OFFICIAL REPORT
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 29 June 2017**

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

## Thursday 29 June 2017

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## PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
**18th Meeting 2017, Session 5**

**CONVENER**

*Jackie Baillie (Dumbarton) (Lab) (Acting Convener)
Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

*Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Monica Lennon (Central Scotland) (Lab)
*Alex Neil (Airdrie and Shotts) (SNP)

*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Stephen Boyle (Audit Scotland)
Annette Bruton (Edinburgh College)
Morag Campsie (Audit Scotland)
Gemma Diamond (Audit Scotland)
Caroline Gardner (Auditor General for Scotland)
Mark MacPherson (Audit Scotland)
Ian McKay (Edinburgh College)
Stuart Nugent (Audit Scotland)
Alan Williamson (Edinburgh College)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

The Adam Smith Room (CR5)

# Scottish Parliament

## Public Audit and Post-legislative Scrutiny Committee

*Thursday 29 June 2017*

*[The Acting Convener opened the meeting at 08:49]*

## Decision on Taking Business in Private

**The Acting Convener (Jackie Baillie):** Good morning and welcome to the 18th meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. I ask everybody to switch their electronic devices off or to silent mode, so that they do not interfere with the work of the committee.

Under agenda item 1, does the committee agree to take in private items 5, 6 and 7?

**Members** *indicated agreement.*

## Section 22 Report

### "The 2015/16 audit of Edinburgh College"

08:49

**The Acting Convener:** Agenda item 2 is evidence on "The 2015/16 audit of Edinburgh College" by the Auditor General. I welcome, from Edinburgh College, Annette Bruton, who is the principal and chief executive, Alan Williamson, who is the chief operating officer, and Ian McKay, who is the chair of the board. I invite Mr McKay to make an opening statement.

**Ian McKay (Edinburgh College):** I thank the committee for its continued and considered work in this area.

Like many colleges in the further education sector, Edinburgh College has experienced considerable change over the past few years. Our college has been through challenging times, as you know, which are exemplified in what we are discussing today. Indeed, those challenges remain and have most recently been highlighted by the potential cost of meeting the national pay bargaining settlement.

The original matter that was brought to the committee's attention was the mistaken use of additionality in courses in the college and the knock-on effect of the resulting clawback by the Scottish Further and Higher Education Funding Council of £800,000 in the college's final accounts for that year. The matter has been fully reported to the board and our response as a college has involved the board and me directly.

That response to the original section 22 report and the related work by the executive and board has been helpful to the college in allowing a forensic examination of our processes and procedures, and it has resulted in considerable improvement in those things. We have reduced the size of the college and have tailored courses to better reflect the needs of our wider community. We have also removed underperforming courses and successfully refocused our offering such that, this year, we have met our SFC targets in overall credits, in higher education credits and in European Union additional credits.

Throughout the process, the board of the college has sought to offer both challenge and support to the executive, and we are pleased to see the process bearing fruit. We have sought to be transparent about all those things from the start. We have worked with the SFC, we have agreed financial assistance with it and we have created a business transformation plan, which has taken the college forward and provided me and the board with the confidence that we need.

The most important thing has been the result of all that work. Two years on, we have much better information coming to the board and the committees, the principal has reshaped the senior management team, we have met our credit targets for the first time since our merger, our financial recovery plan is working and, perhaps most important for me, our award-winning students are registering improved rates of attainment and high rates of satisfaction.

We still have some way to go on the road to recovery and growth, but I believe that the helpful reports from the Auditor General, your work and our own internal processes have shown that we are now on much more solid ground. I hope that we have every chance of reaching our goals successfully.

Thank you for giving me the time to make a statement.

**The Acting Convener:** Thank you very much, Mr McKay. We come to questions from members.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** In its written submission, which you are probably aware of, the Educational Institute of Scotland made a number of allegations about how the college functions. What is your response to that submission?

**Ian McKay:** I became aware of it when I saw your papers. I was not aware of it before. The principal is probably in a better position to answer on the specifics of the allegations.

**Annette Bruton (Edinburgh College):** I, too, saw it in the committee pack. The submission had not been drawn to my attention prior to the publication of the papers for this committee.

**Colin Beattie:** So, this is the first time that you have been aware of the allegations.

**Annette Bruton:** It is the first time that the allegations have been drawn to my attention in that way. They had not been drawn to my attention before I saw them in the committee pack. There are on-going discussions with teachers unions about some of the policy matters, but I had not seen the allegations before.

**Colin Beattie:** Do you have a response to them?

**Annette Bruton:** Yes, I do. Does the committee want me to go into all the areas that are raised in the communication?

**The Acting Convener:** It would be helpful if you could.

**Annette Bruton:** I will clarify a number of points about the various matters that are raised in that communication with the committee.

First, on credits and additionality, there are no national standards with regard to credits, as I think the committee has discussed with the Auditor General in the past. The credits are agreed by the Scottish funding council with every college as part of its regional outcome agreement. All of that is within an agreed maximum for additionality of 2.5 per cent of total credits. That is the current rule—it changes from time to time but, at the moment, it is 2.5 per cent.

Edinburgh College is no different from any other college in that respect. However, because of what we have been through in the past, we have held down the number of additional credits that we have used and we are maintaining them at below the sector average. When I looked at the credits last week, the figure was 1 per cent. That has been reported to the SFC at the regular bi-monthly meetings that, as the committee will be aware, are part of the transformation plan. The funding council has indicated that it is pleased with the college's progress and that the college is well under the 2.5 per cent national target.

With regard to our credit targets for this year, not only have we met those targets, as the chair has just said, but that is reflected in the number of real students. In 2015-16, we enrolled 18,541 unique students and, this year, we have enrolled 19,318 unique students. Therefore, as the committee can see, the increase in the credits is down to additional students coming to the college.

I turn to the remarks that have been made about the Edinburgh College units, which is a technical area. I am happy to explain it to the committee in detail or write with more detail if you wish, but I first want to put the issue in context. All colleges can claim for various types of credit as part of their funding package. Those include credits for Scottish Qualifications Authority units, credits for the learning that students do on, for example, City and Guilds courses and credits for the learning that they do on bridge courses to higher education. The EC units are part of that overall package, which recognises the amount of learning that students do in addition to the qualifications that they get.

For example, for a student studying for national 5 in French at the college, we claim the four credits for the two units that are in that course but we can also claim an additional credit if the student sits their exam, because we have prepared them for that. That is an example of where EC credits would be used. The general volume of EC credits is agreed as part of our funding agreement with the Scottish funding council and is published in our regional outcome agreement. That is built in at the point of overall planning for the course of study.

Our policy on withdrawing students has not changed this year, although we have made some changes in-year to the arrangements for that. One problem that we had in former years—I think that the committee asked me about this the last time we were here, or we mentioned it in our written evidence—was that students could be withdrawn by their lecturer simply because they had stopped turning up for class. One improvement that we have introduced this year is that, before any student can be withdrawn from a course, that must be followed up by the manager who is in charge of that area, by student support services or by our finance team. That is because the main reasons why students drop out of class are to do with financial, health, mental health or personal issues. We think that it is really important—for reasons unrelated to credits—that we give every student every chance to rejoin their course. We are looking at that issue nationally in further education.

09:00

We have made inroads into that this year, and we have been much more successful in retaining our students than in previous years. Later this morning, you will consider the report from the Auditor General on the further education sector in 2017. In section 25 of that report, the Auditor General publishes the retention rates for full-time and part-time students in Scotland. We are pleased to report that, compared with the figures for 2015-16, in 2016-17, Edinburgh College not only has improved its performance against all the measures but has done better than the national average for last year. That is down to our making sure that the most vulnerable students—those most likely to drop out of Edinburgh College—are given every chance to get back into their courses and are supported to do so.

I am sorry that I am taking up so much time, but the final point I would like to make—

**The Acting Convener:** As you have addressed the issues in the EIS submission, I am going to let Colin Beattie come back in. I am sure that other questions will allow you to give us that information.

**Annette Bruton:** Okay. Thank you.

**Colin Beattie:** Convener, I heard what the principal said. The submission from the EIS indicates that it can provide documentary evidence relating to withdrawals. Can we write to the EIS, asking for that evidence?

**The Acting Convener:** Yes. I am sure that the committee can do that.

**Colin Beattie:** I would like to turn to governance and the Edinburgh College board, which seems in this case to have been taking a bit of a back seat. According to the information that we have, the board realised as far back as 2013-14 that there was a problem with the financial information that was coming forward, and it discussed how better financial information could be developed. However, nothing seems to have happened on that. Why?

**Ian McKay:** I think that that question falls to me. You will see in the reports from Caroline Gardner and her team, and from the minutes of the board meetings at that time, that, far from not doing anything about the matter or not being active on it, the board had it almost as a standing item at every meeting. We pursued vigorously what we saw as an on-going issue on which we never seemed to be getting answers.

Not unlike yourselves, members of a board have a tendency to follow the money when a financial issue comes up and to look at the financial systems and so on. That is what the board did in the first place. Paragraph 28 of the 2015-16 audit report notes that we were asking a number of questions and trying to pursue the issues that you have raised. It became clear only later that, although it was presenting as a financial difficulty, the real cause lay on the curricular side. It lay on the supply side of the equation, if you like—we were simply not getting enough bums on seats or enough income coming in through our courses.

I put up my hand and say that we pursued the financial side first. It was only once we found that that was not giving us the answers that the board started to look in other directions. As I said in my opening statement, it was the happenstance of the £800,000 clawback that pointed us towards looking more vigorously at the curricular side. The work that the new incoming principal then did finally allowed us to get to the bottom of the matter and to find where the real problem lay.

I have to challenge any suggestion that the board was not doing anything about it. If you look at the board minutes, you will see that we were challenging it all the way through.

**Colin Beattie:** From the time from when the board first became aware that there was a problem with the financial information and the management information, which is a bit broader, how long did it take before the board received information that was useful and on which it was able to act?

**Ian McKay:** The most useful breakthrough was in the examination that the new principal did as a result of the additionality issue. The discussion that we had set the principal down the road of looking at why people had claimed additional things when they should not have been claiming as much as they had. That took us to the realisation that there were underlying issues. Once we got to that point, it did not take us very long at all, but in getting there we looked mostly at the financial processes.

**Colin Beattie:** If I remember correctly, the principal's review happened in 2015.

**Ian McKay:** It was in 2015.

**Colin Beattie:** It was at the end of 2015. Therefore, as far as I can see, the board was wrestling with the problems for a couple of years. That seems an awfully long time.

**Ian McKay:** It was less than a couple of years. In those reports, you tend to get only the matter that is under discussion; you do not get the wider context.

The other thing that you have to remember is that we had also parted company with the then principal and we had brought in an interim principal. We had started a recovery plan with the SFC to address the financial issues, and that was going reasonably successfully at the time. However, it still had not led us to a conclusion on where the problems were originating.

We appointed the interim principal in 2014, about six months before Annette Bruton took up office. She was an experienced principal from the south who had dealt with interim principal positions in the past. She was recommended to me by the chief executive of the SFC and I appointed her. My first instruction to her was that I wanted her to look at the whole financial side of the college, to open every cupboard and find every skeleton, because I wanted to find out whether our processes were right. After having investigated, she came back to me and said that, as far as she could see, everything was sound.

We were not sitting on our hands; we were, first of all, making absolutely sure that our finances and financial processes were sound. It was only once we started to redirect our attention, the investigation not having given us the answers, that we moved on to the curricular side after the next report.

**Colin Beattie:** I take on board what you say. I understand that these things take time and that it was a difficult situation. However, as a board, if you are not getting financial and management information, should you not do something about it in less time than a couple of years? You say that you did not get adequate information on the crisis that Edinburgh College faced until the principal conducted her review. That was an awfully long time.

**Ian McKay:** No. I said that we did not start to understand the real underlying problem until the review was carried out. We had pursued the problem that was in the reports that we were getting. We sought to get to the bottom of that and make sure that the college's financial processes were sound and working properly.

The fact that there is an outcome on the financial side does not mean that the cause is on the financial side. That is what we have found in this case. If you look at the Auditor General's report, you will see that, on a number of occasions, it makes the point that the board pursued the problem vigorously with the executives—we challenged them and we asked them. Every time that we got an answer and came to the next board meeting and the problem was clearly not corrected, we went back and asked again and tried to pursue other areas.

At the end of the day, a board is not in a position to simply walk into the executive's office and start doing their job for them. You are right to pursue this line of inquiry, but the board did what we had to do in pursuing the executives to make sure that they were doing the job they had to do.

**Colin Beattie:** If, over a period of many months, the board is asking questions and not getting answers, should it not take action?

**Ian McKay:** I again refer you to the Auditor General's reports. You will see there that we were getting answers, but the answers were not addressing the problems that we were asking about. We were getting an answer but, if we had to go back and pursue the matter or go deeper or wider to get the answer, we did that.

I will be the first to say that we were not perfect. However, we sought to pursue the answers because, like you, we realised that there was an on-going problem that was not being solved by the answers that we were getting from the executives. In the end, I also saw a wholesale change in the executives themselves, which I think was the inevitable end of such a process.

**The Acting Convener:** Willie Coffey wants to ask some follow-up questions.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Thank you, convener. I would like the principal to clarify the issue of the EC units that Colin Beattie raised. The submission says:

> "Our survey showed that many of these units had no teaching materials, no class time provided and no final assessment, yet could attract funding."

Is that correct? Is it a misinterpretation or is it wrong?

**Annette Bruton:** I have not seen the survey. It was not carried out by the college, so I assume that it was carried out by the EIS among EIS members. I would welcome sight of it; it would be useful for me to see the evidence that the EIS has on the allegations in that statement. What I can say is that we have robust processes around what we claim, how we claim it, and the protocols that we stick to, most of which are set down by the SFC.

Perhaps I can reassure the committee with the reassurance that I have had, not only from the internal procedures that we as senior management work on, but from having been audited three times this year—first, by internal audit on our credit claim; secondly, by the SFC in addition to the normal audits that would be carried out on those claims; and thirdly, by Audit Scotland as part of its general audit and section 22 work. None of those audits has thrown up such a problem. Like the committee, I have not been sighted on that survey, and I would welcome the opportunity to see it.

**Willie Coffey:** That is fine, but is there any possibility that EC units have

"no teaching materials, ... class time ... and final assessment"

associated with them?

**Annette Bruton:** Going back to my earlier explanation, EC units can be used for a number of things, such as the national 5 qualification in French example that I highlighted. In that case, the bit that we are claiming an EC code for is the additional work that is done with students to prepare them for the exam. If we were unable to claim that, we would have to hire staff for a part of the course that we would otherwise not be able to claim credits for. As the committee will recognise, preparing students for their SQA exams is an essential part of any teaching year, and that is the device that is used for that. The teaching materials related to that will be what is taught in the two units.

As another example, we also use EC codes for teaching students who are undertaking higher education courses with us but who are on their way to a course at university—in other words, courses that we are running on behalf of a university. Teaching materials would certainly be used for that; indeed, the staff themselves would be responsible for preparing the teaching materials and doing the planning. I would be surprised if there were no teaching materials, and we would ask the staff why, if no materials had been prepared.

There is no reason why the EC codes should not be claimed. They are a legitimate part of how we make up the costing for a college, and there should certainly be no area of the college in which we are claiming for something that we are not doing. I repeat that I cannot see any circumstance in which what you have referred to would happen, so I would be happy to see any such evidence.

**Willie Coffey:** Is the additional work that you mentioned assessed?

**Annette Bruton:** In national 5 for French, that is assessed as part of the overall examination that the students sit. People are very familiar with what happens in schools: you hire a teacher for the whole year to teach a class, and some of that work will be the component units of the course and some will be preparation for exams. That is normally what our staff and our colleagues in schools will be doing from February, March or April right up to the exam itself. If we were unable to claim for that, we would not have the funding to hire the teachers to do that part of the course. It is a legitimate part of the make-up of college funding.

**Willie Coffey:** The submission from the EIS goes on to raise the issue of resulting and says that, although the choice should be between "pass", "fail" and "withdrawn",

"'The EC code for the Higher/National 5/Advanced Higher ... taught needs to be resulted with a P. This does not indicate that the student passed the exam but that they were prepared for the exam ... ' ... So not only are the students credited with a pass when they have not actually passed anything, but some of the resulting is done by administrative means and does not even involve the lecturer."

What is your response to that?

**Annette Bruton:** We are getting into very technical territory here, but the first thing that I want to point out is that there are two elements to resulting. This year, we introduced an approach that ensured that students were resulted before lecturers went on holiday. One of the problems that I faced in my first year at Edinburgh College was that a number of lecturers had gone on holiday without completing their resulting, which meant that students could not be credited in time to start their university course or to get their Care Inspectorate registration. That led to a range of problems; as a result, we introduced a system of resulting that ensured that lecturers did the bit that only they knew how to do. In other words, they would be the only ones who could say what the marks for the students were and whether they had passed or failed.

09:15

However, our marks system is not just a case of putting "pass", "fail" or "withdrawn". The lecturer gives the mark and indicates whether the student has passed. They can mark the paper as "candidate withdrawn", or they can mark it as "merit pass", "fail", "distinction", "C", "B" or "A". There is a range.

It is not clear to me what the comment that Willie Coffey read out refers to. Staff must result their students in terms of their work, but managers can put in things like the EC codes, because they planned the courses and know how much teaching went into them.

I hope that that was not too technical an answer, convener. It is quite a technical area.

**The Acting Convener:** We were following you.

**Willie Coffey:** I thank Annette Bruton for offering an explanation.

**Alex Neil (Airdrie and Shotts) (SNP):** The last time we heard from Edinburgh College, we were told that the college's deficit for the financial year 2015-16 was £7 million. Was the final figure as much as £8 million?

**Alan Williamson (Edinburgh College):** No, it is still £7 million. That is where we completed the year.

**Alex Neil:** I am told that that represents well over 80 per cent of the total deficit in the college sector in Scotland that year. Is that right?

**Alan Williamson:** I am not certain. I did not look at that.

**Alex Neil:** Another financial year has just been completed. I presume that your financial year runs to April.

**Alan Williamson:** An academic year runs to the end of July.

**Alex Neil:** Do you have an estimated outturn for this financial year?

**Alan Williamson:** If we exclude the actuarial pension valuation, which we will not know until August, we are forecasting a £3.4 million deficit, against £3.8 million at the start of the year. There has been an improvement.

**Alex Neil:** When do you expect to break even?

**Alan Williamson:** We are making good progress. We have had a successful voluntary severance scheme and we have taken out a lot of non-pay costs. The forecast in the 2017-18 transformation plan is a deficit of £580,000. That is what we are looking at for next year, so we are in line with the plan. In the following year, we are looking at a break-even position. That is notwithstanding the national pay awards.

**Alex Neil:** You said,

"That is notwithstanding the national pay awards."

What impact will the national pay awards have on the figures?

**Alan Williamson:** In Edinburgh College, we estimate that around £6 million will be charged. We have put that into our forecasting, and we are making plans to address the £6 million over the next four or five years.

**Alex Neil:** When you say that a deficit of half a million pounds is estimated for next year, is that assuming that you will meet your obligations under the national agreement?

**Alan Williamson:** For this year, yes.

**Alex Neil:** That obligation is incorporated. What about next year?

**Alan Williamson:** Yes, it is incorporated for next year.

**The Acting Convener:** I see that Mr McKay wants to come in.

**Ian McKay:** I am wearing a different hat, convener. I have a wee bit more knowledge of national pay bargaining than my colleagues do, because I was involved in it. Obviously, that circumstance was not known when we were drawing up our transformation plan. The effect of it is not just year on year; there is also a lot of harmonisation and so on.

I am not saying that the committee will be spending even more time on further education matters, but I think that you will find that the knock-on effects of the deal that is under discussion—and as it plays through into support staff, which will happen further down the line—might mean that you have more discussions, with a larger number of colleges.

We are actively in discussion with the Government about the matter, which would have been unforeseen at individual college level, if you see what I mean. It is one of the consequences of moving from individual bargaining at college level to not just national bargaining but a national deal, which will affect some colleges worse than it does others. Overall, the knock-on effect will be considerable across the sector.

**Alex Neil:** I understand that a new assistant principal was appointed at Edinburgh College fairly recently, whose remit includes commercial income. Am I right in saying that commercial income has pretty well fizzled out? I think that you did not have much commercial income in 2015-16.

**Alan Williamson:** In 2015-16, the college hit its target on commercial income—the overall commercial and international income was about £6 million. The college hit its overall target in both those areas. However, since around 2013-14, there has been a decline in commercial and international income.

**Alex Neil:** What is the decline? Can you give us figures?

**Alan Williamson:** As was mentioned at a previous meeting, international income has dropped by £1.1 million, or 46 per cent. That related to UK Border Agency policy changes, which impacted on college students across the college sector nationally.

**The Acting Convener:** I think that Annette Bruton would like to come in.

**Annette Bruton:** As Alex Neil said, we have appointed a new head of commercial and international income and a new assistant principal. Although the commercial and international financial return has not been what we would have expected it to be, we are ambitious about growing that income in the future.

We obviously work within the economic constraints in Scotland, but Edinburgh has a very particular economy, and we think that there is an opportunity for us to grow our commercial income. That is our ambition not least because there are fewer people out of work in Edinburgh, so we need to shift some of our effort to ensure that, rather than just making sure that all young people who need a place at college have one, those people who go straight into work from school are being provided by employers with opportunities to train on the job.

Willie Coffey asked, at a previous meeting, about the international position. There are two elements to that. Almost one in five of our students is an EU student, which we have to consider in the current political climate with regard to Brexit. International non-EU students have been affected by the change in the tier 4 visa rules. In 2012-13, we had 215 international students, but after the tier 4 rules changed, that number fell to 128 the following year. We now have only 29 such students in the current academic year; that area has certainly seen a decline as a result of the change in visa rules for further education. Nonetheless, we believe that there is an opportunity for us to grow our commercial income, and we seek to do so.

**Alex Neil:** To go back to the forecast figures for the outturn this year and next year, as against the £6 million figure, what are you forecasting for commercial income?

**Alan Williamson:** The forecast is just the same, at this point.

**Alex Neil:** Do you mean that it is £6 million?

**Alan Williamson:** Yes. That is a minimum, to be prudent.

**Alex Neil:** Finally, given what has gone on in the past, we have to look at what lessons have been learned for the future. Obviously the role of the board is extremely important, as was outlined in the exchange between Colin Beattie and Ian McKay.

How much does the board delegate to the policy and resources committee? Does the board take primary responsibility, or is it now perhaps delegating too much to the P and R committee? Who makes up the P and R committee? Is it dominated by non-executive directors? Can you tell us what the current modus operandi of the board is? We are partly concerned to ensure that there is no repeat of the problems that we saw in the recent past.

**Ian McKay:** Again, that question is coming to me. You are very well informed about the structure of my board.

**Alex Neil:** I am always well informed.

**Ian McKay:** I commend you for that. Alex Neil has made a good point—he and I have in the past, with different hats on, discussed how well public sector governance can and should operate. Part of the answer that I was trying to give Colin Beattie was that, through that period, the board had very much to look at itself, at processes and procedures and at the very structures—indeed, not only at the structures but at the dynamic of how we were coming to and following up on decisions. You rightly say that we introduced the P and R committee around that time; we did not have such a committee before that. As I described in my answer to Colin Beattie, we were previously relying on board meetings for us to be able to pick up and follow up on what was becoming an active chase on the committee's part.

It was important therefore that our structures were focused to allow the board to have a committee that was much more actively involved. If you think about it, an audit committee is there as a safety net—it catches things post hoc—but what we did not have, and what became an obvious need, was something that looks forward and plans ahead much more. Boards always have compliance and strategy. I am sorry—it is grannies and eggs here, but those are the two pillars that any board has. I considered that we were sound on our audit side, but we were unable to follow up on our strategic side, and that is where the policy and resources committee came in.

It was also part of our efforts to be as transparent as we could with the SFC when we addressed that first financial issue. I do not know whether the fact comes out in the committee's paperwork that the SFC was very involved—it was at the table from day 1. When we set up the first recovery plan with the interim principal, we established a joint committee with the SFC. We were not coming up with policies and taking them to the SFC; we were making them up jointly with the SFC in order that we could find a way out of the situation. It seemed to me at the time that there was no point in being anything other than fully transparent.

After changing the structure of the board to introduce the policy and resources committee to enable us to be more strategic in those key areas, we continued the practice that, for those items that are to do with our business transformation plan and related areas, the SFC sits at the table with us; representatives from the SFC are there and take part in decisions, and we often quiz them, in much the same way as you are quizzing me.

**Alex Neil:** Is the P and R committee dominated by non-executive directors?

**Ian McKay:** It will tend to be mostly non-executives. None of our committees contain executives. Again, you have to remember the make-up of a college board. It is a large board anyway, with a lot of non-execs, but it also contains student and staff representatives and so on. There is appropriate representation spread across quite a lot of the committees on that board.

My view, which I hold outside of this process and which is also based on my work in the Institute of Directors and so on, is that, when decisions have to be made that we need to show have not been influenced by any kind of pressure or by an interest that someone might have, the safest road for a board is to have non-executives, because they can be shown not to have an axe to grind. I am lucky in that Edinburgh College's board has some very experienced and good non-executives.

**Alex Neil:** I accept what you are saying about the need for a P and R committee, but does it not dilute a board's effectiveness?

**Ian McKay:** I certainly do not think so—I would actually say it was the opposite. Let me choose my words carefully here: the public sector can be quite cumbersome in the way in which it goes about things. In a lot of its work, it does not always have the speed of action that is available in the private sector or even in the third sector. I am sure that that is a problem that you, too, will have come across in previous roles.

**Alex Neil:** Absolutely.

**Ian McKay:** In that situation, you need structures that make that work easier. That was the whole point of the structural change that I introduced in order to establish the policy and resources committee; it gave us the ability to move quickly and with more agility between board meetings. The board meets only four or five times a year. If you were in the situation that we were in at the time, you would have seen the need for an awful lot more agility and more of an ability to shift things forward. That was the reason for the change, and I think that it is worked.

**Alex Neil:** Thank you. At this point, convener, I should apologise, because I have to leave for another committee meeting in the next few minutes.

**The Acting Convener:** No problem at all.

Willie Coffey has a small supplementary on the back of Alex Neil's question.

**Willie Coffey:** Annette Bruton talked about the impact on non-EU international students. I think you said that you had 215 in 2014.

**Annette Bruton:** That was in 2012-13.

**Willie Coffey:** And now that figure has dropped to 29.

**Annette Bruton:** It is 29 in the current year. In 2013-14, there was a drop to 128.

**Willie Coffey:** So it has dropped about 90 per cent.

**Annette Bruton:** Since the United Kingdom legislation came in, the figure has dropped significantly. It is very difficult for students—

**Willie Coffey:** Can you put a value on what that, in effect, has cost the college?

**Alan Williamson:** It has cost £1.1 million.

**Annette Bruton:** In income.

**Willie Coffey:** And has the drop in non-EU international students come as a result of those policy changes? Have those policy changes cost the college £1.1 million?

**Alan Williamson:** Yes.

**Annette Bruton:** Annually.

09:30

**Willie Coffey:** Is there any prospect of the college recovering that money? I know from your responses to Mr Neil that you are making efforts to extend your commercial interests elsewhere.

**Alan Williamson:** We are making efforts, but added to that is the fact that overseas companies now require a different delivery model. They prefer delivery in the homeland instead of students coming across to Edinburgh to study, so we have also had to change the model of delivery. I suspect that any growth in that respect will come from delivery in another country.

**Willie Coffey:** Thank you.

**Liam Kerr (North East Scotland) (Con):** I would like, at the outset, to get a bit of clarity. Throughout this process, there has been a lot of talk about additionality and various funding issues. When the committee took evidence on this issue in November 2016, the college clearly accepted that there had been failings and that, in general terms, it had been a case of a lot of cooks being involved.

By the time of the Audit Scotland report, the principal had concluded that the vice-principal curriculum and quality was responsible for the additionality issue. Why is there a difference between what I was told in response to the question that I asked in November and what Audit Scotland has reported?

**Annette Bruton:** Audit Scotland used information that I provided as part of its section 22 review. I think that, when I met the committee last November, I said—and I still hold this view—that part of the problem lay with the structure. There were two vice-principals and a depute principal who all had a bit of responsibility for making sure that the curriculum frameworks were sound, but nobody seemed to have overall responsibility.

I subsequently carried out a review—which you will be aware of, given that you will have seen it in the Audit Scotland report, and I have reported it to you myself—in which I concluded that there were failings in the way that the structure had been set up, in that everybody and nobody had responsibility. By the time I had concluded my investigation and reported on it to the P and R committee and the board, the responsibility for having sorted out the matter lay with the vice-principal curriculum, who by then had taken on a new role that had all the component parts of that responsibility.

My conclusion in the findings that I reported to committee members was that the responsibilities lay within the new role of the vice-principal curriculum. My findings therefore had two components, the first of which was that the previous structure had muddied the water, with everybody and nobody being responsible. The second related to the fact that in the first few months in which I was in post, a new appointment of vice-principal curriculum had been made and matched in, and I concluded in my report that the problems at that time lay within the purview of the vice-principal curriculum.

That had been an investigation into the general situation, and the board then instructed me to consider whether there was a case to be answered in terms of competency. The committee will be aware that, if it is decided to commence down a competency route, a competency investigation has to be carried out. That was not done in this case. There also has to be a competency hearing, which gives people the right to reply to any accusations made against them. That did not happen in this case either, because the vice-principal in question resigned his post.

**Liam Kerr:** All of that tallies, but in November 2016 when I asked directly who was responsible, the clear answer that I was given was that everyone and no one was. When the Audit Scotland report came out, the clear conclusion, drawn by yourself, was that one person was responsible. Which is it? Was that one person responsible for what went wrong? Are you able to clarify that for me?

**Annette Bruton:** I will try to clarify the matter for Mr Kerr. The difficulty here is that although I had concluded in my review that the problem lay under one person's new remit, I did not have the opportunity to carry out a competency investigation or hearing. My investigation was into the general situation, not anyone's competency. Therefore, even at this point in time, I cannot conclude that someone was incompetent when they did not have the benefit of a competency hearing and the opportunity to defend themselves or, indeed, a competency investigation.

What I can say with certainty is that the difficulty that we were experiencing lay within that vice-principal's remit and that the former structure had caused an all-or-nothing and everybody-and-nobody problem, but it is difficult to point the finger at someone when they have not had the opportunity either to defend themselves or to go through a competency procedure. Those competency procedures were never carried out, because the vice-principal resigned his post.

**Liam Kerr:** Do you maintain that the entire problem was down to one person?

**Annette Bruton:** I have never maintained that; what I have always said is that it was a combination of a poor structure and the failings on the part of more than one person. However, when I concluded my investigation into the situation, the area of difficulty lay in the new remit of our then vice-principal.

**Liam Kerr:** If more than one person was responsible, what happened to the other people who were responsible?

**Annette Bruton:** One person left us because their post ceased to exist in the structure. They took voluntary severance.

**Liam Kerr:** So they got a payoff.

**Annette Bruton:** I want to make it clear to the committee that I am not suggesting that that person was incompetent; I am suggesting that—

**Liam Kerr:** But they held responsibility.

**Annette Bruton:** —that person had a remit that was partly responsible.

**Liam Kerr:** Right. Mr Williamson, you were part of the team during that period, were you not?

**Alan Williamson:** That is right.

**Liam Kerr:** Ms Bruton, is Mr Williamson partly responsible for what happened?

**Annette Bruton:** I suppose that, corporately, the entire team were responsible. However, as I think I said to the committee the last time—maybe I did not make this explicit—Mr Williamson was extremely helpful to me when I was carrying out my investigation. He came forward to help me with a lot of the problems that the board were seeking to identify.

**Liam Kerr:** At this stage, I want to move on and look forward. The voluntary severance scheme is key to the transformation plan; indeed, according to the Audit Scotland report, whether the plan works or not is primarily dependent on the scheme. You are now in the scheme's third phase, which you launched in April 2017 and which focuses on the academic staff, with the intention of saving nearly £2.5 million. Where are we with the scheme? Has it closed? How many applications of the hoped-for 51 did you receive?

**Annette Bruton:** I will start and then pass over to Mr Williamson, who will give you the details.

We have concluded three voluntary severance schemes, the third of which was open to the support and academic staff. We were able to open up the scheme more fully to academic staff, because we had completed our curriculum review in advance of the third voluntary severance scheme. Indeed, you might remember that point from the section 22 report and the responses that the Auditor General gave.

We still have a funding gap to close, but the schemes have largely been successful in getting the staffing and financial reductions that we need. The reason for our welcoming applications from curriculum staff in phase 3 of the scheme was to enable us to see which areas of the curriculum we needed to grow and which areas would contract. Clearly, we would not let staff go in areas that we were trying to grow. We were able to accept applications where they were affordable—the SFC sets the rules for the VS in that respect—and where we knew that students would not be suffering. We needed to make sure that they were not areas of growth. Mr Williamson can give the committee some of the financials and the shortfall that we have still to meet on that.

**Alan Williamson:** Up to 2017-18—the budget year that we are just coming into—we had a target of £3.8 million for the voluntary severance scheme. At this point in time, we have achieved £3.5 million, although we are now reviewing some other applications. We have been oversubscribed with applications; we had a run of about 103, of which we have accepted 54, and we are currently looking at the applications to see whether there are any others that we can release.

**Liam Kerr:** Just out of interest, you were advanced £1.85 million from the SFC to make that happen. Given the figures that you have just reported, Mr Williamson, it has not quite achieved what you had hoped.

**Alan Williamson:** So far, the scheme has cost £1 million and has released £1.6 million.

**Liam Kerr:** Just for clarity, what will happen to the SFC funding?

**Alan Williamson:** The SFC will take the money back if we are not using it. However, we still have a bit to go before finalising the scheme. Whatever balance remains, the funding council will keep it.

**Ian McKay:** I want to clarify something with regard to that last point and also pick up on Mr Kerr's point about our not quite having achieved the target. The scheme is still in process, and it is not just us who makes the decision. The SFC has to decide whether some people who we might wish to go actually fit within its framework. This is still work in progress. As the committee will see, we are very close to the target, but I remind members that there are more people in this marriage than just us. We need the SFC's approval, too, and discussion is still going on about that.

**The Acting Convener:** I will bring Liam Kerr back in in a minute, but at this point I will invite Monica Lennon to ask her questions, because I am conscious that she needs to be elsewhere.

**Monica Lennon (Central Scotland) (Lab):** Thank you, convener. I will have to excuse myself just before 10 o'clock for 15 or 20 minutes or so, because I have to go to another committee, but then I will come back.

Good morning, everyone. The college's financial position remains challenging. I am aware that the Audit Scotland report highlights the need for caution with regard to adverse fluctuations in income or costs affecting the college's ability to repay the £2.9 million in transformation funding to the funding council and suggests that the college could require further support. Mr Williamson has given us some detail on the deficit figure; that seems to be coming down, which is encouraging, but I note that in Mr McKay's opening remarks he mentioned national pay bargaining and then later talked about that as an unforeseen circumstance. I want to ask Mr Williamson about the scenario planning that has been undertaken on national pay commitments, and then I will ask Mr McKay some questions.

**Alan Williamson:** We have included a five-year financial forecast that incorporates both the national pay award and a repayment of the £2.9 million. At the moment, we are in discussion with the funding council about an appropriate payback period for the £2.9 million.

**Monica Lennon:** Can I clarify when you started to build the national pay costs into your planning work?

**Alan Williamson:** As soon as we started to see the outcomes of the national pay discussions, we started to include them in the financial projections.

**Monica Lennon:** Can you give me a more specific date, please?

**Alan Williamson:** It would have been about three months ago that we received some of the figures on what the implications were.

**Monica Lennon:** But, Mr Williamson, you are aware that the agreement was reached some time ago.

**Alan Williamson:** The agreement itself was reached, but we have not yet reached a view on its financial consequences, because we still have to understand exactly what the funding elements will be and whether we will be supported.

**Monica Lennon:** What support are you expecting?

**Alan Williamson:** We do not know what support to expect. However, in the initial April to July period, the funding council has given all colleges a level of support for the first four months of the 25 per cent award.

**Monica Lennon:** I saw that you wanted to come in on that, Mr McKay.

**Ian McKay:** I was simply going to say that these decisions were not made some time ago. In fact, we still do not know the final outcome as far as the national agreement and the actual cost from college to college are concerned.

**Monica Lennon:** Just for the record, when was the national agreement signed?

**Ian McKay:** You are taxing my memory there. We had the discussions with the Educational Institute of Scotland in May.

**Monica Lennon:** You mentioned that you wear another hat. Will you confirm for the record what hat that is?

09:45

**Ian McKay:** I am chair of Colleges Scotland's employers association. As part of that work, I was involved in those negotiations. We got pretty close to the pay cost, but we have still not identified the final terms and conditions changes, which will have a much more significant effect in some ways for some colleges than for others. If the national class contact hours are changed from 24 to 23 or from 21 to 23, in some ways that will have as much effect on an individual college as an increase in someone's wages. That is still not concluded.

**Monica Lennon:** I am a bit confused about some of the timescales. Mr Williamson seems to have said that work has been carried out to look at the costs and obligations only in the past three months. As the chair of the employers association, you have an important seat at the table, but you did not clearly acknowledge that agreement was reached some time ago.

**Ian McKay:** Let me clarify things for you. Would that be helpful?

**Monica Lennon:** Yes, it would be.

**Ian McKay:** At the same time as we are face to face with people in collective bargaining, we normally work out the numbers as we go along. When something is put on or removed from the table, people have to know its cost and whether it is affordable. Although as employers we are in a voluntary collective bargaining scheme and the Government is not at the table, it would be foolish for us not to at least check with the Government and the funding council whether the things that are being talked about at the table make sense with their numbers. Let us remember that it is quite new for us to have to work out the numbers for the whole sector, and we have to check whether there will be support from the Government for whatever deal comes out of the other end. All of that happens during the bargaining; it is not a fixed situation.

I turn to what Alan Williamson talked about. Throughout the process, which has gone on for some time, we have in parallel been working out the prospective numbers, had them double checked by the funding council, and run them past the Government so that we can have a real discussion in the collective bargaining room, which can be brought to fruition. That has involved checking back with colleges what the likely outcomes will be. It would be prudent for finance directors across the sector to have a good look at likely outcomes of the bargaining throughout the process. That is what we are talking about.

I do not know whether the committee is aware of how the procedures work in collective bargaining at that level, but the point at which we actually know what the cost will be comes when a circular comes out from the joint secretaries at the end of the process. That is the legal document that says what has to be done. I think that the first down payment, which we hope to pay to our teaching staff in July, came out last week. That is just the first payment; others will follow. The first time the exact cost was known was last week, when that circular came out.

It is prudent for finance directors to see the way the wind is blowing and take account of that in their thinking.

**Monica Lennon:** I might be wrong, but I am sure that the Audit Scotland report says that the annual pay increases were agreed in 2015. Perhaps you know better, but we can clarify that afterwards.

**Ian McKay:** Believe me, I know something about that.

**Monica Lennon:** I will move on, because I appreciate that the evidence session is not all about national bargaining. However, Mr McKay has made some interesting remarks.

We have talked about the college's financial situation. An estate management review is under way, looking at opportunities to make savings. I am interested to know what impact that will have across the four campuses, and I am interested in your approach to that and in how it might impact on students and the curriculum review. Perhaps Ms Bruton would like to go first on that.

**Annette Bruton:** I will make a couple of remarks and then hand over to Mr Williamson, because this matter sits within his remit.

We had a review done of our estate by an external party because there have been a lot of discussions since the merger about whether we could save money by closing a campus. Having that level of uncertainty is very unsettling for staff. One of the things that that review showed us was that our four campuses are just about the right size for the number of students we have. That was extremely helpful to learn. It is probably more expensive to run four campuses than it is to run one, but our four campuses are in some of the most deprived areas in the region and are well located in that regard. Further, the size of the buildings is about right for the level of activity that we have got—we could expand a little, but not much.

The focus on the estate has been about considering the areas of our provision that we need to change for curriculum reasons, and that has focused on construction and engineering, because those are the areas in which we need to modernise. We might need to shift some curriculum areas or build some new provision on one of those sites but, at the moment, that is the scope of the review that we have been undertaking. Mr Williamson can add a little bit more detail.

**Alan Williamson:** We have been looking at the options for construction and engineering in particular, mainly on the basis that those facilities need investment, and we are considering some centralisation of those. Following the report, we know that our capacity is probably close to the right size across the four campuses. In addition, we are considering taking a joined-up approach with other institutions in the west corridor of Edinburgh. Similarly, every year and on an on-going basis, we try to increase the room utilisation—for example, to get more students into classes, which might involve knocking down walls. We are also investing in sustainability, which involves using LED lighting, replacing electricity with gas in our workshops and so on. We are also considering using additional funding from the funding council to install a combined heat and power system.

On the financial savings side, we have probably been saving around £600,000 to £700,000, and there is potential for more savings once we put in the investment of £1.3 million.

**Monica Lennon:** Will that saving of somewhere between £600,000 and £700,000 be an annual saving?

**Alan Williamson:** It is a recurring saving.

**Monica Lennon:** Broadly speaking, you are committed to retaining four campuses.

I was interested in the comments about construction and engineering. I am on the cross-party group on construction, so I declare an interest in that regard. I know that it is an important area.

Mr McKay, you said that you have tailored courses to reflect the needs of local communities. Can you explain your approach to that and how you know that that is working for local communities?

**Ian McKay:** Part of the process that we have gone through has involved an awful lot of looking at ourselves and examining all our processes—not only how we count the beans but how we do the job that we are there to do.

At a board meeting relating to a report on the initial transformation plan, when we were seeking to make financial savings, we considered a report that Ruth Silver produced on widening access, which you might be aware of. Along with people from Skills Development Scotland and the funding council, she carried out some interesting and useful work—which the funding council paid for—for the Glasgow colleges. Basically, she asked all the key stakeholders what they were doing, fed that back into the three colleges, matched that to their output and enabled them to start to make changes to ensure that what they were doing matched what their communities needed. When we heard about that, we were quick to say that we wanted some of that for the colleges in Edinburgh and the Lothians that we represent, and we asked the funding council to fund it, because that work involves considerable expense. That initial work acted as the starting point for the much larger piece of work that the principal and people on the education side have done on the curriculum since then. That gives us a bit of confidence that what we are doing is properly informed by the views and attitudes of our partner councils and so on.

**Monica Lennon:** I need to be at the Standards, Procedures and Public Appointments Committee in a few minutes and I do not want to be late or I will be in trouble, so I will finish by picking up on the reflections on governance. Mr McKay, you said that the board was not perfect. Nobody is perfect but, in hindsight, what would you have done differently? Have you, as the chairperson, and other board members undergone any training to upskill and improve?

**Ian McKay:** From day 1 of Edinburgh College being established, we introduced some of the processes that are now being introduced across the sector in relation to board review, with an independent review of the chair and a third-party independent review of how the board works. Those same processes are now being introduced across the sector, mostly because of the damaging reputational issues that there have been elsewhere in the sector in the past three or four years. That is a very good move and it is in line with the work that I have done through the Institute of Directors and so on.

What would we have done differently? Hindsight, as this committee probably knows better than most, is a wonderful thing and, had we known from day 1 that we should be looking much more closely at the very specific way in which we were gathering students and at the number of students who were participating, and had we known that there was capacity out there in the community to feed what we thought was the size of the college when we first put it together, that would have been by far the best thing to do.

You are right that I said that boards make mistakes; I also said that I have some very good people on my board. I think that the only thing that boards can do is to learn from what has happened and seek to change thereafter. I said in my answer to Alex Neil that we have changed a lot of the structures on the board to make it more functional and we worked on the commercial and international position, because we saw that problem coming and wanted to react to it.

We have reacted by making the board able to move more quickly when it deals with such things and we have also taken on board the stuff that you guys on the committee have done in pointing us towards areas that we may need to look at more closely. There is little point in any of us who are charged with trying to get the best for the public purse not listening to people and not changing how we do things, so we are quite grateful for that. We have made a number of changes and I am as confident as any football manager could ever be that we are starting to get things right. I am sure that, if I had a chair, he would say that he had full confidence in me—we all know what that means.

We have done what we can. We are very conscious that public money is involved. I will say one thing to the convener that may be helpful to the committee generally—in preparation for this meeting, after looking at Caroline Gardner's report, which you will be talking about in the next wee while, I asked Alan Williamson to look at our underlying accounts and our trends for the next three to four years. I was happy when Alan produced those figures for us, because black ink was showing and was growing for Edinburgh College. At the end of the day, as far as my board is concerned and I am sure as far as you are concerned, that is the outcome that we want to see—that we have managed to get to the bottom of these problems and we have managed to move forward into a situation where the college's finances and work are much more stable.

**The Acting Convener:** Thank you. Liam , do you want to return to your questions?

**Liam Kerr:** Yes, thank you, convener. We were talking about the voluntary severance scheme and looking at how that will work. My understanding is that part of the decision on who will be chosen and who will be accepted for the voluntary severance scheme is to do with whether courses are efficient. I see from the report that inefficient courses are in danger of being removed, or maybe I can go further and say that inefficient courses will be removed. For clarity, what is efficiency? Is it purely financial? You mentioned that it would mean where students would not be suffering, so what is the definition of efficiency?

10:00

**Annette Bruton:** There are several elements to efficiency. One is class numbers, but there is not an absolute number. For example, a course in business can run with much larger numbers of students than a course where we are making provision for young people with additional support needs. As you would expect, we set the course targets for each subject area according to what is pedagogically sound and what breaks even, and we might even be prepared to make a loss on some courses because they are for vulnerable students or because they are entry-level courses and we know that, if students pass those courses, they will go on to sustain other courses and get into work in the future. We set an efficiency quotient for each course on a case-by-case basis, so, depending on aspects such as safety, we might be able to have a class of 30 undertaking a course in economics, but we would not have a class of 30 in a construction lab, because that would not be safe. For every course in the college, we have worked to identify what would be an efficient number.

That is one element of efficiency. Another element of efficiency is the staff costs and overheads that go with a course. We would seek to run every course we could for students, but we cannot run courses—unless they are for students who are very vulnerable and have additional support needs—with only two or three students, and you would not expect us to.

We are trying to maximise the benefits for students, and we are also trying to reduce courses where there is little or no demand. There are some courses in the FE sector where demand is tailing away, and there are other courses where demand is growing. Monica Lennon’s question on the curriculum was about how to get that right, and we are trying to run a curriculum for the future. In the past, we have turned away too many students who wanted to come to Edinburgh College, because they did not have the qualifications that they needed to get into college. We are now investing more heavily in courses that are viable and can run and which give people the qualifications that they need to get on to the course they desire.

It would be nice and simple if I was able to say that the quota was 15 or 20 or 25, but it depends on the factors that I have described. We now have an extremely detailed analysis across the whole of our college about what the numbers have to be for each course. If a course is not viable, we seek to ensure either that the students can join another class, where there is another one running in parallel, or that they can change the days when they come on a course or can find another course that suits them. It is always a balance between student demand, what employers need—because there is no point in training students for something in which there are no jobs—and the efficiency of the college, because we are spending public money. We do not have a blank cheque to run courses for everyone regardless of whether they are efficient or not.

**Liam Kerr:** Could you give a brief example? What are some of the courses that are inefficient and have thus been cut or scaled back?

**Annette Bruton:** Let us say that we are running eight parallel childcare courses and that we have offered those courses on lots of different days, but we find that on each of those courses we get only 14 students. Even with the national average of dropout, that will come down by a couple of students by the end of the year. That begins to make those courses inefficient. If, however, we consolidate the days on which those courses run, while maintaining as much flexibility as we can, we can combine them so that instead of running eight we are running six. Then we will have more efficient numbers, of 25, 26 or 27 students in each of those courses, and in childcare it is possible to run courses with that number of students.

**Liam Kerr:** But you are cutting some courses?

**Annette Bruton:** We are not cutting any students, but we are cutting the number of occurrences of courses.

**Liam Kerr:** So there will be fewer course options.

**Annette Bruton:** No, there will not be fewer course options. There may be fewer days on which the course runs, or there may be less flexibility.

**Liam Kerr:** What impact assessment has been done by the college on the implications for students? You mentioned the labour market. What impact assessment has been done on your ability to provide people to the labour market and, indeed, to provide routes to university?

**Annette Bruton:** That is part of our wider curriculum review. In the past couple of years, far from cutting courses we have been introducing courses to meet that need.

**Liam Kerr:** Has an impact assessment been done before undertaking the scheme that will result in voluntary severance?

**Annette Bruton:** An impact assessment would be undertaken if we were going to close a course, and an impact assessment is always done when we create a new course.

**Liam Kerr:** Has an impact assessment been done? We heard earlier that there is a very far-advanced voluntary severance scheme and there are very far-advanced programmes to transform the product. What impact assessment has been done—in the past tense—to check the impact on the labour market, the students and progression to university?

**Annette Bruton:** We have done an impact assessment on the voluntary severance scheme and the effect that it will have.

**Liam Kerr:** Was that done in consultation with the students and the labour market—with local employers, for example?

**Annette Bruton:** I do not have the detail of the impact assessment with me. I will have to write to the committee about that.

**Liam Kerr:** I would be grateful for that. Thank you.

You talked about adding students to courses so that the courses are now bigger. That will, I presume, have a significant effect on staff and on the ability of the college—with fewer people—to deliver those bigger, more fully subscribed courses. What assessment has been done of the impact on the staff of the changes that are being made?

**Annette Bruton:** I am just checking with Mr Williamson, because that is charged in Mr Williamson's bailiwick. I believe that it will have been done as part of the same impact assessment that looked at the voluntary severance scheme.

**Liam Kerr:** Perhaps that information can be provided.

I will wrap up with a final question on which, perhaps, I might bring Mr McKay back in. However the financial instability—if I can put it that way—was incurred, is there a danger that the drive for financial stability that we have been talking about will have a negative impact on course provision, the learning journey and the staff experience?

**Ian McKay:** Any change in any public service can always be regarded as having a negative effect somewhere. In this particular instance, the board has been at pains to come at the whole question from the opposite direction from what some of us may remember from the days of value for money, Mrs Thatcher and so on. In fact, we have come at it by looking at what need is out there, asking what kind of curriculum Edinburgh College should be offering and using that as our driver to determine how we can produce a college that delivers that curriculum efficiently.

In discussion, the board made it clear that we did not want the exercise to be driven by cost cutting or something that might have the unforeseen consequence that Liam Kerr described. At the end of the day, that would not achieve what needs to happen. At Edinburgh College, we have tried from the outset to learn from the best of the historical FE provision in the area and to move forward into something that the community wants.

I am reasonably confident that we started by asking what is good for students and the community and what will make a college that delivers that. We have then tried to do that in such a way that we do not see negative consequences. By all means, let us have a discussion about whether we manage that, either here or somewhere else—give us five years or so to see how it comes out.

As I say, I am hopeful that, in beginning to look at our underlying trends and the stability of the college going forward, we are starting to see black ink, which is helpful for everyone. It is helpful for the general mood within the college and for our staff, and it takes everyone forward. That is what the board wants to see. I suspect that it is what the executive wants to see and, indeed, what this committee wants to see as well.

**The Acting Convener:** We look forward to seeing that.

Let us return to the EIS submission. Your explanation of the change to the system of withdrawals was that you did not want a withdrawal to be done by a lecturer; you wanted to do follow-up. I absolutely understand that. When is a withdrawal reported? Based on the follow-up that you are doing, how many of the students re-engage with courses?

**Annette Bruton:** A withdrawal is reported as soon as we are certain that so much time has passed that the student would be unable to catch up or when the student can tell us face to face or in writing that they are definitely not coming back. That varies from student to student, but we try to get the students back into their classes in a matter of days rather than weeks, so it is reported as soon as we know that the student has withdrawn from their class.

I am sorry, convener—what was the second part of your question?

**The Acting Convener:** How do you know how successful you are? What percentage of those students return to their courses and re-engage?

**Annette Bruton:** This year, our retention rates are up significantly, so—

**The Acting Convener:** That was not my question. I am asking specifically about the students who would otherwise have been marked as withdrawals and with whom you are working to get them back into the college.

**Annette Bruton:** I will need to give you the figure later, but I can tell you that, last year, 5.2 per cent of our students withdrew and, in the current year, which ends tomorrow, 4.6 per cent of our students withdrew. My belief is that the change to the withdrawal system has helped us to retain more students.

**The Acting Convener:** Okay. The system is not gaming the numbers but providing you with an early opportunity to engage with students.

**Annette Bruton:** That is correct.

**The Acting Convener:** On the resulting EC units, I understand what you say about national 5 French preparation, which you gave as an example. I assume that that would involve teaching materials and class time.

**Annette Bruton:** Yes, it would. You would expect that, if a student was being prepared for assessment, it would be done using the materials that were needed for the unit. However, the teacher would also prepare materials for practice assessments and work with students on the areas of their work that they needed to revise individually or collectively.

**The Acting Convener:** Are you in a position to guarantee that no resulting EC unit has no teaching materials, class time or financial assessment?

**Annette Bruton:** There should be no examples of teacher time not having been used to support students in, for example, studying for their exams, although that might be part of the overall costs of the staff for the whole year. I would be happy to consider anything that anybody thinks is problematic. I do not expect to see such a situation.

**The Acting Convener:** I would have thought that you, as the principal, might want to investigate that.

**Annette Bruton:** I will, indeed.

**The Acting Convener:** You came to the committee asking for a survey that was conducted by the EIS. I will be helpful, as I hope that the committee can be. We have had a number of pieces of correspondence from the EIS since the section 22 report on Edinburgh College landed with the committee. It strikes me that there might be a fundamental issue of communication—of which we have had an example today—between the college, the board and the EIS. Are you taking any action to address that?

**Annette Bruton:** We are. A key element of the work that I have been doing over the past two years is trying to build industrial relations in the college. In fact, we have some examples of excellent industrial relations in Edinburgh College, because we have more than one union. I have introduced a range of measures that seek to support partnership working. Some of my EIS branch officials are sitting behind me—I cannot see their faces, but you can. In any job that I have done, I have always worked well with the trade unions. I believe that strong trade unions make for a good workplace, and I will continue to work towards better partnership working with the EIS in particular.

**The Acting Convener:** Thank you. That is helpful.

**Monica Lennon:** As I am back from the Standards, Procedures and Public Appointments Committee earlier than expected, I will ask about an issue that was raised with me recently. It concerns another college, where there is a practice whereby students who drop out after a couple of weeks—certainly, before December—are pursued for a fee repayment. I can tell by the look on your face, Ms Bruton, that that probably does not happen in Edinburgh College. Are you aware of that practice?

**Annette Bruton:** No, I am not.

**Monica Lennon:** It is not part of your procedures.

**Annette Bruton:** No.

**Monica Lennon:** That is reassuring.

**The Acting Convener:** We have concluded all questions from the committee, so I thank the witnesses for attending and suspend the meeting briefly to allow for a changeover of witnesses.

10:15

*Meeting suspended.*

10:17

*On resuming—*

## "Common Agricultural Policy Futures programme: Further update"

**The Acting Convener:** Under item 3, we will take evidence from the Auditor General on her further update report on the common agricultural policy futures programme. I welcome her and her colleagues from Audit Scotland and I invite her to make an opening statement.

**Caroline Gardner (Auditor General for Scotland):** The report looks at the progress that the Scottish Government has made with delivering its common agricultural policy futures programme since I previously reported. It covers progress up to May 2017.

Before I outline my findings, it is important to note that the rural payments system is working, processing applications and making payments. However, it is not working as well as intended, and some parts of the system are still being developed and redesigned. I acknowledge the tremendous efforts that staff across the agriculture and rural economy directorate continue to make in delivering the programme and improving the system.

The Scottish Government has made significant changes to the leadership and governance of the programme to improve the transparency of decision making and increase the strategic capacity of senior management. However, it is clear that the difficulties that were experienced in previous years have had a detrimental impact on the programme over the past year. The report highlights that significant management time is still focused on short-term payment priorities. The changes to leadership will take time to embed, and the Government will need to ensure that senior management are able to focus on the directorate's longer-term strategic needs.

I highlight in my report that the application process has improved, with the proportion of applications that are made online increasing, but the Government has not been able to make 2016 payments as quickly as it would have liked. The system required significant development to be able to make 2016 payments, and the Government undertook additional checks to make sure that there were no errors.

To make payments to farmers more quickly, the Government introduced another loan scheme. That made payments to farmers from November 2016, which was welcomed, but it put the Government's budget under pressure, and the requirement to maximise the recovery of loans by the year end put pressure on payment timescales and staff.

The report also summarises the findings of our recent audit work on the European agricultural funds accounts. Through that audit, we identified a number of weaknesses in controls, which mean that there continues to be a risk of significant financial penalties. In my report last May, I recommended that the Government should complete a detailed assessment of the risk of financial penalties and, this year, I highlight that that assessment is not yet complete. In the absence of the Government's assessment, and with acknowledgement of the uncertainties that are involved, we have updated our estimate and found that penalties of up to £60 million are possible.

The programme closed at the end of March this year, when programme activity moved into the business of the directorate. Three key systems are still being developed. The programme spent £166 million to the end of March, and the Government forecasts that it will deliver a CAP-compliant system within the budget of £178 million.

The Government will continue to incur costs that relate to the rural payments system. An independent technical assurance review found that, although the system's design and infrastructure were fundamentally sound, significant investment will be needed to develop, rewrite and redesign parts of it. The review also noted the lack of a fully tested, comprehensive disaster recovery plan.

Overall, the report highlights that the programme has cost significantly more than expected, has delivered less than originally anticipated and will not deliver the full range of planned benefits. To date, it has not delivered value for money. My report makes a number of recommendations to help management to prioritise activity as the programme closes and moves into directorate activity.

Accompanying me is the team that worked on the report and on previous reports on the issue. We will do our best to answer the committee's questions.

**The Acting Convener:** Before I invite members to ask questions, I have a question. You referred to the independent technical assurance review of the information technology system that the Scottish Government commissioned. You will be aware that we asked the Scottish Government to provide a full version of the review but that it had concerns about commercial confidentiality and the possibility of cyberattacks, so it did not want to publish the review. However, it has provided us with a summary of the key findings. Given that your report concerns an IT programme on which many millions of pounds of public money have been spent yet which has been beset by delays, I would like to be reassured that, as Auditor General, you had access to all the information and were not inhibited in producing your report.

**Caroline Gardner:** I have had access to all the information that I required to produce the report. I have read the technical assurance review in full, and I know that my team has worked with it closely and that it has informed the conclusions in my report.

**The Acting Convener:** That is helpful to know.

**Colin Beattie:** The biggest concern is the potential for disallowance and the risks with that. You say that you did a detailed assessment. What did that entail?

**Caroline Gardner:** I will ask the team to talk you through the detail in a moment. It is worth saying up front that my recommendation last year was that the Government should carry out the assessment itself in order to prioritise its investment and to decide which parts of the system should take priority, to minimise the risk of penalties and disallowance. That work continues and the Government does not have its own figure.

We used the information to which I referred in my answer to the convener's question and our knowledge of the European Commission's rules to carry out our assessment in relation to delayed payments and the controls that are required to be in place. Morag Campsie is probably best placed to talk you through how we did that.

**Morag Campsie (Audit Scotland):** The financial penalties that can be incurred relate not only to missing deadlines but to any weaknesses in controls that we identify, if they pose a risk to the European funding. In the European Commission regulations, there is an audit circular that sets out a table with the percentages that can be applied for disallowance, which go from about 2 per cent up to 25 per cent, and that depends on the number of control weaknesses that are identified. Paragraphs 57 to 64 of the report set out what we found in the European agricultural funds audit, which identified a number of weaknesses in controls. We used that information to refine our assessment from previous years. Our assessment also takes into consideration missing deadlines.

**Colin Beattie:** You adjusted the potential loss from £125 million to £60 million. Why was that adjustment made? Were there improvements in the system or better controls?

**Caroline Gardner:** Last year, we gave a range—our estimate was between £40 million and £125 million. That assessment was prepared in advance of the publication of the report in May 2016. After that, the Government was granted an extension to the payment deadline, from the end of June to the middle of October, which affected the penalties, or disallowance, that were likely to come through.

It is fair to say—as we say in paragraphs 57 to 64 of today's report—that in the audit of the European agricultural funds accounts we found that some of the weaknesses had increased since previous audit work. It is a complex calculus, which Morag Campsie talked you through. The combination of all that brings the upper limit down from £125 million to £60 million, with a recognition of the uncertainties involved and of the fact that if the European Commission decides to impose penalties the Government can negotiate with it on that.

**Colin Beattie:** I am not defending the system; it has clearly been a problem. However, last year, when I presume that things were even worse than they are this year, the penalties that were incurred were £5 million. I hope that they would be mitigated in some way.

**Caroline Gardner:** We hope that they are being mitigated, too. That is reflected in the fact that the upper limit has come down in the estimate that we published in the report.

The £5 million relates only to payment delays. As the team said, there is also the potential for significant penalties that relate to control weaknesses, and we know from our audit of the European agricultural funds accounts that those weaknesses exist. It is for the European Commission to determine what penalties it wishes to impose, and the Government can negotiate, but there is a second stream of potential penalties, as well as those that relate to delayed payments.

**Colin Beattie:** From your experience and from what you have seen, are the control issues being addressed? Are things improving?

**Stephen Boyle (Audit Scotland):** In paragraph 60, we give a flavour of the control difficulties that we encountered during the EAFA audit. That was a challenging audit, which we concluded at the end of February. The difficulties that need to be overcome are really about the availability of the audit trail that the system reports, to support the numbers in the EAFA. Although the potential disallowance has reduced, some of the challenges that we encountered in relation to the evidence to support the numbers made the audit a difficult experience. Although, for the overall account, we were able to verify the numbers that were produced for us to audit, we made recommendations, not findings, which are to be addressed. We will follow things up during the audit this year.

**Colin Beattie:** Auditor General, you said that the system is working—although perhaps not as well as it should be—and that it is delivering. You also said that the programme has not achieved value for money. On the face of it, I understand why you might go down that road. However, given the disallowance that might have been incurred had the system not been in place, the system must be delivering some value for money, if not as much as might have been hoped for. Is that correct?

**Caroline Gardner:** I said that the system has not yet achieved value for money, in recognition of the fact that the Government still hopes that it can identify more areas in which to achieve benefits from the investments that it has made, such as the land mapping system and customer account information that are being developed and which we hope will be in place in the future.

The reason for my judgment that the programme has not yet achieved value for money is very much about the comparison between the expected costs and benefits and where we are now. The costs have risen from the original planned costs of about £102 million to the current estimate of £178 million, and we know that some of the planned benefits have not been achieved.

The risk that disallowance will not be minimised is still very much there. Some of the benefits to do with integrating pillar 1 and pillar 2 payments, an improved experience for users and customers of the system and improved reporting were taken out of scope deliberately when the system was rescoped in 2015. There are elements that will still need further investment to achieve future CAP compliance. All those elements together drew me to conclude that the system has not yet achieved value for money. I recognise that the Government is working to see what more value it can achieve from the system.

**Liam Kerr:** You made four recommendations in the previous report, but only one of them has been implemented. When does the Government say that the rest of them will be acknowledged and implemented?

10:30

**Caroline Gardner:** We can give you more detail on the Government's plans for the implementation of the three recommendations that is not yet complete. My comments reflect those that I made in my opening statement. The focus on being able to open the applications process and make payments in 2017 has got in the way of the longer-term strategic changes that are needed to make the whole programme as robust and resilient as it can be. I ask Gemma Diamond to add more about progress.

**Gemma Diamond (Audit Scotland):** The three other recommendations are very much work in progress. In the report, we recognise that, as well as the requirement for further efforts to be made. For example, as the Auditor General said, last year we recommended a detailed assessment of the risk of financial penalties to help the Scottish Government to make decisions on priorities. We note that the changes that have been made to governance have brought in some of those on the accreditation side to sit on committees, which helps the broader assessment of all the issues, but the more detailed assessment of what the built-up risk of financial penalties is across all the different schemes has not been done. Although changes have been made, the Government needs to look more broadly at the risk of disallowances; that work has not been done to the detailed level to which we would expect it to be.

In the report, we talk about knowledge transfer, which was the subject of another recommendation. That is very much a live issue, given that the programme is at an end and contractors are leaving. A transition plan has been put in place but, given that so much on-going activity concerns the need to make payments and to deliver developments to the system, the risk is that time will not be built in for knowledge transfer to take place. There is not adequate contingency to allow for that. We highlight the risk that the plan might not succeed.

The third recommendation was about a disaster recovery solution. We note—this issue came up in the independent technical assurance report, too—that the situation has not moved on much, but the Scottish Government is starting to consider it, given that the legacy systems have been in place for much longer than expected. That is where the problem lies with disaster recovery. The new system has a built-in disaster recovery system; it has not been tested, but it is there. Because the Government has had to rely on the legacy systems for much longer, it is, as we suggested, looking at what risk it is prepared to take at different parts of the process and therefore what disaster recovery arrangements would be appropriate to put in place in the short term and into the longer term.

**Liam Kerr:** You mentioned the knowledge transfer recommendation. Paragraph 94 mentions that there are

"around 20 contractors with a pivotal role"

and that

"A significant number of contractors are involved in developing the system".

When you say "contractors", are you talking about the classic IR35 one-man-band who is engaged to develop something? Is that correct?

**Gemma Diamond:** No. The majority of contractors come through the main supplier, which is CGI. When we refer to contractors, we mean contractors who are employed by or through CGI.

**Liam Kerr:** You mean people who are engaged through CGI, not employed by CGI.

**Gemma Diamond:** Yes—sorry.

**Liam Kerr:** I understand. That is interesting.

Now that a knowledge transfer system is in place, we are trying to capture all the knowledge to get it internalised for employees to use. Is that correct?

**Gemma Diamond:** Yes. As the programme closes, fewer people will be working on system development, so it is essential to transfer the knowledge to the staff who will run the business as it moves into business-as-usual mode, to ensure that they know and understand how the system operates.

**Liam Kerr:** Have you been given any idea of when and how that process will conclude? As you rightly say, a finite number of staff are in place. Those staff, who are incredibly overworked, are about to have an enormous amount of knowledge transfer placed on them. Is that correct?

**Gemma Diamond:** For some of the key roles, work shadowing has been put in place over the past few months to get the knowledge transfer in place. That issue is at the top of the Scottish Government's priority list as something that it must do, and we know that arrangements are in place for that work to take place.

**Liam Kerr:** Should the Scottish Government engage or employ more people? Is that happening?

**Gemma Diamond:** The directorate has been looking at the capacity that it has to manage the move into business as usual. In the report, we talk about leadership changes and increasing the leadership team to make sure that it has the capacity to deal with the business as usual, as the system comes out of development and into normal processes.

**Liam Kerr:** Convener, I have some further questions, but I think that I will come back in later with them.

**The Acting Convener:** Okay. Willie Coffey has a question.

**Willie Coffey:** Could we go back to the budgetary issues and try to steer away from the software ones that are usually focused on in discussion here? The second paragraph of the opening of the report says that the Scottish Government

"expects to deliver a system that complies with CAP regulations within the £178 million budget"

and you have discussed that in your responses to some of Colin Beattie's questions. What is your perspective on that, if you have had a chance to consider it? You were also projecting and considering additional work that might be required in order to develop, test and deliver the system fully. Has there been an analysis of the extent of that and has Audit Scotland had a chance to scrutinise it?

**Caroline Gardner:** First, I refer the committee to exhibit 7 on page 18 of the report, which shows the programme costs as at 31 March 2017. Of the total £178 million budget, £166.4 million had been spent by that point. The balance was committed to a range of other things that had to be achieved in order to ensure CAP compliance at that point. Most significantly, there are three additional parts of the system that still need to be put in place and that are budgeted for: the scheme accounting and customer account management system, the land parcel information system and pillar 2 capital claims. We think that the budgeting is reasonable, but until those parts of the system are up and running, there is clearly a risk that they may cost more than expected or that there may be unanticipated problems with them. That covers the £178 million programme budget.

A little further on in the report, we identify that in order not just to maintain the system but to develop and stabilise the elements that are already in place, the Scottish Government has entered into contracts with two suppliers. There is a contract with CGI that is worth £29 million over two years, which reflects its option to extend that payment, and a smaller contract that is worth £3.5 million to maintain and develop some of the legacy systems to keep it all together. We acknowledge in the report that there is always a need to invest in maintaining and continuing to develop an IT system in order to ensure that it stays fit for purpose and can meet changing needs. However, we also conclude that the scale of the investment that is required is more than would normally be anticipated. That reflects the findings in the technical assurance review.

Gemma Diamond may want to add detail on that.

**Gemma Diamond:** At the moment, we know that the technical assurance review suggests that significant investment is required. We do not yet know what the costs will be. The Scottish Government is currently talking with the contractors about the costs and how significant they might be. It is clear that there will be a number of decisions for the Government to make about where it prioritises the investment. That is why we made a recommendation in the report about the Government's having in place a framework to allow it to make such decisions and to ensure that it includes the technical requirements of the system, the requirements of European Commission audits, and how it will prioritise investment. What do the farmers want to be prioritised, and what do the area offices' staff need? There has to be a framework that brings all those things together so that the Government can prioritise investment among them.

**Willie Coffey:** How regular will follow-up assessment and projection of continuing financial support to develop the system be? It is obvious that the package will need continuing maintenance and possibly some investment, as policies and demands change. How regularly will we see reforecasts of what additional funding will be required year on year, to support the package?

**Gemma Diamond:** The directorate will need, as part of its budgeting process, to look annually at the actual needs for that year and the next, as it would in any year. The system is now no longer a programme but is part of business as usual, so that will form part of the Government's overall assessment about what it needs, what investment might be required, where the priority areas are and how it might spread the funding over the years.

**Willie Coffey:** Paragraph 19 refers to "difficulties experienced across Europe". Have other jurisdictions experienced similar difficulties in implementing the new CAP system? What experiences have they had to contend with?

**Caroline Gardner:** We know that last year a number of member states had difficulties in meeting the end of June timescale for making payments. As a result, the Commission gave a wider extension to mid-October 2016 to a number of member states.

We do not know what the position is this year and we are not in a position to comment on practice elsewhere in the European community at the moment, but we know that difficulties were widespread last year.

**Willie Coffey:** I presume that after 2019, when the UK pulls out of the EU, the software will have to change radically again, because the compliance rules will be different.

**Caroline Gardner:** None of us knows what the position will be in 2019. I assume that the Government will still want to develop a system for providing support to the rural economy. One area that the directorate is looking at is how the system could be used to provide wider support, with further development as required. Obviously, the situation is not a helpful development in terms of providing what is required for this CAP programme.

**Willie Coffey:** I presume that the system will stay in place until we know what it should be replaced by. The system should have a lifespan beyond the point at which the UK exits the EU.

**The Acting Convener:** Indeed. One would hope that, for the amount of money that we have put into it, it will not have just a limited shelf life.

I will bring in Liam Kerr for one final question.

**Liam Kerr:** Just one?

**The Acting Convener:** You might want to make it one in parts.

**Liam Kerr:** Okay. It is a very quick question.

Two contracts have been extended. The CGI contract has been extended, and at paragraph 43 you say that another one has been extended. Do you have any comment to make on the extension of contracts of people who appear to have failed to deliver the IT system that they were paid to deliver?

The second part of my question is on the loan scheme, which I am very pleased about, because we are talking about people's lives. Money was pulled into the loan scheme. What has suffered as a result of that funding?

Finally, who is at fault for this?

**Caroline Gardner:** At paragraphs 42 and 43 we talk in some detail about extension of the contracts. The option to extend the CGI contract for two years existed from the beginning. Given the problems that have been experienced, once the Government started to look at what would be required there was little choice but to extend the contract. In the report, we recognise that the Government has negotiated quite rigorously with CGI about the conditions of the extension, and that contract monitoring has improved. That gives me some comfort that the extension is being done in a way that is based on a proper appraisal of the options and which maximises the chance of getting good value for the additional money that is being spent.

The other contract is smaller and reflects the fact that, against expectations, the rural payments system overall is still relying on a number of legacy systems that need to be maintained in order to play their part. Set against the point that the system has reached, those decisions both seem to be reasonable.

I ask Stephen Boyle to pick up the question on loans.

**Stephen Boyle:** I refer Mr Kerr to exhibit 4 in the report, where we set out in a bit more detail the progress and use of the loan schemes over the past few years, covering the various mechanisms that have been used, as well as recovery and the amounts outstanding. The Government funded the loan schemes from its financial transactions budget, which is designed to fund things outside public sector bodies. It is typically used for regeneration, infrastructure and housing initiatives.

There was an impetus to recover balances of loans by the year end. We note the balances that remained outstanding at the year end. The Government noted that it was able to support and deliver the programme through what is referred to as underspend in other areas, to arrive at the year-end position.

**Liam Kerr:** Right. Who is at fault?

**Caroline Gardner:** The committee may recall that I concluded in my report last year that the problems in the system go right back to the beginnings of the programme in 2012 and the extent to which the complexity of the new common agricultural policy programme was underestimated. Beyond that, the changes that were agreed between the Scottish Government and farmers and rural businesses added to that complexity. We have seen significant changes in the civil servants and the ministers who have been accountable for the issue in recent months, but the question about underlying responsibility goes right back to 2012. We refer the committee back to the earlier report, which it might find helpful.

**The Acting Convener:** There will be a brief suspension to allow some of the witnesses to change.

10:45

*Meeting suspended.*

10:46

*On resuming—*

## "Scotland's colleges 2017"

**The Acting Convener:** Agenda item 4 is on "Scotland's colleges 2017". We will take evidence on that report from the Auditor General, whom I welcome back. I also welcome her two colleagues from Audit Scotland. I invite the Auditor General to give an opening statement.

**Caroline Gardner:** Thank you, convener.

The second report that I will speak to is my annual report on Scotland's colleges.

Colleges have an important role in helping to achieve sustainable economic growth by contributing to the development of a highly educated and skilled workforce. The college sector has been through major reform in recent years, and I have reported to the committee and its predecessor committee on the sector's progress through my annual overview reports. "Scotland's colleges 2017" provides an update on college finances as well as an analysis of learning activity.

Since 2012-13, the Scottish Government has set a national target for the college sector to deliver a specific volume of learning. The sector has continued to exceed that target, although its performance declined slightly in the past year. The Scottish Government prioritises full-time courses for younger learners. With the number of young people in Scotland falling and school leavers increasingly going into employment or university, we think that it will be harder for the sector to continue to achieve the national target in the future. We illustrate that in exhibit 1, which is on page 9 of the report.

There were more than 220,000 students in colleges in Scotland in 2015-16. The number of students attending college has fallen slightly since last year. If we measure by full-time equivalents, numbers are at their lowest level since 2006-07. Most of the reductions are in the 16 to 24-year-old age group. The changes in student numbers are shown in exhibits 2 and 3 on pages 10 and 11 of the report. Because overall demand for college places is still not recorded, we are not able to say whether that reflects a fall in demand or other factors.

If we look at how well students do in college, we see that attainment continues to improve. The percentage of full-time students who successfully completed their courses increased in 2015-16. Most full-time students also continue to be satisfied with their college experience.

We note that the financial health of the college sector remains stable, although it has deteriorated since 2014-15—we analysed college accounts and found that 11 colleges had underlying deficits, compared with nine in the previous year. Overall, the sector's underlying deficit was £8 million in 2015-16 compared with £1 million in the previous year.

Colleges will receive an increase in funding from the Scottish Government in 2017-18, but they will still face financial challenges. In particular, Colleges Scotland has estimated that meeting the costs that will arise from implementing agreements from national pay and conditions negotiations could amount to about £80 million over three years. The Government is still working to verify those figures.

Some colleges have started to develop longer-term financial plans, and work is under way with the Scottish Higher and Further Education Funding Council to establish a common set of assumptions to underpin them. That will help to support financial decision making that takes account of immediate and future cost pressures.

The report makes a number of recommendations for the Scottish Government, the funding council and individual colleges to take forward. Those recommendations are summarised on page 6 of the report.

I am joined by Mark MacPherson and Stuart Nugent, who carried out the work for the audit. We are happy to answer any questions that the committee may have.

**The Acting Convener:** Thank you, Auditor General.

**Colin Beattie:** Mention is made of five colleges that had deficits. Some of them have already come before the committee but there are some new names in the report. Should we be concerned?

**Caroline Gardner:** We talk about four colleges that are facing particular challenges to their financial sustainability; three of them are the ones on which you received section 22 reports in this year. The other is New College Lanarkshire, which is summarised in exhibit 8 of the report. At the point when section 22 reports were being drawn together, I made the decision that it was not appropriate at that stage to bring you a section 22 report on that one college, but we are monitoring it closely, so you might see further reporting in the future, depending on what has happened during the financial year that is about to close.

**Colin Beattie:** On re-reading, I am talking about Dumfries and Galloway College, which also failed to meet its targets.

**Caroline Gardner:** Can you refer me to the paragraph you are talking about, Mr Beattie?

**Colin Beattie:** It is paragraph 8.

**Caroline Gardner:** I apologise. You are talking about the targets for student numbers rather than the targets for financial performance.

We do not have particular concerns about what is happening in the areas that have not been individually reported to the committee already, but the assurance holds that through the auditors and through the work that the Audit Scotland team does, we monitor closely and, if we think that there are underlying problems that are not being addressed, we will report them to the committee in good time.

**Colin Beattie:** I note that you refer to a 6 per cent increase in staff numbers during the past couple of years. That seems a little bit extraordinary, given that all the colleges are saying that they will be saving money and reaching their budgets by reducing staff, which are the most expensive element. Are they front-line staff? It just seems odd.

**Caroline Gardner:** That caught our attention too, as you can imagine. More information is set out in paragraphs 42 and 43 about non-teaching staff and teaching staff. The number of non-teaching staff has increased by 9 per cent since 2013-14, and colleges in which that has happened have told us that the main reasons were services such as catering and cleaning being brought back in-house; curriculum changes, which require more support staff; and apprentices being brought on as members of non-teaching college staff.

The number of teaching staff increased by 5 per cent since 2013-14—that is shown in paragraph 43. Again, colleges tell us that that is due to increasing credit targets in some colleges, and to changes in curriculum or service delivery. You heard some of that in the evidence from Edinburgh College. It is obviously an area that we are looking at closely, given the reduction in staff numbers that we saw during the peak period of reform, and we have recommended that colleges should be putting in place detailed workforce plans so that they are able to plan for the longer term rather than making short-term decisions that might have longer-term costs and consequences.

**Colin Beattie:** Reference is made to a reduction in the amount of money that is held in arm's-length foundations. I assumed that that is what you would have expected because most of that money was originally allocated for capital expenditure projects. Did you look at that? I know that there is a question about the extent to which you can examine an ALF.

**Caroline Gardner:** As you know, we look at them through the lens of the college accounts rather than looking directly at the ALFs themselves. Stuart Nugent can talk about what we have seen in doing that work.

**Stuart Nugent (Audit Scotland):** We reported our findings in paragraph 60. We noted that in 2014, £99 million was donated to ALFs from the college sector. The amount that is held is around £57 million and colleges are forecasting that they will require a further £34 million from ALFs, mainly for capital projects in the year from 2016-17 to 2018-19.

**Caroline Gardner:** The background is that, given the range of pressures that colleges face, it is unlikely that they will be able to transfer significant amounts back to the foundations, but that might change over time. We expect to see that reflected in the longer-term financial plans, as they are developed.

**Colin Beattie:** Is there any indication that colleges are removing the funds from the ALFs for revenue purposes?

**Caroline Gardner:** The terms of the ALFs should preclude that, and the examples that we looked at and refer to in paragraph 60 were generally removals for capital purposes.

**Colin Beattie:** On page 6 of the report, you say that

> "The SFC should conclude its work to: ... require each college to include ... the underlying financial position".

Is that with respect to depreciation?

**Caroline Gardner:** Stuart Nugent is our expert on all the accounting adjustments that are made. I ask him to talk you through the significant elements, of which depreciation is one.

**Stuart Nugent:** Yes, depreciation is one of them. Others are pension adjustments, which reflect longer-term implications from pension liabilities for the college sector. There are also adjustments for any asset impairments, which do not result in an immediate cash payment but may have an impact in the longer term.

This year, we have also noted that, due to a change in the accounting rules, capital income from ALFs has been recognised in full in-year whereas, in the past, it would be recognised over the course of the asset that it was funded for. We have made an adjustment for that, because otherwise the income would not match the expenditure.

Those are the main adjustments that we made this year. We recommend that the Scottish funding council identify the main adjustments along the same lines as us and require colleges to include within their accounts a statement of the underlying position.

**Colin Beattie:** Is this the first time that that has been done?

**Stuart Nugent:** No. We did a similar exercise last year, the only difference being that the capital income from ALFs is a new adjustment brought about by the statement of recommended practice that was introduced in 2015-16.

**Colin Beattie:** Has the SFC accepted that recommendation?

**Stuart Nugent:** Yes, it has. In fact, we recommend in the report:

> "The SFC should conclude its work to specify the adjustments".

The SFC has taken the point on board and, as far as I am aware, the statement will be included within the accounts direction for 2016-17. I have not had sight of that yet, but it should be available shortly.

**Colin Beattie:** Let us return to the question of depreciation, which has always been a bit of an oddity. In your calculations in the report, you have allowed for depreciation in the college sector. I understand that there is going to be a change to that. Will that eliminate the need for those adjustments?

**Stuart Nugent:** No. We have not seen the detail of how it will look in the accounts, but I do not think that it will eliminate the need for an adjustment as such. The funding council proposes to allocate a fixed cash budget to each of the colleges. There is a name change from "net depreciation" to "fixed cash budget", but it is, in effect, the same thing. Each college will know in advance how much fixed cash it will have available and what it can spend that cash on. That should provide colleges with more certainty, although spending that cash will still have an impact on the surplus or deficit position in the accounts, so it will still require an adjustment of some sort within the accounts.

**Colin Beattie:** Okay, so eliminating the depreciation and bringing in that fixed cash budget is not really achieving much, is it? At the end of the day, it is coming to the same thing.

**Caroline Gardner:** It is maintaining the funding that is available to colleges through the changes that were required when they were reclassified as public bodies. The matter is complex, as you can hear from the very detailed information that Stuart Nugent has been providing to the committee. The general conclusion is that there is no solution to the underlying issue that has been brought about by reclassification. We are focusing instead on transparency and on making sure that colleges report consistently how they have spent the resources that are available to them, so that we can look at the underlying financial position as a result of that.

**The Acting Convener:** Thank you. We will move on to Monica Lennon's questions. I am conscious of the time.

**Monica Lennon:** One of the headlines from the report is that student numbers decreased slightly in 2015-16 and are at their lowest since 2006-7. There has been a lot of reaction to the report and the figures. Can you provide some clarification? When the report was raised at First Minister's question time last week, the First Minister did not accept the methodology that has been used in it. She said:

> "Those are the Scottish Further and Higher Education Funding Council statistics. We do not agree with the methodology." —[*Official Report*, 22 June 2017; c 14.]

Can you explain what is going on?

11:00

**Caroline Gardner:** Of course. We agree the factual accuracy of our reports with the bodies that we are auditing. In this case, that included the funding council and the Scottish Government.

My report focuses on the 20 incorporated colleges, which are the ones that fall within my remit. That has been the case since I started producing such reports some years ago. Paragraph 12 provides some background to the confusion that you just highlighted. The figures that I quote in my key messages and throughout the report are based on those 20 incorporated colleges. If we include the figures for the non-incorporated colleges, of which there are six, plus Scotland's Rural College, which is a higher education institution whose activity counts towards the further education target, we end up with a small increase in headcount in 2015-16, but the overall trend is still the same over time.

We have tried to be as transparent as we can be about what is happening. Exhibits 1 and 2 highlight the overall message, which is not so much about student numbers in 2015-16 as about the long-term trend. That relates to the focus on younger students studying full-time courses that lead to a recognised qualification, which is a matter of Government policy, and the declining number of young people in that age group as more of them go into employment and higher education rather than into further education college.

The figures that I have reported are transparent and I stand by them, but that is not the key message. The message is about the longer-term policy and the extent to which targets will be achievable given the demographic shift that we are seeing.

**Monica Lennon:** That is a helpful clarification. What the trends are telling us takes me on to consideration of demand. Your report includes a lot of discussion about the fact that we do not really know what the demand is. Last year, you recommended that the funding council explore with colleges a better way to assess demand. I think that you say that the Scottish Government is now commencing some work on that. Might that be a common application process like the Universities and Colleges Admissions Service system that we have for universities? Is that what you are recommending and what the Government is committed to exploring?

**Caroline Gardner:** Yes. You are right to refer to the higher education system. We know how many students across the United Kingdom are applying for higher education places but we do not have that information for further education overall or in Scotland. Therefore, it is not clear whether the falling numbers over time reflect a fall in demand or students being unable to access the courses that they would like to study. Mark MacPherson can say more about what the Government and the funding council are doing about a system to fill that gap in the data.

**Mark MacPherson (Audit Scotland):** The funding council and the Government have, in the past, considered ways in which they can better understand the demand for college places. The SFC has a demographic model that considers some of the wider implications of demographic change. However, I understand that, as part of the learner journey work that the Scottish Government is undertaking, it is considering the potential for a common application process. That is still at an early stage.

**Monica Lennon:** Retention rates decreased slightly for 2015-16, and work is under way to understand the reasons why people drop out—Annette Bruton ran through some of them. Are we getting a complete picture of what is going on?

**Caroline Gardner:** The information that we have used is set out in paragraph 25. We have information that splits between full-time and part-time further education students and higher education students in further education colleges, which is part of the complexity about which we were talking a moment ago. It is a mixed picture, and the changes are small year on year.

At a national level, it is hard to explain what is happening. As we say in paragraph 25, the funding council thinks that one of the reasons for the decrease may be the efforts that colleges are making to target harder-to-reach students, who may need more support to remain in their courses and benefit from them. However, that is an impressionistic view rather than one that is based on the data.

I was encouraged to hear what Annette Bruton said about the work that Edinburgh College is doing to identify early those students who are having difficulties and to determine what can be done to support them. That links to questions that need to be asked about the availability of student support funding and other services to help students who have particular needs to benefit from their courses. That can be done only college by college.

**Monica Lennon:** I know, from speaking to students and lecturers recently, that it is not always a negative when a student drops out of a course. It could be that they have managed to get a place at university or that another opportunity has arisen. The point is that we do not know what the picture is telling us.

My other question is about the financial cost when a student withdraws from a course early. Has any work been done to find out what that costs the public and whether we could improve the situation?

**Caroline Gardner:** It is not work that we have done. We note in the report, however, that, in March this year, the Minister for Further Education, Higher Education and Science outlined some work that the Government is doing to improve attainment and retention rates in colleges. I hope that that work will address such questions so that we can really understand the costs and benefits to individual students, as well as to colleges and the sector as a whole, and think about how best to improve the situation.

**Monica Lennon:** Lastly, I would like to pick up the issue of national bargaining, which was discussed earlier. Colleges Scotland estimates that around £80 million will be required to cover the full cost of implementing national pay and conditions. It sounds as though that has come as a bit of a surprise to some colleges and they have not factored it in. I note, from the point that Colin Beattie made—I think that you also touched on it—about New College Lanarkshire, that that seems to have been a factor in some of the financial pressures that it is facing and has flagged up.

Do you have any sense of how prepared colleges are to meet those costs? Is the figure of £80 million accurate? The Scottish funding council has made additional money available in recent weeks, but it is only around £2 million. If £80 million is the correct figure, where is that money going to come from? Can colleges absorb that cost within their current budgets?

**Caroline Gardner:** We highlight that as being one of the most significant financial pressures that colleges face. The figure of £80 million is only an estimate at this stage.

One of the difficulties is that the implementation of national pay and conditions will affect different colleges in different ways. Because they have all negotiated their pay and conditions separately, they are starting from different places. Some are closer to what the national package looks like and some are further away. Building up an understanding of the financial implications will need to be done almost on the basis of individual members of staff.

Mark MacPherson can say more about the work that is going on behind the scenes to understand the scale of the challenge.

**Mark MacPherson:** I understand that Colleges Scotland, the representative body for colleges, has been working closely with colleges to establish the individual costs at each college based on their best understanding of what the final costs are likely to be. It is subject to on-going discussion, as you would expect, with both the Scottish funding council and the Scottish Government, because there will be a question about where the funding to meet that cost might come from if it is needed.

**Monica Lennon:** Is the figure of £80 million that Colleges Scotland has produced based on the information that it is getting from the individual colleges?

**Mark MacPherson:** I understand that, since the time of that estimate, Colleges Scotland has been doing further work with colleges and the figure has been refined over time. We do not have the detail on what the figure currently is.

**Willie Coffey:** Can you remind us, Auditor General, how much the college sector currently has in cash assets?

**Caroline Gardner:** The amount of cash that colleges held at the end of the financial year fell by £11 million between 2014-15 and 2015-16. Stuart Nugent can help you with the amount that is currently held.

**Stuart Nugent:** Colleges held £43 million in the 2015-16 accounts.

**Willie Coffey:** That is their cash. At the moment are there any restrictions on the use of that money? Does it have identified purposes?

**Caroline Gardner:** No, that is cash in hand. It is to meet the on-going costs of running the services that the colleges are responsible for.

**Willie Coffey:** Thanks very much for clarifying that.

I want to ask about population changes. Paragraph 7 of your report states that, since 2012-13, the Scottish Government has maintained a level of 116,000 FTE student places despite quite a significant drop in the actual population during that period, particularly in the 16 to 19-year-old age group. You also report that more youngsters are going into work and/or to university. That is a very positive message, but how are the colleges looking at the situation? There will be a clear message if, in future years, there is still a declining population. How will colleges prepare for the years to come on the assumption that that FTE target will be maintained?

**Caroline Gardner:** You are right. The first of my key messages is that the colleges have managed to continue to achieve their learning targets over a number of years in the face of those challenges. Exhibit 1 shows you the learning targets achieved in the past and forecast for the next couple of years against the population of young people, and the gap starts to look more significant as we look to the future. That is why we are recommending, first of all, that the target itself should be reviewed. Given that there are fewer young people and more of them are going into work or into higher education, is the target still appropriate? Individual colleges, through the reform process and through the curriculum reviews that they are carrying out, are looking at how best they can serve the needs of the young people in their areas. In a sense, though, you need both the top-down and bottom-up perspectives to be able to make an assessment of whether the system is trying to do the right things for the longer term.

**Willie Coffey:** How are colleges managing to maintain the targets if the physical numbers in the population are declining and that is having an impact on the number of people in colleges?

**Caroline Gardner:** Mark MacPherson may want to comment on that. We have seen curriculum reviews take place after reform, which is aimed at understanding better the needs of employers and young people and ensuring that those courses are being delivered. Colleges are looking at more innovative ways of providing further education and more options for learning—more work is going on behind that—and achieving the targets is clearly becoming more difficult against the demographic change and the financial pressures that we reported on.

**Mark MacPherson:** We mentioned the lack of any national measure of demand. Some of the continued achievement of targets could have resulted from colleges tapping into sectors of the population that previously were not attending college. We have also mentioned harder-to-reach students, and it could be that, with additional support or input for those students, more people could be attracted into college from the smaller pool that now exists.

**Willie Coffey:** Is there time for one last question?

**The Acting Convener:** Very briefly.

**Willie Coffey:** It is on Europe again. In paragraph 54, you mention a number of schemes that are funded through the European Union to the value of £70 million, but those programmes are scheduled to end anyway in 2021. Has there been any discussion about extending those programmes beyond that time? The UK Government has given some kind of commitment up to 2020, but I do not think that there is any commitment to go beyond that. Do we know any more?

**Caroline Gardner:** I do not think that we can say more than we say in the report, where we recognise that as one of the potential financial pressures facing colleges if that funding is not available after 2020.

**Willie Coffey:** Those are programmes for youth employment and developing the workforce, so I presume that the colleges would wish to continue with those initiatives beyond that date.

**Caroline Gardner:** I assume so, and I assume that the Government would. Nevertheless, given the vote last June and the events that have unfolded since then, we will need to review what happens if that European funding is not available and explore how the objectives that it is achieving could be met in other ways.

**Liam Kerr:** I want to explore two things. The first involves the SFC. I have been looking at some of the other reports that we have done and at the evidence on Edinburgh College that we looked at earlier. The SFC removed credits from the college, which plunged it into debt although it clawed back £800,000 on additionality, and it is funding a voluntary severance scheme. Last week, we looked at Moray College, which is having financial challenges, and at Lews Castle College, which has an allocation of credits that is causing a problem and which does not get clawback. What is your view on how the SFC is managing the sector—and, indeed, managing the public purse?

**Caroline Gardner:** As I said in my opening remarks, we have reported on the progress of college reform over the past three or four years. A couple of the clear messages coming out of that work have been, first, that the range of reforms that have been happening over the period has been unprecedentedly complex, and secondly, that the governance arrangements that have emerged from the end of it are now very complex, with single college regional boards, college regions that are funding colleges in other parts of Scotland and—as you heard last week—a different set of arrangements for the University of the Highlands and Islands, with seven colleges playing into UHI's overall objectives.

We have highlighted some of the changes that the funding council has tried to make in response to the reform and the complexity that comes with it, and we have reported on some of the cases in which that has not worked as well as it should have done—particularly in relation to the college in Lanarkshire that the committee spent some time on two years ago. If you want to explore the future role of the funding council on the back of all the change that has been under way over that period, it would be appropriate to ask the funding council about it. I have not drawn a conclusion about it other than to recognise the complexity and the areas where it has not gone as well as it might have done.

11:15

**Liam Kerr:** Thank you. That is very helpful. I also want to explore staffing and staff costs, which Colin Beattie talked about. We have looked at an awful lot of voluntary severance schemes. You say at exhibit 10 that £18 million of costs are related to staff severance. In the same period, staff costs have gone up by £24 million, which begs the question—what is going on with the workforce planning? Are we removing too many people through the voluntary severance schemes? What is happening to those people who have left through voluntary severance? Are they coming back into the sector?

**Caroline Gardner:** There is an awful lot to answer there. I will start by correcting the understanding of exhibit 10. In relation to “Exceptional staff costs”, the figure of £18 million that you cite is the difference between what was incurred in 2012-13 and what was incurred in 2015-16.

**Liam Kerr:** Forgive me, Auditor General, but paragraph 40 says:

“£18 million of which related to staff severance”.

**Caroline Gardner:** You are absolutely right—I apologise for misunderstanding the question, in that case.

Over the past two or three years, we have said that, given the scale of the reform that has been going on and the range of college mergers that we have had, it is entirely understandable that voluntary severance schemes have been needed to reshape the workforce for new curriculums and to take out things that were duplicated in teaching and support for teaching and learning. However, we have also said that doing that in the absence of curriculum reviews and long-term workforce plans runs the risk of exactly what you describe—the wrong people being let go because they have other options and people who may not be best matched with the college’s future plans remaining.

We have reported the figures because we have seen that uptick in numbers of both teaching and non-teaching staff, and we will continue to look at the voluntary severance schemes that are in place through our audit work. We were particularly pleased to see the emphasis on workforce planning coming through in individual colleges with support from the funding council. That will ensure that, in the future, a much longer-term view is taken of what staffing is needed and how it can be afforded against the backdrop of the financial pressures that we have described.

**Liam Kerr:** Thank you.

**The Acting Convener:** Thank you for your evidence this morning. We will now move into private session.

11:17

*Meeting continued in private until 11:29.*

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