the very early stages of planning this project as part of our post-16 reform programme. In the meantime, as Mr Russell made clear to the Parliament on 8 November, we are undertaking an audit of the whole process of college applications, including a detailed examination of Scotland’s Colleges’ data and methodology, to ensure that it delivers maximum benefit for Scotland’s young people.

(vi) Community planning partnerships (CPPs)
12. Finally, I should make clear there is already significant collaboration between colleges and CPPs in addressing skills needs. You will see in the material I provide at paragraph 5
(the SFC’s guidance on Outcome Agreements guidance) its expectations about planning regionally and, specifically, the need to align college outcome agreements and single outcome agreements.

I hope this letter gives the Committee the assurances it seeks.

Yours sincerely

LESLIE EVANS
SFC funding for mergers

**Purpose**
1. The purpose of the College Transformation Fund (CTF) is to support colleges as they move towards regional groupings. It is intended primarily to fund voluntary severance (VS) schemes to deliver the staffing changes needed for mergers (or strong federations), and realise the associated efficiency gains. The fund can also be used to support innovation.

2. Audit Scotland’s (AS) report, “Scotland’s colleges – Current finances, future challenges”, makes clear the very significant growth in colleges’ accumulated surpluses over the period since 2006/07 (where AS noted a doubling of income and expenditure reserve from £98.9m to £206.4m at the end of 2010/11). It is against this background that Merging partners are expected to contribute to merger costs where it is clear they have the resources to do so.

**Funding**
3. The Scottish Government provided £15m to support the CTF, which SFC has supplemented by £10m of its strategic funding.

**Mergers and Federations**
4. Eight college mergers have now been agreed, with the new City of Edinburgh College and SRUC vesting on 1 October 2012. Of the remaining six, colleges in Ayrshire, the West, Glasgow South, Glasgow North, and Fife will merge during the course of 2013. The vesting date for Tayside has not yet been formally agreed.

5. The College Transformation Fund (CTF) is also available to help support the two planned federations in Aberdeenshire and Lanarkshire.

**Analysis of Bids**
6. As part of the bidding process colleges must demonstrate how any funding will deliver clear financial benefits within a year as well as how they will meet regional needs and deliver outcomes consistent with post 16 reform.

**Payments**
7. With the exception of Dumfries and Galloway, all of the payments made to date from the CTF have been in support of merger implementation or preparation. In Dumfries and Galloway the award supported an innovative learner journey project. The table below breaks down the awards which have been made by the SFC to date from both the CTF and SFC strategic funds.

<table>
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<tr>
<th>Region</th>
<th>CTF</th>
<th>SFC Strategic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRUC</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Edinburgh</td>
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<td>4,200,000</td>
<td>7,700,000</td>
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<tr>
<td>Ayrshire</td>
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<td>Glasgow S &amp; W</td>
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<td>300,000</td>
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<td>West</td>
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<td>0</td>
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</tr>
<tr>
<td>Fife</td>
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</table>
7. The SFC provided additional small amounts from its Invest to Save fund to support the initial stages of merger preparation. Negotiations continue with the West, Glasgow South and West and Ayrshire, regions and SFC is close to agreeing packages of funding to support the implementation of the mergers. It is likely that these will account for a substantial proportion of the remaining CTF funding, which amounts to approximately £10m.

Scottish Government
November 2011
Overview of non-financial benefits of merger

Source: Post-Merger Evaluations of Glasgow Metropolitan, Adam Smith College, Forth Valley College and the University of the West of Scotland.

- stronger strategic role for in regional and local economic development;

- increased scale of operation, with positive impact on both high-volume and low-volume areas of provision allowing colleges to provide learning opportunities across an extended portfolio and a wider range of levels;

- for example, in areas of high demand such as Care, Computing and IT, and Social Sciences, mergers allowed for far greater breadth and depth of provision (from Access through to HN and Degree), and improve the sustainability of specialist options;

- better articulation arrangements and scope for HN progression; and improved linkages between programmes, with the creation of new subject combinations (e.g. in Business and Computing) to improve flexibility for learners;

- greater responsiveness to stakeholders including learners, employers, schools and community planning partners.

Scottish Government
November 2011