The Committee will meet at 10.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private**: The Committee will decide whether to take items 3 and 4 in private.

2. **Scotland's colleges 2018**: The Committee will take evidence on the Auditor General for Scotland's report entitled "Scotland's colleges 2018" from—

   Paul Johnston, Director-General, Education, Communities and Justice, and Aileen McKechnie, Director for Advanced Learning and Science, Scottish Government;

   Dr John Kemp, Interim Chief Executive, Scottish Funding Council;

   Andy Witty, Director of Sector Policy, Colleges Scotland.

3. **Scotland's colleges 2018**: The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

   Caroline Gardner, Auditor General for Scotland;

   Mark MacPherson, Senior Manager, and Mark McCabe, Audit Manager, Audit Scotland.

4. **Work programme**: The Committee will consider its work programme.
The papers for this meeting are as follows—

**Agenda Item 2**

Note by the Clerk

PRIVATE PAPER

**Agenda Item 4**

PRIVATE PAPER

(P)
Introduction

1. At its meeting today, the Committee will take evidence from Paul Johnston, Director-General, Education, Communities and Justice and Dr John Kemp, Interim Chief Executive at the Scottish Funding Council on the Auditor General for Scotland’s report *Scotland’s colleges 2018*.

2. Following the evidence session on 13 September 2018, Audit Scotland and the Scottish Funding Council were asked to provide additional information. These submissions are attached to this paper at Annexe A and B.

3. A written submission has also been received from the Scottish Government and this is attached at Annexe C.

Clerks to the Committee
1 October 2018
Jenny Marra  
Convener  
Public Audit and Post-legislative Scrutiny Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Convener

Scotland’s Colleges 2018

Following the Committee’s consideration of Scotland’s Colleges 2018, I agreed to provide additional evidence in relation to a number of areas in which committee members were interested. This is outlined below.

Repairs and maintenance

The SFC’s college estate condition survey report (December 2017) details the minimum investment necessary to bring the college sector’s existing estate up to an acceptable (wind and water-tight) condition and to maintain it at that level for a relatively short time period (up to five years). It does not take into account any costs required to improve fitness-for-purpose or redevelopment and enhancement of the estates in the near future. The survey included SRUC but excluded college campuses where a capital project had been completed in the last three years.

The SFC’s report highlights that, if tackled over a five-year period, the total backlog maintenance figure for the college sector is around £360 million. This includes the estimated net total backlog maintenance cost of £163 million plus allowances for contingencies, any related operational and management costs, professional fees, VAT, optimism bias, and inflation. The amount for backlog maintenance is reviewed on an ongoing basis by the SFC, to reflect changes such as the Scottish Government’s decision not to invest in replacing Fife College’s Halbeath campus, and so is subject to change.

The identified backlog maintenance was assigned a grading of very high, high, medium or low. This grading has a significant impact on the timing recommended for undertaking remedial work or replacement, with those in the very high category generally needing to be addressed within one year. More details on the grading are available on page 14 of Gardiner and Theobold’s report.

To determine the level of investment needed, the SFC has translated the reported net backlog maintenance costs into gross costs by category. It has not published its calculated gross costs by category but for very high priority maintenance, required within one year, it has identified the cost as £27 million. This is capital funding the SFC has provided to colleges in 2018-19, over and above the capital commitment to Forth Valley College’s new campus.

Cost of mergers

Committee members were interested in the costs of further education reform, in particular how much has been paid to colleges that did not harmonise staff terms and conditions at the point of merger. We do not have that level of detail about the breakdown of college funding. This information may be available directly from the SFC.
In *Scotland’s Colleges 2015* (April 2015) we did highlight that the SFC and the Scottish Government provided a range of support to colleges going through merger. At that time, the SFC and Scottish Government had provided £58 million between 2011-12 and 2014-15. Colleges used most of this funding to pay for voluntary severance.

Our good practice guide on public sector mergers highlights the importance of measuring, monitoring and controlling all of the costs and savings resulting from a merger. While all colleges undertook an initial analysis of merger costs when developing their business cases, the SFC’s post-merger evaluations do not provide a clear comparison of colleges before and after merger. Only information on the larger merger costs and efficiency savings, such as voluntary severance payments and reduced staffing costs, has been available. Colleges have found it difficult to separately identify merger costs and efficiency savings, due to the reduction in funding that took place over the merger period.

**Private Finance Initiative (PFI)**

As highlighted in *Scotland’s Colleges 2018*, Ayrshire College is funding a PFI contract that was established prior to the creation of the college. It is the only college in Scotland with an existing PFI contract.

Committee members were interested in whether there were any college PFI contracts that were previously bought out and when. In our *Financial Overview of Scotland’s Colleges 2006/07* we reported on the buyout of West Lothian College’s PFI contract. The college had a PFI contract for its Livingston campus, which opened in 2001. The PFI contract was signed on the understanding that the college would receive a period of funding for growth in student numbers. After signing the agreement, funding mechanisms changed resulting in the college forecasting a substantial funding gap (£11 million) over the 25 years. In December 2006, Scottish ministers authorised the SFC to review the PFI contract to ensure the most efficient and effective use of public money. Several options were explored including part buyout, prepayment, renegotiation and termination. In March 2007, ministers approved a funding package to terminate the contract. The SFC provided West Lothian College with £27.7 million to enable it to buyout the PFI contract on 2 April 2007.

**Performance measures - full-time FE courses**

Exhibit 10 in *Scotland’s Colleges 2018* shows that outcomes for full-time FE students vary significantly by college across a range of performance measures. The data behind Exhibit 10 is shown in Appendix 1. The SFC does not currently publish data for student satisfaction on an individual college basis and so this is not currently in the public domain. Student satisfaction is a relatively new data set and the SFC has some concerns over comparability between colleges because of significant variation in response rates to student surveys – I noted this variation in my report. The SFC is working with colleges to address the variability in survey responses and will publish satisfaction rates by college from 2018 onwards.

I hope this information is helpful.

Kind regards.

Caroline Gardner  
Auditor General for Scotland
## Appendix 1

**Scotland’s Colleges 2018 - Data underpinning Exhibit 10 in report**

All underlying data relates to full-time further education students except where stated.

<table>
<thead>
<tr>
<th>College</th>
<th>Attainment</th>
<th>Retention</th>
<th>Satisfaction*</th>
<th>Positive Destinations (all full-time leavers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argyll</td>
<td>69.71</td>
<td>78.85</td>
<td>92.77</td>
<td>85</td>
</tr>
<tr>
<td>Ayrshire</td>
<td>66.93</td>
<td>75.42</td>
<td>94.55</td>
<td>85.3</td>
</tr>
<tr>
<td>Borders</td>
<td>65.89</td>
<td>76.11</td>
<td>95.57</td>
<td>91.4</td>
</tr>
<tr>
<td>City of Glasgow</td>
<td>69.13</td>
<td>80.82</td>
<td>87.61</td>
<td>86.1</td>
</tr>
<tr>
<td>Dumfries and Galloway</td>
<td>62.48</td>
<td>69.83</td>
<td>97.56</td>
<td>87.3</td>
</tr>
<tr>
<td>Dundee and Angus</td>
<td>70.80</td>
<td>79.05</td>
<td>94.59</td>
<td>81</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>62.85</td>
<td>74.70</td>
<td>89.51</td>
<td>79.9</td>
</tr>
<tr>
<td>Fife</td>
<td>57.45</td>
<td>70.80</td>
<td>80.61</td>
<td>71.2</td>
</tr>
<tr>
<td>Forth Valley</td>
<td>73.49</td>
<td>77.56</td>
<td>96.07</td>
<td>85.1</td>
</tr>
<tr>
<td>Glasgow Clyde</td>
<td>62.06</td>
<td>72.21</td>
<td>96.59</td>
<td>81.7</td>
</tr>
<tr>
<td>Glasgow Kelvin</td>
<td>60.75</td>
<td>70.47</td>
<td>96.47</td>
<td>76.9</td>
</tr>
<tr>
<td>Inverness</td>
<td>67.63</td>
<td>77.38</td>
<td>86.60</td>
<td>89.1</td>
</tr>
<tr>
<td>Lews Castle</td>
<td>68.42</td>
<td>76.32</td>
<td>96.97</td>
<td>90.2</td>
</tr>
<tr>
<td>Moray</td>
<td>60.09</td>
<td>74.77</td>
<td>92.04</td>
<td>81.3</td>
</tr>
<tr>
<td>New College Lanarkshire</td>
<td>59.45</td>
<td>65.57</td>
<td>86.94</td>
<td>79.4</td>
</tr>
<tr>
<td>Newbattle Abbey</td>
<td>77.36</td>
<td>81.13</td>
<td>95.74</td>
<td>75.4</td>
</tr>
<tr>
<td>North East Scotland</td>
<td>66.21</td>
<td>76.63</td>
<td>91.75</td>
<td>89</td>
</tr>
<tr>
<td>North Highland</td>
<td>71.39</td>
<td>79.09</td>
<td>94.29</td>
<td>89.9</td>
</tr>
<tr>
<td>Orkney</td>
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<td>86.07</td>
<td>100.00</td>
<td>95</td>
</tr>
<tr>
<td>Perth</td>
<td>68.18</td>
<td>78.70</td>
<td>94.94</td>
<td>84.7</td>
</tr>
<tr>
<td>Shetland</td>
<td>78.18</td>
<td>81.82</td>
<td>94.74</td>
<td>92.4</td>
</tr>
<tr>
<td>South Lanarkshire</td>
<td>70.20</td>
<td>75.97</td>
<td>95.88</td>
<td>92.6</td>
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<tr>
<td>SRUC</td>
<td>70.10</td>
<td>83.75</td>
<td>87.76</td>
<td>90</td>
</tr>
<tr>
<td>West College Scotland</td>
<td>68.68</td>
<td>77.47</td>
<td>95.00</td>
<td>81.5</td>
</tr>
<tr>
<td>West Highland</td>
<td>70.48</td>
<td>82.38</td>
<td>98.25</td>
<td>85.4</td>
</tr>
<tr>
<td>West Lothian</td>
<td>61.90</td>
<td>73.61</td>
<td>95.12</td>
<td>87.4</td>
</tr>
</tbody>
</table>

*Please note response rates to the satisfaction survey varied widely, from 80 per cent at Lews Castle College to eight per cent at North Highland.*
Dear Ms Marra,

Audit Scotland Report on Scotland’s Colleges 2018

On behalf of the Scottish Funding Council I am delighted to have the opportunity to appear before the Public Audit and Post-Legislative Scrutiny Committee on Thursday 4 October 2018 to discuss the Audit Scotland Report on Scotland’s Colleges 2018.

You had asked that we share in advance the way that we intend to prioritise capital funding for major projects in the future. I thought it would be helpful to also provide a written summary of how the Funding Council is addressing the other recommendations for SFC in the Auditor General’s report.

Capital Investment Prioritisation

In its report, Audit Scotland recommended that the Scottish Government and the Scottish Funding Council develop criteria for prioritising capital investment. The Funding Council’s Capital Decision Point Committee has developed a Capital Projects Prioritisation Framework and will be consulting on this with Colleges Scotland next week. In the meantime, as requested, I have attached a copy of the current version of the Framework for inclusion in the public papers for the meeting.

Attainment Gap

In her report the Auditor General recommended that the Scottish Government and the Scottish Funding Council should work with colleges to examine why the attainment gap is growing and identify actions to reduce it. The Scottish Funding Council is addressing this particular recommendation through its college Outcome Agreements (OA) which support the ambition to intensify efforts to improve retention and attainment. Through the new quality arrangements which are integrated within this OA process, colleges have been set stretching targets for improvement which will be monitored by the Funding Council both at college and at sector level.

Colleges are also asked to provide an annual Evaluative Report and Enhancement Plan which cover progress and planned improvements to retention and attainment, allowing us to challenge and support practice in this area. In colleges where there are issues with success, addressing this will be a part of the Enhancement Plan.
Regionalisation

(i) Reporting
The Auditor General’s report recommended that the Scottish Government and the Scottish Funding Council assess and publicly report on the extent to which Regional Strategic Bodies (RSBs) are meeting the aims of regionalisation. The Funding Council recognises that it has a duty to assess and enhance the performance of RSBs. We are currently in discussion with the Scottish Government before finalising the scope of and method for the assessment process. In the meantime, we will continue to work with RSBs to support their development.

(ii) Performance of Multi-College Regions
The report recommended that the Scottish Funding Council agree with the RSBs in multi-college regions the most appropriate way of collecting information on college activities and clarify both why and when it needs to engage with, or collect information from, assigned colleges.

The Funding Council is reviewing, alongside RSB partners, how information on college activity is collected. This builds on work with the Scottish Government and the sector to reduce the number of financial returns that colleges are required to submit. At present, colleges within multi-college regions often submit performance data directly to the Funding Council as we have the resources – both staffing and software – to allow for the most cost effective and efficient analysis of the data.

This also ensures that more funding can be allocated to frontline teaching activity within the multi-college region. However, where practicable and economical we will collate a regional response rather than a college-level one. Examples include data on the Flexible Workforce Development Fund and expansion of Early Learning & Childcare targets.

Colleges’ Financial Position

The report included two specific recommendations relating to the financial position of Scotland’s colleges:

- that the Funding Council revise its accounts direction to ensure colleges calculate their underlying financial position consistently; and
- that the Funding Council progress its work with colleges to improve common assumptions for future financial forecasting returns.

We have addressed these recommendations. To address the question of consistency, the 2017-18 accounts direction, issued by the Funding Council on 13 July 2018, included guidance for colleges in calculating the underlying operating position. In addition, following consultation with sector representatives, we provided more detailed guidance than in previous years on the assumptions that colleges should use in their 2018 forecasts.

Gender

The report recommended that the Scottish Funding Council determine what other actions are required to tackle the greatest gender imbalances in subjects in order to deliver its Gender Action
Plan (GAP). We are addressing this recommendation through the Outcome Agreement process, with OAs showing an increased commitment to measures identified in the Gender Action Plan. To support this process, the Funding Council this year has visited six institutions to discuss how the GAP is being implemented and governed. These visits will continue over the next few years with the intention that all college and university regions will be visited. These visits have identified good practice and areas of improvement, both of which will be reported in the Funding Council’s forthcoming progress report on implementation of the GAP. Furthermore, the Funding Council is running a sectoral event on 25 October to discuss progress to date, to share best practice and to consider how the sector can work together to deliver the GAP. The next annual progress report on the GAP will be published in November.

Audit Scotland also recommended that colleges should, where appropriate, examine opportunities for securing a better gender balance on their Boards to meet new statutory targets. Through the OA process, the Funding Council expects colleges to indicate how they are working towards improving gender balance and wider diversity on their Boards, including steps taken to increase the pipeline of diverse candidates and equitable appointment procedures and practices. We have also provided funding to support the sector to achieve good diversity on their Boards and meet the requirements of the Gender Representation on Public Boards (Scotland) Act 2018. While we recognise that work remains to be done in relation to college Regional Chairs, we are delighted that good progress is being made, particularly in relation to non-executive Board members.

Conclusion

I hope you will see from the above that considerable progress is already being made to address the recommendations contained within the Audit Scotland Report. I look forward to the opportunity to expand on these points when I appear before the Committee next week. In the meantime, if you require any further information in advance of next week’s session, please do not hesitate to contact me.

Yours sincerely

John Kemp

Interim Chief Executive
Project Prioritisation Framework

Purpose

1. The purpose of the framework is to provide a structured evaluation of major capital projects which are ‘in the pipeline’, at a particular point in time, the end product of which is to allow SFC to prioritise between competing demands within the context of constrained capital funding.

2. The framework is summarised below.

3. The framework has been developed to reflect SFC’s experience of how proposals for major capital investment emerge.

   - Firstly there are projects where the main objective is to redevelop or replace very poor quality estate, on almost a like-for-like basis.

   - The second type of project may also have as an objective the redevelopment of a poor quality estate, but also to meet other strategic aims, such as to enable major shifts in provision. The majority of proposals for major capital investment have, to-date, been in this category.

   - Lastly there are proposals which emerge for reasons other than poor estate, such as the need to develop new provision for a major employer.

4. The primary evidence base for the first two types is largely drawn from
condition surveys. The primary criteria used to evaluate such proposals, as the diagram illustrates, draw heavily on building condition (the upper purple box). However, we also evaluate early-stage proposals against the secondary criteria (the lower purple box).

5. The third type of proposal is more likely to emerge from other sources of evidence (see the lower two blue boxes in the diagram). The evaluation criteria in these cases are more focussed on external factors, such as the economic case and the extent of cross-sector collaboration.

6. Replacing major campuses and undertaking other strategic institutional developments generally require very significant amounts of capital investment (a major regional campus replacement is typically in the region of £50-90M). Given the constraints on capital funding, the framework assumes that any high priority projects will not be funded through traditional capital grant and so the business cases, as they develop, will assume revenue-funding solutions.

7. Essentially the framework illustrates that, ultimately, a decision to allocate capital funding will be based on, firstly, the likely available envelope of capital funding and, secondly, the extent to which the proposal can demonstrate readiness to proceed (recognising that projects being assessed will be at a relatively early stage).

8. The use of the framework is, by its nature, dynamic. Projects can change significantly in terms of solutions, scale, sources of funding and so on. Nonetheless the framework allows SFC, at any point in time, to consider which proposals are high priorities and are ready to proceed.
Written Submission from Paul Johnston, Scottish Government

28 September 2018

Dear Ms Wilson

Thank you for the invitation to give evidence on the Auditor General for Scotland’s report entitled *Scotland’s colleges 2018* at the Public Audit and Post-legislative Scrutiny (PAPLS) Committee on 4 October and to submit a written response beforehand.

I welcome the Auditor General’s report and the opportunity to provide the PAPLS Committee with evidence on behalf of the Scottish Government.

Colleges make a vital contribution to improving the lives and employability for many of Scotland’s people. Our colleges continue to play a significant role in widening access with equality at the heart of what colleges deliver. The proportion of learning hours delivered to students from deprived areas, ethnic minorities, and those with experience of care or a disability, all continued to increase in 2016/17. The increase in the number of enrolments on part-time college courses and for learners still at school is further demonstration of the role of colleges in enhancing the learner journey for all age groups; while the increase in part-time learners aged 25 and over highlights the ability of Scotland’s colleges to provide flexible learning opportunities which allow learners to upskill and re-train while in work.

*Scotland’s colleges 2018* highlights that the sector’s financial position improved overall in 2016/17, with incorporated colleges reporting an underlying surplus of £0.3 million. Audit Scotland also found that the net assets of the sector increased by 10 per cent to £230 million in 2016/17. The report emphasises the importance of longer-term financial planning and recognises the work which has been progressed by the SFC with colleges to improve financial forecasting across the sector. The financial allocation provided to colleges from the 2018/19 budget settlement increases overall funding (resource and capital) by £66.2 million to £664.9 million: a 9.4% increase in real terms over the year, and a demonstration of continued investment in the college sector.

Colleges continue to exceed their targets for learning activity, with student numbers increasing by around 4 per cent, largely due to an increase in part-time numbers. Student satisfaction remains high, with over 90 per cent of full-time and over 94 per cent of part-time students satisfied with their college experience – a slight increase on 2015/16.

The Scottish Government accepts the recommendations of the report and will take them forward, working closely with the Scottish Funding Council (SFC) and with the college sector.

The report’s recommendations are directed at both the Scottish Government and the SFC and I hope the responses provided by both organisations provide the information
you require. I have outlined below the Scottish Government’s response to the relevant recommendations:

The SG and the SFC should:

- **publish the criteria within the Infrastructure Strategy for prioritising capital investment in the college sector**

The SFC’s Capital Decision Point Committee has developed a Capital Projects Prioritisation Framework which describes the primary and secondary criteria which the SFC will use to evaluate capital investment in the college sector. The SFC will shortly be consulting on this framework with Colleges Scotland and a copy of the Framework has been provided to Committee by the SFC.

- **work with colleges to examine why the attainment gap between students from deprived areas and the wider student population is growing and identify actions to reduce the gap**

Raising attainment is a shared priority across the education portfolio and it is important to recognise that successful completion rates have improved for students from the most deprived areas between 2011/12 and 2016/17. As highlighted in Audit Scotland’s report, there is considerable regional variation in relation to attainment. This is a complex area in which there is an interplay of many factors including deprivation, as well as local labour market conditions. The Scottish Government is determined to see attainment figures improve for all learners and we will continue to work closely with the SFC and the sector on this shared priority. We will progress our national improvement project which is focused on how colleges can raise attainment and improve retention. This project is currently considering the issues and challenges that can contribute to students not gaining a qualification, and using improvement science methodology to identify actions to mitigate against this.

The SFC will continue to use the Outcome Agreement process to ensure that colleges remove barriers and support full participation and successful outcomes for all groups of learners in their local community.

- **assess and report publicly on the extent to which the regional strategic bodies are meeting the aims of regionalisation in multicollege regions**

The SFC has a duty to assess and enhance the performance of Regional Strategic Bodies (RSBs). The Scottish Government has commissioned the SFC to undertake a study, drawing on the experience of chairs and boards of multicollege regional bodies, to enable shared learning on what has worked well, and what further improvements can be made. This study will consider how best to assess and publically report how the RSBs are meeting the aims of regionalisation.

I should be happy to answer questions on these and related matters when I attend Committee on 4 October.

Yours sincerely

**PAUL JOHNSTON**