



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 17 November 2016

Session 5



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Thursday 17 November 2016

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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
9th Meeting 2016, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Alison Harris (Central Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Liam Kerr (North East Scotland) (Con)

*Monica Lennon (Central Scotland) (Lab)

*Alex Neil (Airdrie and Shotts) (SNP)

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Chris Brown (Scott-Moncrieff)

Annette Bruton (Edinburgh College)

Hugh Harvie (KPMG)

Paul Johnston (Scottish Government)

Dr John Kemp (Scottish Further and Higher Education Funding Council)

Alan Williamson (Edinburgh College)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 17 November 2016

[The Convener opened the meeting at 09:03]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the Public Audit and Post-legislative Scrutiny Committee's ninth meeting in 2016. I ask everyone to switch their electronic devices off or to silent mode to ensure that they do not affect the committee's work.

We are missing a couple of members and a witness from the first panel because of terrible weather conditions and train delays in coming from the west. We will proceed, but the MSPs who are not here might well join us during the proceedings.

Under agenda item 1, I invite the committee to consider whether to take in private items 4 to 6. Item 4 is consideration of evidence received under item 2 on "Scotland's colleges 2016"; item 5 is consideration of evidence received under item 3 on "The 2014/15 audit of Edinburgh College"; and item 6 is consideration of the committee's work programme. Do we agree to take those items in private?

Members *indicated agreement.*

Section 23 Report

"Scotland's colleges 2016"

09:04

The Convener: Item 2 is an evidence-taking session on the Auditor General for Scotland's report "Scotland's colleges 2016". I welcome to the meeting Paul Johnston, director general for learning and justice at the Scottish Government; and Dr John Kemp, interim chief executive of the Scottish Further and Higher Education Funding Council.

Good morning. I invite Paul Johnston to make a brief opening statement. He will be followed by Dr Kemp, and then I will open up the session to questions from members.

Paul Johnston (Scottish Government): Thank you, convener. I appreciate the opportunity to provide evidence in response to the Auditor General for Scotland's report on Scotland's colleges.

As the director general for learning and justice, I am the accountable officer for the education and skills portfolio. As such, I am responsible for ensuring that the funding council's strategic direction aligns with the Scottish Government's priorities and that it has the necessary controls in place to safeguard public funds. Dr Kemp is the accountable officer for the funding council, which is accountable for the delivery of the Scottish Government's policy objectives and for the deployment of resources to deliver them.

The Scottish Government accepts the recommendations in the report that are for the Government to implement, and we will work with the funding council to ensure that those recommendations are implemented. We will seek to learn lessons from the matters that the report raises and to apply them to our work on colleges and to other areas of public service reform.

Since the Auditor General's report, progress has been made on a number of the recommendations, particularly through the publication of the funding council document "Impact and success of the programme of college mergers in Scotland", which I am sure we will have the opportunity to discuss. I welcome the fact that that document sets out further detail about the annual savings that college reform is achieving. It also confirms that the programme of reform has created colleges that are more resilient and sustainable, better suited to the delivery of skills, better suited to engagement with employers and universities and better able to improve provision for learners.

I am not surprised by that because, in preparing for today, I looked again at Sir Ian Wood's conclusions in his report on developing Scotland's young workforce. Even in 2014, he found the colleges with which he had engaged to be

"re-energised and ... re-inventing themselves as larger units with regional status and greater potential to develop and influence."

The committee will have seen, certainly in my submission, some of our evidence and figures to demonstrate some of the success that we can point to for those newly reinvigorated colleges.

Moving forward, we recognise that colleges are still adjusting to substantial changes, and we will use the findings of the Auditor General's report to secure further progress. Good governance is crucial, and I welcome the Auditor General's recognition of the likely positive impact of implementing the good governance task group's recommendations. The enterprise and skills review also allows us to ensure that the Scottish funding council's functions are clearly defined, with a focus on securing continued performance improvements in the college and university sectors.

I look forward to discussing these matters further.

Dr John Kemp (Scottish Further and Higher Education Funding Council): Thank you for the opportunity to discuss the Auditor General's report, which covers the latter part of a period of great change in the college sector. As well as the merger programme, there was the related regionalisation of funding, including the introduction of outcome agreements; a revised funding method; the inclusion of colleges in public sector accounting; and the introduction of national bargaining.

As the Auditor General's report makes clear, the sector has continued to meet activity targets and maintain financial stability through the period. In the summary of the post-merger evaluations that we published in August, we concluded that they had largely been a success and had created colleges that are better suited to responding to their regions' needs and interacting with local authorities and universities. That success has been a tribute to the staff in colleges who have implemented the mergers.

We recognise that there have been challenges. In some colleges, the success rate for full-time further education courses has dropped, and there were a small number of very significant governance difficulties, which the committee's predecessor examined.

As the committee will have seen from my organisation's letter of 29 September, we have accepted the recommendations of the Auditor

General's report. We have substantially addressed some of the recommendations, such as those on the costs of the mergers and on the publication of leaver destinations. We will continue to work with the college sector and the Government to address the other recommendations. I am happy to answer the committee's questions on how we will do so.

The Convener: Thank you, Dr Kemp.

Alex Neil (Airdrie and Shotts) (SNP): Can I start with a general question? I recognise that some of what the Auditor General's report covers predates Dr Kemp's appointment. The first conclusion that we would reach from the report is that what was done was not how to go about a major reform programme. There is a lack of baseline information against which progress can be measured. There was a lack of comprehensive financial planning. Probably one of the single biggest costs will be from harmonising pay rates across the college sector, but that was not included in the original costs. We have had a decline in the attainment rate—at the end of the day, this is primarily about attainment. No proper equality impact assessment was done and we still do not know what impact the changes have had on inclusiveness and equality.

We have seen some of the governance issues, and there is a question mark over the added value and competence of the funding council. We now have a funding council that is looking at a much smaller number of colleges, but we also have a layer of regional management between the national management and the local management, and I am not clear what added value that brings to the table. It really has been a bit of a fiasco, has it not?

Dr Kemp: That is a very big question. My response to the final point, on whether the process has been a fiasco, is that it has not been. As I said in my opening statement, there are aspects of the merger process that could have been done better but, by and large, the merger programme has been a success. It was implemented fairly quickly and, I think, fairly effectively by the colleges that were involved. I accept that there were governance issues in some areas and that the Auditor General has pointed out that it might have been better to have baselines on some areas.

However, by and large, the mergers set out to achieve a purpose, which was to create large regional colleges that could interact with employers, local authorities and universities in their region far better than the previous colleges could. We were clear about that at the outset, and I think that that purpose has been achieved. I accept the point that some things could have been done better but, by and large, the process has been good.

Some of the other things that Mr Neil referred to that were going on at the same time as the merger process were not part of it, but they made it more complex. For example, we do not yet know the full costs of national bargaining, which is a process that is still being gone through. Colleges Scotland has been supported throughout by its employers association to help to ensure that the process is effective and efficient, but the process is an unknown. However, I suspect that if we had waited until all the unknowns about the other things that were happening in the sector were out of the way and there were no other complications before undertaking the merger process, we would have ended up never having the process and would therefore have lost the benefits of creating the bigger, more effective colleges.

Mr Neil is right that in some areas there is another layer between the funding council and the colleges, but I stress that that is very much the minority of areas. The legislation created the opportunity for some regions to have a regional board only when the colleges did not choose to merge to form one regional college.

Of the 13 regions, 10 are single-college regions, where the colleges merged to form one regional college. There are three exceptions; of them, Lanarkshire could have gone either way. Glasgow is a very big city that has 20 per cent of college provision, and because having only one college there was not going to happen immediately, a regional board was the outcome. In the Highlands, we are dealing with a very disparate area. There is a different layer there, in that the University of the Highlands and Islands is the regional board. I contend that, in those areas, we wanted to fund a region, which the legislation allowed for, rather than individual colleges.

The regional bodies—some of which are fully operational and some of which are not yet fully operational—will bring the region together so that it has one voice and there is coherence from within it on how money to the colleges is allocated. That value did not exist before.

I accept that there were a lot of complexities about the merger process, but I do not accept that it was a fiasco.

09:15

Paul Johnston: I, too, do not accept that the merger process should be seen as a fiasco, to use that language. Many aspects of the process have been successful. We have a lot of figures that point to that success, some of which were set out in the note that I provided to the committee.

There is a lot in the question that we might develop during the session, but at this stage I will pick up the point about baseline data. In particular,

we should be clear that there was and is a significant amount of baseline data that we can point to that shows an improving trend from before, during and after the merger process. If, for example, we look at the increase in the number of full-time students or the overall trend in attainment, we see real increases. I absolutely accept that there was no baseline data in some areas, such as for college destinations, but that data is now being gathered.

The college merger process, which has meant a smaller number of bodies that are larger and more strategic, has enabled us to gather a much richer picture of data on the performance of the sector as a whole and to build on and drive improvement through having that richer picture.

Alex Neil: You both started off by saying that the process has been a success. For somebody such as me, measures of success are improvements in attainment and in the educational chances of people at the lower end of the income scale. Obviously, destinations are an important measure, as well. However, attainment is down and the drop-out rate is still quite significant. I recognise that, historically, the college sector has been far better at achieving improvements in the abilities of people with low incomes than the university sector has been, but where is the evidence to link any of the improvement to which you have referred to the process? Might improvement in many of those areas have taken place anyway? Where is the added value of the merger process, the reorganisation and the other reforms that you have mentioned? I do not think that it is convincing to say that improvements, where there have been improvements, have been the result of the process.

Dr Kemp: In the post-merger evaluations that we did with each of the colleges, we spoke to the colleges; we also spoke to stakeholders about how they interacted with the colleges. There is a lot of evidence of how the mergers have affected colleges' interaction with universities on articulation, for example. That is fairly clearly attributable to the mergers.

Alex Neil: With all due respect, that is not an outcome. Outcomes are things such as achievements, or attainment levels.

Dr Kemp: I think that the improvements that have been happening in the numbers of people who articulate from college to university, for example, are part of what leads to those outcomes.

Alex Neil: You say that you think that that is the case, but where is the proof? Where is your evidence? You have just said that the improvements result from the process. Where is your evidence? If you have it, that is fine, but so

far I have not seen the evidence that they are due to the process.

Dr Kemp: We have published a lot of the evidence that leads us to that conclusion in the post-merger evaluations and in the summary of the evaluations.

You mentioned attainment, which has been on an upwards trend. There has been a drop of 2 per cent in further education full-time success rates, but that was not entirely found in the merging colleges. Some of the colleges whose figures dropped were merging colleges, and some were not, and some of the merging colleges continued the upward trend.

Alex Neil: Does that not reinforce my point that there is no correlation?

Dr Kemp: My point is that the correlation between the mergers and the drop in attainment is not made, because that happened in some of the colleges that merged and some that did not. With the colleges, we looked at the detail of what led to that drop in attainment in FE. It is worth stressing that attainment did not drop in HE—the figure went down by 0.1 per cent, so it was broadly flat. There was a variety of reasons. In some cases, colleges said that the reason was related to systems issues related to the mergers but, in the vast majority of cases, it was down to other issues. For example, there were concerns about bursaries and a sustained period of strikes. There was no one single reason—there was a variety of reasons. We have been working with the colleges through the outcome agreements to ensure that those reasons do not recur. The colleges are confident that they are on track to resume the upward trend in success rates. There is no link that leads us to say that the drop is in any way a consequence of the merger programme.

Alex Neil: Well, that is very much an open question, given the evidence that we have seen. Obviously, we need to look to the future and learn the lessons. To be fair, you have said that you will learn the lessons and implement the Auditor General's recommendations.

I have a wider question about the role of the funding council, the level of competence in the funding council and the added value of the funding council. There is a proposal on the table for the funding council to become part of a broader organisation incorporating Scottish Enterprise and Highlands and Islands Enterprise. How will that impact on the role, function and efficiency of the Scottish funding council? Where are the benefits of that proposed reorganisation?

Paul Johnston: I will pick up the broad point about the enterprise and skills review and then I will hand over to John Kemp for any specific comment on the funding council.

As the committee will probably be aware, we have now completed phase 1 of the enterprise and skills review. The conclusion of that emphasises the need for close strategic alignment between the funding council, Skills Development Scotland, Scottish Enterprise and Highlands and Islands Enterprise. It recognises that that alignment cannot be delivered without our looking carefully at the overarching governance arrangements. We are now looking in detail at the implementation of the overarching recommendations, under phase 2 of the enterprise and skills review, which has not been concluded. As part of phase 2, we will look carefully at the role of the Scottish funding council. We will reflect on the Auditor General's recommendations in her report about the role of the Scottish funding council as regards colleges and we will report on that in due course.

Alex Neil: Can I ask who "we" means?

Paul Johnston: When I refer to "we", I am referring to the Scottish Government. The review is being led by Government ministers and I and other civil servants are of course supporting ministers in that work.

Alex Neil: Are any external independent people involved in the review?

Paul Johnston: Yes. We have been working closely with a panel that includes a wide range of external participants. I can provide the committee with full details of the membership of the panel, but it certainly includes representatives from the college and university sectors.

Alex Neil: Okay. That is all I have just now, convener, but I might come back in.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The submission from Colleges Scotland contains a lot of positive stuff, such as the 10 per cent increase in attainment and the 5 per cent increase in retention over the past six years, but one thing that stares out at me is the issue of depreciation, which was discussed at yesterday's Education and Skills Committee meeting. It is mentioned on page 2, in the second paragraph under the heading "Reclassification". It might be helpful for this committee if we had the same document that the SFC circulated to the Education and Skills Committee as a result of a visit that Liz Smith and I made to Queen Margaret University. That explains the depreciation process well.

Dr Kemp: We would be happy to do that—that is not a problem.

Colin Beattie: The report highlights again that the issue of depreciation causes technical deficits at the colleges, which makes it very difficult for the Public Audit and Post-legislative Scrutiny Committee to see whether the colleges are in

good financial health, because it looks as though the bottom line is a problem. How are we going to address that in the future?

Dr Kemp: As the Auditor General suggests in the report, depreciation needs to be made clearer in the colleges' annual accounts. In our guidance to colleges on their annual accounts, we have asked them to make that far clearer in their published accounts so that it is clear when a technical deficit has been caused by the spending of the depreciation cash and when there is an underlying real deficit. We have put that in guidance for the colleges relatively recently, and the situation should be far clearer in future accounts than it has been in the past.

Colin Beattie: If memory serves me correctly, the figure is in the region of £27 million or £29 million.

Dr Kemp: It is a bit less than that. From memory, I think that it is just under £20 million. It is in that region.

Colin Beattie: Colleges Scotland is asking for colleges to have flexibility in using the money arising from depreciation so that they do not have to seek prior permission from the Scottish Government—which they have to do every year, I presume. Is there any prospect of the current position changing?

Paul Johnston: We recognise that there is an issue around the use of the depreciation cash. I cannot give the committee a definitive answer today, because discussions are still going on, but I know that those with expertise in the area—including officials in the Scottish Government and colleagues in the funding council and Colleges Scotland—have been meeting to actively work through the issue. It is a relatively new issue that has been brought about through reclassification, and we recognise that it requires to be resolved. We will keep the committee updated on the progress of those discussions.

I particularly take the point about the need for colleges to have certainty—at the outset of the financial year or in advance of it, if possible—about the use that they can make of the totality of their resource. We are working together to achieve that.

Colin Beattie: Depreciation is treated according to current accounting principles, but I understand that college sector accounting is different from accounting in the rest of the public sector, which makes it difficult to draw comparisons. Is that correct?

Dr Kemp: When we were asked that question yesterday, I had the benefit of having my director of finance sitting next to me, who explained how different parts of the public sector have different

statements of recommended practice for accounting. Accounts are done in different ways in different parts of the public sector, and you are correct in saying that colleges and universities operate in a particular way, which is what causes the issue.

Colin Beattie: I am looking at a written submission from the Educational Institute of Scotland. In section 4 on pages 1 and 2, it seems to question the accuracy of SFC reporting. Indeed, it says that

“the SFC reports on college mergers”

are

“excessively rosy, and contrast unfavourably with Audit Scotland’s overview”.

What are your thoughts on that criticism?

Dr Kemp: We have discussed with the EIS the issue of its view of the mergers being different from ours. When we were doing the post-merger evaluations, we were careful to speak to groups of staff across the various campuses of the merging colleges. On many occasions, we also spoke to groups that were organised by the EIS, and it is fair to say that there was sometimes a difference of view between the groups that had been organised by us and those that had been organised by the EIS. That is a real issue.

However, I do not think that we have been “excessively rosy” in the reports. In some reports, we have said that, by and large, the mergers have worked, but we have not said that in every case. In the case of Edinburgh College, which we will discuss later, we did a third post-merger evaluation that still indicated that there were significant problems. Where there have been significant problems, we have reported that in our post-merger evaluations.

Nevertheless, I accept that, when we have discussed the matter with the EIS, there have been differences of view between how the EIS has felt things have gone and how we have felt. We often based the evaluation on what we heard from staff in the colleges. It is always difficult to get the right balance.

09:30

Colin Beattie: Sticking with that theme, Unison’s submission says on page 2, under the heading “Further education”:

“Currently, we are in a position where the government and the SFC claim not to have responsibility/powers over how colleges are run.”

Dr Kemp: We do not run colleges; they are run by their boards and their principals. However, we have financial responsibilities—I am the accountable officer for the funding that goes into

colleges and for how that money spent—and we have a series of responsibilities relating to governance and how programmes are taken forward. There is often an imbalance in relation to the expectation that everything in a college can be resolved by the Government or by the funding council. Some things are the responsibility of the principal and the board; some things, if matters are going way off track, are the responsibility of the funding council or the Government. It is about being clear about what those things are.

Paul Johnston: I suggest that, as in any system, there is a balance of roles, responsibilities and accountabilities. It is very clear that the Scottish Government has certain responsibilities in relation to colleges. In particular, the Government sets the strategic direction and tasks the funding council with the delivery of its overarching strategic objectives.

It is also important to note that, alongside the process of college mergers, we have seen a strengthening of the outcome agreement framework that exists between the funding council and the regional colleges. That is a crucial way in which, through the Government's overall strategy and the detail of the outcome agreements, there can be clarity about our expectations of colleges, as well as a clear reporting mechanism for the outcomes that individual colleges deliver.

Colin Beattie: I will stick with the Unison submission, which says that

“the SFC does not appear to feel it should look at how colleges are spending money other than round issues like gross misconduct and fraud.”

In the same vein, it also says that

“the role of the SFC in monitoring and engagement has not improved.”

It is fairly critical.

Dr Kemp: Yes, that is what it says. I contend that we are interested in how colleges spend money and not just interested in areas where there has been gross misconduct. It is public money, and through the outcome agreements we have a fairly extensive system to ensure that it is spent on the right things and achieves the intended aims.

I am not quite sure what Unison means when it says that we are only interested in gross misconduct or fraud. We quite often claw back money that is not achieving the ends that we want it to achieve. There is no hint of gross misconduct or fraud in those cases.

We are happy to engage with Unison to take that further. Again, I stress that colleges are run by their boards and their principals. Our job is to fund them and to support them to achieve the aims of the funding council, the Government and the wider

Parliament; our job is not to micromanage colleges. We need to get that balance.

Colin Beattie: Is Unison perhaps referring to SFC's regulatory role, which does not seem to be well defined?

Dr Kemp: We will take up the issue with Unison to see exactly what it meant. Its comment could also refer to intervention in pay and so on, because there are periodic calls for us to be more involved in that.

Paul Johnston: The college good governance task group has recently sought to ensure clarity over the SFC's governance role. It was helpful to see the Auditor General's view that that group's recommendations were likely to improve the overall governance arrangements and clarify the funding council's role in important governance issues. The task group will meet again to ensure that the recommendations are on track.

Liam Kerr (North East Scotland) (Con): Page 11 of “Scotland's colleges 2016” says:

“The Scottish Government expected college mergers to lead to a number of benefits”.

It goes on to say:

“Last year, we reported that the Scottish Government and SFC had not specified how they would measure the expected benefits of mergers”

and notes that

“the Scottish Government and the SFC have still not publicly set out when the benefits will be achieved and how they will measure them.”

How will the benefits be measured or demonstrated, and when will we know about that?

Paul Johnston: I think that things have already moved on since the Auditor General reported. As I said, I accept the recommendations in her report.

The document, “Impact and success of the programme of college mergers in Scotland”, which was published by the SFC, is important. It sets out the range of evidence—I emphasise that there is a lot of detailed evidence in the report, all drawn from individual post-merger evaluations—about the progress that the programme of merger has secured, and contains the details of the costs and savings.

Liam Kerr: You mentioned the fact that there is an absence of baseline data in some areas. Is it therefore impossible to measure certain of the outcomes?

Paul Johnston: What I sought to emphasise earlier was the fact that we have baseline data in quite a number of areas and are able to chart the year-on-year progress that colleges have made. I acknowledge that, in two particular areas—positive destinations and student satisfaction—

there was not consistent Scotland-wide baseline data when we embarked upon the reform process. However, there is an interesting issue about whether reform should have been delayed in order to gather that data. I would argue that it should not have been. The Scottish Government documentation that set out the case for reform set out the urgent need to undertake college reform in order to secure a greater prevalence of colleges of scale. Thanks to the presence of those colleges of scale, we are now better able to gather a rich picture of data and ensure that future policy decisions are absolutely informed by that data.

Liam Kerr: Page 9 of the document concerns one of the outcomes that I want to explore. It was estimated that, by 2015-16, the sector would deliver efficiency savings of £50 million as a result of reform. In January 2016, the SFC said that the sector was on track to achieve those savings. How can you be so sure?

Dr Kemp: The post-merger evaluations identified savings of around £52 million from nine of the mergers. We excluded one college—Edinburgh—from that because it was in a deficit position. As is referred to elsewhere in the report, there is some criticism that we had not included the full costs of the harmonisation of the pay of the staff in the colleges. Since the publication of the report, we have arrived at that figure, which is £6.2 million of recurrent cost. I stress that, although that is probably largely attributable to merger, it is not exclusively so, because national bargaining is a process that had been happening throughout this period—at least, there had been a move towards it—and it is possible that some of the decisions that were made about how to harmonise were made with an eye to national bargaining as well as the merger process. However, if you take the £52 million of recurrent savings and net off that £6.2 million, it takes you to a figure of around £46 million.

Liam Kerr: I might return to that point in a second, but first I want to address another issue. I am concerned about part-time courses and female participation in particular. A section about students and staff starts on page 17 of the report. There is a suggestion that, as a result of a funding change in 2009, which resulted from a Scottish Government intervention at the time, there has been a steep decline in part-time courses, which has had a disproportionate negative effect on female students in particular and on older students. What are your thoughts on that?

Paul Johnston: I can say something about that from the Government's perspective. You are right to identify the fact that deliberate policy decisions were made, in 2009 and subsequently, to put an increased emphasis on the provision of full-time courses and courses that would lead to

recognised qualifications. I should emphasise that it is not the case that there are no part-time courses; far from it, because a great deal of part-time education is carried out. However, the focus has been on courses that lead to recognised qualifications.

Overall, the figures that I have seen point to around 52 per cent of all college learners being female. I recognise that the figures that the Auditor General has set out are around where the drops have occurred in part-time learning. The Auditor General made some important points around getting an overall picture of the current demand for college places in Scotland. Again, I think that reform and a smaller number of colleges enable us to do work on what the overarching picture of demand looks like. We are taking forward that work with the funding council and Colleges Scotland.

Dr Kemp: It is important to preface any discussion of this area by acknowledging that there are still a very substantial number of part-time learners in the college sector, particularly at FE level. The drop in part-time enrolments came from a very deliberate decision by the funding council and the Government in 2009 to prioritise activity on full-time courses for young people at a time of fairly severe economic downturn. The courses that were squeezed out then tended to be very short—often less than 10 hours—and they often did not lead to a recognised qualification. Therefore, there has been a squeezing out of such courses, which has accounted for the vast majority of the drop in part-time enrolments.

The part-time side has not been squeezed out entirely—probably the majority of enrolments at FE level are part-time enrolments. Higher education tends to have more full-time enrolments. However, there are still quite a lot of part-time enrolments in the FE sector. The change seems to have flattened out, because the balance between full-time and part-time enrolments in the past two or three years has remained broadly static; it has not changed much at all.

As Paul Johnston said, we need to work with the colleges to understand whether the current balance is right and whether there are groups that are not getting the provision that they need. However, we are fairly confident that most of what happened in 2009 was done to squeeze out very short courses that did not have the vocational worth of the courses that we replaced them with.

Liam Kerr: On a quick historical point, was an equality impact assessment done at the time?

Dr Kemp: In 2009 we did not do an equality impact assessment, but we should have done.

Liam Kerr: Right. What learning outcome has there been from that? Someone dropped the ball quite significantly there, did they not?

Dr Kemp: The learning outcome from that is that, in 2011, when “Putting Learners at the Centre – Delivering our Ambitions for Post-16 Education” was being implemented, we did an equality impact assessment. We routinely do such assessments now, but we recognise that we did not do one in 2009. We looked at the impact, but we did not do anything that could properly be described as an equality impact assessment.

Liam Kerr: I am grateful to my colleague Gail Ross for raising this issue. You talked about restructuring to promote courses that have vocational outcomes and which are more likely to lead to employment. However, it would appear from the report that a reducing percentage of leavers are going into employment. Does that suggest that the policy has not been successful?

Dr Kemp: The college leaver destinations are quite complex. At university level, somebody goes in and comes out four years later and goes into either further levels of education or work. With colleges, people tend to go into college and do a one-year course, then perhaps do another one-year course that leads to a different qualification. You are right that the proportion leaving college and going into work has dropped slightly, but the number going to positive destinations, including both work and further levels of study, has gone up.

09:45

Paul Johnston: We have only two years of data on that, so we should not necessarily assume that there is a trend. However, the issue is important and we need to look at it very carefully. In the most recent publication of figures, which was for last year, the overall figure for positive destinations had increased compared with the year before. However, there was a move towards more people going on to some form of further education and a slightly smaller number going directly into work.

We have only those two data sets and we need to build that up year by year, seeking to ensure that the policy outcome of greater positive destinations for those in college is secured.

Gail Ross (Caithness, Sutherland and Ross) (SNP): I direct the committee’s attention to my entry in the register of members’ interests, which states that I am a board member of North Highland College.

We have covered a lot this morning and, as we have gone on, I have had to strike out question by question as they have been asked.

Colin Beattie touched on financing and deficits and, as we know from the report, eight colleges

forecast a deficit in 2015-16 and a further 11 forecast a deficit in 2016-17. More recent forecasts indicate that 14 colleges now anticipate a deficit in 2016-17. Are there reasons for those forecast deficits? Are any common themes or patterns emerging? Given the reductions in capital funding to the sector, is the current approach to financing estate improvements sustainable?

Dr Kemp: Some of the deficits that have been forecast relate to the issue that we were discussing earlier with Colin Beattie—they are technical deficits relating to depreciation cash. Others, however, relate to real deficits. I am afraid that I do not have the figure in front of me for exactly how many are in each category.

As a result of the changes that were made to bring the colleges into the public sector, the way in which colleges used to finance estate development—through building up reserves, borrowing money or, sometimes, having a grant element—no longer works. The Government and the funding council now have far more interest in college estates, because any changes have to be financed externally by us.

We are working with the college sector—this is one of the recommendations in the Auditor General’s report—to better understand its estate needs. Our previous work did not cover the entire estate, because much of it is quite new. There are a set of modern buildings and we had focused on the parts that were not new. We are now doing a wider estate survey that covers the whole sector. There will be a quick, initial survey this year and a longer one next year, as we mentioned in our submission to the report. The Government and the funding council need to look more closely at that as, now that colleges are in the public sector, they cannot use some of the tools that they used in the past.

Paul Johnston: I have some figures on investment in the college estate between 2007 and 2015. The total figure is around £550 million and, on top of that, there was an investment of £300 million through the non-profit distributing model pipeline. As we look round certain parts of Scotland, we can see fantastic new college buildings—two of them are in Glasgow. However, I accept the Auditor General’s point about our need to look across the board at the college estate and I welcome the work that is being undertaken on that matter by the funding council and Colleges Scotland. The Government will work closely with the funding council on future capital funding and revenue funding requirements of the college sector.

Gail Ross: You touched on the issue of reserves and I want to ask about arm’s-length foundations, some of which hold significant sums of public money. Can colleges easily access that

money, which they sometimes need for the college estate? Are the arm's-length foundations working, or are there any alternatives that might work better?

Dr Kemp: Originally there was around £100 million in the ALFs. That figure has gone down significantly as money has flowed back into the college sector for estates developments and so on. On the question of whether they are working, by and large the answer is yes. The system is working, although we need to keep a constant eye on it. Part of the complication is that the foundations are arm's length and, while they are set up with the purpose of assisting colleges, there can be other uses of the money.

We will keep a constant eye on that and if there are other, more efficient ways of achieving the ends that ALFs were set up to achieve, we would be happy, with the college sector and the Government, to consider whether that would be more appropriate. I am not aware of one at the moment, though.

Paul Johnston: My understanding is that the Auditor General has confirmed that arm's-length foundations are operating as originally intended and supporting the purposes of each college.

The Convener: May I come in on the issue of capital funding? Mr Johnston, you talked about the £300 million that is going in under a public-private partnership initiative. That is slightly disingenuous, is it not, given that capital funding has decreased by 77 per cent in the college sector since 2011-12? Is that acceptable?

Paul Johnston: I acknowledge that there have been significant reductions in the capital funding that has been available to the Scottish Government across the board. As part of that, it is absolutely the case that colleges have experienced a significant reduction in their core capital funding. However, the £300 million that has been allocated through the non-profit-distributing method is significant and we can see the results of that on the ground in Scotland. However, I would by no means be complacent about the issue. I absolutely agree that work needs to be done—work is being done—to look at the overall condition of the college estate in Scotland to be sure that we can provide for the necessary maintenance, and indeed for improvements and new builds where that is required, within the overall difficult financial climate that continues to exist.

The Convener: I am reassured that you agree that 77 per cent is a significant reduction in funding, but why does the college sector need to take such a huge hit?

Paul Johnston: When there is a particular amount of money available for capital funding, it is

important that consideration be given to the projects that should be given priority at particular points in time. That will vary. At certain points in time, there will be significant investment in some areas. We only need to look to the likes of the hospital in Glasgow or the bridge and we can see the amount of capital resource that is going into projects of that nature. These things will vary from year to year, hence the importance of being clear about the requirements of the college sector for capital funding going forward, and the priority that those have alongside other priorities, so that ministers can make the appropriate decisions about how to allocate resource.

The Convener: My interpretation of page 26 of the Auditor General's report slightly contradicts what you have just said. It says:

"The current method of allocating capital funding does not take account of—"

colleges'—

"need. This is due to the absence of a complete and up-to-date national condition survey of the college sector estate."

I think that the Auditor General is saying that it is not because of the Queen Elizabeth hospital or the bridge; it is because your Government has not done an audit of the state of the college estate across the country and that is why capital money is being allocated. Do you agree with that?

Dr Kemp: We are talking about two elements of capital funding. One is the capital that is allocated out to each college each year as part of their capital maintenance. The issue is whether that should be focused towards colleges that have greater need, for example older buildings and so on, or spread equally across the sector to maintain the good buildings in as good a state so that they do not become bad buildings. That is one issue.

A separate issue is how major capital projects are focused on new estates, such as—most recently—the project that we have been working on in Falkirk, the City of Glasgow College project and so on. Those projects require major capital funding of many tens of millions of pounds, which is different from capital maintenance across the whole sector. We accept the Auditor General's point that the way in which capital maintenance is used is an issue and that there is a need to look at how we focus on the big estate projects.

Paul Johnston: I must emphasise that, for many years, there has been a process of close engagement—which continues even now—between Government, the funding council and colleges on the capital requirements that exist, and funding decisions are made accordingly. That is not to detract from the Auditor General's important point about the need to ensure that there is a comprehensive and clearly defined national picture of the college estate—I accept that

point, and work is being done—but I emphasise that there has been a great deal of on-going engagement on the sector's requirements within the difficult financial envelope overall.

The Convener: So you are confident that the overall picture across Scotland will improve and that in future we will have a better idea of the requirements.

Paul Johnston: I am confident that the work is being done on the overall picture. As an official appearing before the committee today, I cannot make any statements about what the capital allocations will be. Ultimately, that will be a matter for the Parliament—

The Convener: No—indeed. My question was on the data gathering.

Paul Johnston: The data gathering is being done and should lead to the improvements that the Auditor General recommends.

Monica Lennon (Central Scotland) (Lab): I apologise for arriving late—it is probably for the best that we are not scrutinising the train service this morning.

The Convener: Abellio?

Monica Lennon: Yes. We will leave that for another day.

I missed some of the earlier questions and answers, but I will pick up some of the points that Liam Kerr raised. At a previous committee meeting, I asked specifically about the impact on part-time courses. Am I right that the reduction in part-time courses was a deliberate course of action? Was it an intended consequence?

Dr Kemp: Yes—it was.

Paul Johnston: I can say a little about that from a Government perspective. We might go over some ground that we have covered. As far back as 2009, a policy decision was made to focus more on courses that lead to recognised qualifications. The figures that I have seen indicate that approximately 97 per cent of activity now leads to a recognised qualification.

There was a deliberate decision, in light of the demand for places that existed and the financial context at the time, to focus on courses that lead to a recognised qualification. Aligned to that was a decision to focus significantly on the needs of young people in the 16-to-24 age category and to give priority to enabling them to access college places.

That was in response to a careful consideration of the overall economic picture and a recognition that youth unemployment had to be tackled. We can see from some of the figures that the decisions on prioritising recognised qualifications

and young people have had a positive impact. However, I emphasise that it remains the case that colleges provide short courses and learning opportunities for older learners.

The Convener: We are running a bit short of time, so I ask members and witnesses to keep their comments pithy.

Monica Lennon: John Kemp referred to a squeezing out of courses. Was the decision made with an awareness—indeed, in the full knowledge—that it would disproportionately squeeze out women, adult learners and those with caring responsibilities?

Dr Kemp: In one of the answers that I gave earlier—perhaps before you arrived—I said that we acknowledge that, as the Auditor General's report highlights, we did not do a full equality impact assessment in 2009, although we did some modelling work. Our aim was to squeeze out courses that did not lead to a recognised qualification and were often very short—I am talking about courses of a couple of hours.

Monica Lennon: Just to be clear, why was the equality impact assessment not undertaken? Who made that decision?

Dr Kemp: That was an error. We should have done it and reported that to our council board, but we did not.

Monica Lennon: Was an assessment considered and dismissed, or was it just not considered at all?

10:00

Dr Kemp: It was not considered. It was an error by the executive of the Scottish funding council; we should have put an equality impact assessment in the council paper. We did some analysis, but we did not report that to the council. That was simply an error.

Paul Johnston: I emphasise that equality impact assessments have subsequently been carried out. I have some in front of me, and I can share them with the committee if that would help. The assessments were carried out from 2011 onwards but, as John Kemp said, an assessment absolutely should have been carried out in 2009.

Monica Lennon: Is there a retrospective aspect to that work, or will it look just at the impact of future decisions?

Dr Kemp: The retrospective aspect is that we have looked at the data—for example, it was looked at as part of the 2011 work. It has been looked at many times since then but we accept that, when we made the decision in 2009, a full equality impact assessment was not done.

Paul Johnston: As of now, it is important that we get an overarching picture across Scotland of the demand for college places, and the funding council is doing that with Colleges Scotland.

Monica Lennon: In its submission, the National Union of Students Scotland tells us about

“a very real risk of excluding those students who most deserve a college place but simply aren’t able to study full-time”

and suggests that the Auditor General’s report highlights “a worrying trend”. Are you worried about that?

Dr Kemp: The trend of shifting between full-time and part-time education has flattened in the past couple of years and is not continuing. I stress that there is still a substantial amount of part-time provision in the college sector. The courses that were removed were very short and often did not lead to a recognised qualification. Looking back, I think that, had we carried out a full equality impact assessment, we probably would have reached the conclusion that we reached.

There is provision for part-time college courses of the valuable kind that the NUS is talking about. We need to work constantly with colleges to ensure that the balance is right, that the courses are available and that we have the right funding incentives in place. There is still considerable part-time capacity in colleges.

Monica Lennon: What about the computing and health courses in which, according to page 19 of the report, places have fallen by almost half?

Dr Kemp: Those courses would have been very short.

Monica Lennon: How are the people who would have gone on those courses acquiring those skills? Are you saying that they are now in full-time courses?

Dr Kemp: I imagine that the courses in those two subjects for which the drops have been highlighted would have been very short—almost leisure—courses in health, computing for the terrified-type courses and so on. Often such courses continue to exist, but they are paid for by the students.

Monica Lennon: I apologise if this issue has already been covered, but I was struck by the reference in Unison’s submission to its report “Learning the Hard Way”, which shows that

“staff are under pressure, morale is very low and trust in management is at rock bottom.”

The submission also makes the good point that

“Further education is all about people; education cannot be delivered by robots.”

Unison paints quite a dark picture about the atmosphere in colleges and what things are like for staff.

Dr Kemp: In my opening statement, I said that one of the reasons for the success of the mergers was the staff’s hard work. We have recognised, and the post-merger evaluations show, that the period of change in the college sector over the past few years has been demanding for staff. That is what staff told us when we spoke to them as part of the post-merger evaluation, but there are different perceptions of how bad it was and whether things have improved.

However, I take your point. We recognise the importance of ensuring that the staff in colleges are well motivated and supported because, as has been said, the work cannot be done by robots.

Monica Lennon: There is no doubt that staff are working hard, but the concern is that they are in danger of burning out. Do you share that concern?

Dr Kemp: Had the Colleges Scotland representative been available on the panel, she could have talked a bit more about its perception of pressures on staff. From our post-merger evaluations, I do not think that it would be fair to say that we perceived the situation to be as bad as you have suggested, but we recognise that those pressures are there.

Monica Lennon: Does Mr Johnston recognise those pressures?

Paul Johnston: I absolutely recognise that effective leadership is crucial. That is one of the lessons that the funding council brings out in its overarching report on the success of mergers. There are good case studies and examples of college leadership really engaging well with and supporting staff. I hope that lessons will be learned and that college leaders will support, develop and equip their staff to thrive.

The Convener: Those same staff are currently in dispute over pay. Do you have any comment on that?

Paul Johnston: My comment is that work is on-going on pay. We are working with the funding council and Colleges Scotland in relation to the pay issues and we will ensure that the Parliament is kept updated as discussions continue. I do not know whether John Kemp wants to add anything more specific.

Dr Kemp: We have been supporting Colleges Scotland and the employers association with additional funding so that they have the capacity to take forward the negotiations in the best possible way. That is largely an issue between the employers and their staff, but we are supporting

that from outside so that negotiations proceed smoothly.

The Convener: There is an issue of equality between the pay rise for support staff and that for lecturers. I hope that an agreement is reached swiftly.

Monica Lennon and Liam Kerr raised points about equality impact assessments. Mr Johnston, is there a statutory duty on your Government to carry out such an assessment?

Paul Johnston: The statutory duties that I think that you are referring to are in the Equality Act 2010. Those duties are absolutely important. As Dr Kemp recognised, it is important that equality impact assessments are carried out whenever policy changes are made that could have an impact on—

The Convener: So why did you not do one for the merger process?

Paul Johnston: We have recognised that, in 2009, an equality impact assessment should have been done but was not done. However, I emphasise that subsequent equality impact assessments have been carried out and that the funding council carries out on-going work with individual colleges on equalities. In some of the regular reporting from the funding council, I have been struck by the volume of information that is gathered, analysed and reported on the support that colleges provide to those who have a variety of protected characteristics.

The Convener: It seems like a huge and significant omission on the part of your Government. Colleges provide education, training and skills for large parts of our population. We have all had people coming to our surgeries who are no longer able to access college courses because of the decision. Not doing such an assessment seems a serious oversight or omission, given that it is a statutory duty. Do you agree?

Paul Johnston: I emphasise that there was not one available in 2009, but a number of the duties that we now refer to are in the Equality Act 2010. However, I am not seeking to gloss over the fact that an equality impact assessment should have been produced in 2009. That is certainly in the territory of the need to ensure that, in the future, all policy changes that could have an equalities impact are fully assessed. I emphasise the on-going work that has been done since then to take full account of the equalities impacts of policies that are being pursued.

Dr Kemp: That includes work in 2011, in relation to “Putting Learners at the Centre—Delivering our Ambitions for Post-16 Education”,

which was the key policy that led to the reform programme. It was equality impact assessed.

The Convener: Does Mr Johnston expect a subsequent legal challenge on the absence of an equality impact assessment in 2009?

Paul Johnston: I do not want to comment on that issue. I have set out our position on the extent to which equalities issues have been considered thoroughly in recent years and will continue to be considered carefully.

The Convener: I want to ask about workforce planning; I refer to paragraph 57 on page 25 of Audit Scotland’s report. When the committee conveners met the First Minister yesterday, I pointed out to her that many themes in Audit Scotland’s reports come up time and again. Workforce planning is an issue across the public sector. The report says:

“there is limited evidence of systematic workforce planning”

in our colleges. Do you know why that is?

Paul Johnston: My starting point is to emphasise that I accept the need for such workforce planning to be carried out, and I recognise that that recommendation is not limited to the college sector. I hope that the committee will see the evidence of that workforce planning taking place. I know that that work is being carried out between the funding council and Colleges Scotland.

Dr Kemp: We will take forward that recommendation with the colleges.

The Convener: So that is being taken forward.

Dr Kemp: Yes.

The Convener: Before I bring in Alison Harris for our final question, I will ask about student demand, which greatly concerns me. In autumn a couple of years ago, I raised in Parliament the issue that more than 800 young people—I think that the number was 818—were unable to get an engineering place at Dundee and Angus College, which is in my region. All those students were turned away. As you know, there is no data-gathering system to show what those young people went on to do and whether they took alternative routes. That concerns me on a number of levels. It concerns me for our economy and its skills needs that there is no system in place across the country that records student demand. How is that being tackled?

Dr Kemp: We are working with Colleges Scotland and the Government on a systematic way of understanding the applications to each college by subject so that we can compare them across Scotland and understand where there are disparities in demand. That kind of thing can be

done easily in universities, because there is one application system. Doing it in colleges is more complex, because they have different systems. We have piloted work with some colleges, including Dundee and Angus College, on ways of doing that. We now need to roll that out to all the other colleges and ensure that that is done sector wide so that we understand who is applying to do what courses and what the outcomes are. That will tell us something about the demand for courses.

I stress that, as well as that, we will do work that looks at the demography of different areas, the proportions of people who go to universities and the proportions in work, for example, so that we understand what is happening and can compare that with the supply of places in order to understand which areas might need more activity and which might not. Over the past couple of years, we have moved activity from areas of lower demand to areas of higher demand, so our funding is increasingly needs based. We do not have the same kind of data as there is in the university sector, but we hope to move towards something like that.

Paul Johnston: The convener has raised an important point, which is being addressed. A smaller number of larger colleges of scale that operate with clarity on the requirements of a region can help to secure progress.

The Convener: I do not think that there is any timescale for that work. Can you put a timescale on it?

Dr Kemp: We intend to have the system for recording all the students in place by the time that students make applications for 2017, as the 2016 period has now passed.

Alison Harris (Central Scotland) (Con): I apologise for being so late this morning, but that was totally outwith my control.

I hope that my question has not been asked; it is about an issue that concerns me. Are there indicators that the Scottish Government's focus on courses that lead to employment has not been very successful, in light of the low and reducing percentage of leavers who go into employment?

Paul Johnston: We picked that up earlier, but I am happy to recap briefly. I emphasise that the most recent figures for positive destinations are up—overall, there is an increase. We have only two years of data, and the most recent year's data shows a small drop in those who go into employment but an increase in those who go on to further courses. As we have discussed, the nature of further education is such that the learner is often on a journey that may involve a number of courses in a pathway that leads to employment. We also recognise that we need to keep a close

eye on the positive destination figure. That data will now be gathered year on year.

Alison Harris: I apologise for missing that and covering the subject again.

The Convener: I thank both witnesses very much for their evidence and suspend the meeting for five minutes for the witnesses to change over and for a comfort break.

10:15

Meeting suspended.

10:20

On resuming—

Section 22 Report

“The 2014/15 audit of Edinburgh College”

The Convener: We move on to agenda item 3, which is an evidence session on the Auditor General for Scotland’s report entitled “The 2014/15 audit of Edinburgh College”. I welcome, from Edinburgh College, Annette Bruton, principal and chief executive, and Alan Williamson, chief operating officer; from Scott-Moncrieff, internal auditor for the college, Chris Brown, head of audit and assurance; from KPMG, Hugh Harvie, partner, who carried out the external audit; and Dr John Kemp, interim chief executive of the Scottish Further and Higher Education Funding Council.

I invite Annette Bruton to make an opening statement. She will be followed by Dr Kemp, after which I will open up the session to questions from members. I understand that no other witnesses wish to make an opening statement.

Annette Bruton (Edinburgh College): Thank you very much, convener. Good morning. Thank you for the opportunity to give evidence to the committee on the matter of the Auditor General’s report on Edinburgh College.

As the committee will have seen from our submission, we accept the report. We were taking action before and have been since the report’s publication to address the problems that led to the failure to meet the agreed delivery targets and the ensuing serious financial problems that were faced as a result of the reduction in budget. The Auditor General previously explained to the committee the arrangements for funding core and additional activity in colleges, but we are happy to clarify that further if the committee wishes us to.

I took up my post in the summer of last year. Since then, we have focused our efforts on understanding the nature of the problems that Edinburgh College faces and, in particular, the problems that we face in relation to the recruitment and retention of the right number of students. I believe that, to date, we have made some good progress on that, and we are working hard to ensure that our students experience a high level of support to gain the qualifications that they need for future jobs.

We are a large college that provides more than 700 vocational and academic courses. We have good evidence of the success that results from the hard work of our staff and students. For example, 99 per cent of our successful full-time students move on to employment or further study within six months of graduating.

However, alongside that, we recognise that there are other areas of our performance that need to improve significantly. There is still much to do in the short and medium term. Those actions include putting in place new courses for the future and, critically, reducing our budget deficit to achieve a balanced position.

Our three-year transformation plan has been shared with and shaped by staff, students and our partners. We recognise that the work that is required will be difficult and challenging, and that it will require determination and sustained effort to improve the college’s position and ensure that we are financially stable for the future.

In our submission, we have summarised what we believe are the key points that led to the college’s past performance difficulties and how we are addressing those. I would be happy to give much more detail, as required, and to answer the committee’s questions.

The Convener: Thank you very much.

Dr Kemp: Thank you, again, for inviting me here along with colleagues from Edinburgh College to discuss the Auditor General’s report.

The issues that Edinburgh College faces are deep-seated, and we are working closely with Annette Bruton and her team to address them through the business transformation plan. The underlying financial issue that the college faces is that the activity target at the college was greater than the college could meet. The college has recognised that over several years and has agreed gradual reductions in activity, which has been moved to areas with higher demand since 2012.

However, a year ago the current principal wrote to us asking that the target be reduced in-year by a far larger amount—about 12,000 credits—than had previously been agreed. We supported that move and have assisted with the business transformation plan that will enable the college to be financially sustainable at the lower activity target.

The issues about additionality and the subsequent clawback are a contributing factor to the financial difficulties, but there are wider issues, too.

I am very happy to answer your questions both about additionality and how we are working with the college to address the issues.

The Convener: Thank you very much. Colin Beattie will open the questioning.

Colin Beattie: First, I will look at additionality, which, clearly, is not the only problem that the college has. I want to look at the timelines and how the matter was handled.

According to the information that I have, the SFC issued the funding activity guidance to colleges on 22 July 2014. Who in Edinburgh College received the guidance?

Annette Bruton: It would have gone to the two vice principals who had responsibility for the curriculum. One was responsible for the curriculum; one was responsible for the frameworks on which the curriculum is built. The guidance would have gone to those members of the senior team.

Colin Beattie: What did they do with it?

Annette Bruton: They should have cross-checked the curriculum frameworks against what additionality the new guidance allowed. I would expect such an audit to happen every year. Since I came into post, we have done two in-depth audits following that guidance and following what we now know was a problem for the college.

I believe that an exercise was carried out, but not in sufficient depth or with enough outcomes to change the curriculum frameworks in time for the recruitment for the year that was about to start.

Colin Beattie: Would the question of additionality not be fairly obvious? It would be quite evident that there was a problem.

Annette Bruton: There were two components to additionality, if memory serves me on that particular guidance, which was issued as I was coming into post. First, a percentage figure was allowed. Secondly, an additional amount was allowed that could be agreed with your outcome manager. There was not just a fixed amount.

Colin Beattie: The timeline that I have says that, between August and October 2014, the college monitored and reported on activity to both the SFC and the board. Would that reporting to the SFC have indicated that there was a difficulty with additionality?

Annette Bruton: The college reports to the SFC four times a year. A formal return goes in and that return is also reported to the board. You would not pick up the additionality being over the allowed amount, unless the curriculum frameworks on which it was based had been properly audited. Assumptions were made that amounts of additionality were allowed in the curriculum frameworks that we have.

Each curriculum has a number of points that you are allowed to accumulate on it. Because the audit had not been done thoroughly for each area, assumptions were made that additionality was allowed. That was reported in good faith but, on checking the guidance when I came into post, I found that many of our curriculum frameworks were overapplying the rule and some were underapplying it. Overall, there was an

overclaiming of additionality because the curriculum had not been changed.

Colin Beattie: Dr Kemp, would the SFC not have picked up something from the reports?

Dr Kemp: You would not automatically pick up the additionality from the further education statistical—FES—returns, although you can do that if you know what you are looking for. In Edinburgh College's case, the issue was picked up through discussions between the outcome agreement manager and the college—not by looking at the statistics—and the matter was discussed with managers in the college during the period that Annette Bruton is talking about.

Colin Beattie: When the SFC's funding on activity guidance came out, it went to the two vice principals. Would it automatically go to internal audit?

Annette Bruton: Internal audit would be using the same guidance as the college.

Colin Beattie: Which means?

Annette Bruton: Yes.

Colin Beattie: They would have received it.

Annette Bruton: Yes.

Colin Beattie: Did internal audit receive it?

Chris Brown (Scott-Moncrieff): Internal audit does not automatically receive all guidance that goes to colleges. The colleges—

Colin Beattie: You do not receive the guidance that comes from the SFC?

Chris Brown: No, we do not get it automatically from the SFC.

Colin Beattie: How can you do your job?

Chris Brown: The college gives us the guidance or draws our attention to its existence. In this case, we went on to the funding council's website and downloaded the guidance from it.

10:30

Colin Beattie: When did you do that?

Chris Brown: It was just before we did the audit—during the course of the planning for the audit. In this case, the audit took place after the end of the year, so shortly before—

Colin Beattie: There should have been evidence of the problem by the end of 2014. I presume that you were doing the audit at the end of the year. What is the end of your year?

Chris Brown: It was the end of the 2014-15 academic year—

Colin Beattie: Which month?

Chris Brown: It would have been July 2015.

Colin Beattie: You would have picked up the problem in July 2015.

Chris Brown: Yes.

Colin Beattie: Did you?

Chris Brown: As part of the audit programme, the funding council issues guidance that is 45 pages long, and the new requirement on additionality was included in the guidance for the first time in 2014-15.

Colin Beattie: It is included in that 45-page document.

Chris Brown: I think that it is in paragraphs 84 and 85 of that document.

Colin Beattie: At 45 pages long, the guidance is not exactly "War and Peace".

Chris Brown: No, it is not, but that requirement does not jump out at you as a new requirement. In the guidance, the funding council includes suggested audit tests, none of which refers to additionality.

Colin Beattie: Would you have expected audit tests to come from the SFC?

Chris Brown: Yes. That is typically what it does. The audit guidance comes from the funding council because it is an audit that the funding council requires us to do. In the guidance, it summarises the tests that it wants us to carry out as part of the audit. In fact, it summarises the tests that it wants the colleges to ask their internal auditors to carry out on its behalf.

Colin Beattie: Are you saying that, as the internal auditors, you look at the position only once a year?

Chris Brown: We do an annual audit of the student activity, which happens after the end of the year—

Colin Beattie: But your on-going internal audit programme comes only at the end of the year—only at the end of the year do you download the directions from the SFC that you are going to measure people against.

Chris Brown: No. The annual internal audit programme happens throughout the course of the year.

Colin Beattie: How often do you download or check that you have received all the directives that you need?

Chris Brown: We do that on an audit-by-audit basis.

Colin Beattie: You just told me that you do it at the end of the year.

Chris Brown: We do it then for that particular audit because that particular audit happens after the end of the year. When we are planning for the whole audit programme, we try to make ourselves aware of the key guidance changes and the bits of information that we need to be aware of to enable us to do the audit.

Colin Beattie: Would it not have been possible for you to pick that up in the course of the year?

Chris Brown: Yes. Absolutely. The internal audit programme is based on risk, and one of the highest risks for most colleges was—and still is—the risk of its not recruiting enough students. We did an audit in January 2015 that looked at how the college management were using the student activity data that was coming out of the system to make changes to the curriculum and to take action to recruit enough students if the college was underperforming on student—

Colin Beattie: We have just been told that the college reports four times a year to the SFC, which would include information on additionality. Do you see those returns?

Chris Brown: We are not formally given those returns. They would be in the—

Colin Beattie: You do not get the returns that go to the SFC.

Chris Brown: No. They would be included in the—

Colin Beattie: They play no part in your audit.

Chris Brown: No, they would be included in the board papers, to which we get access.

Colin Beattie: What do you do with the board papers?

Chris Brown: Typically, we review what is going through the board. We do not read every paper that goes through the board, but—

Colin Beattie: You do not read them all. Are they so extensive?

Chris Brown: Well, the board packs are long. We work with the college and the audit committee, which is a sub-committee of the board. We attend all the audit committee meetings throughout the year and work with it to identify the key areas that we want to focus on in the internal audit programme. As a sub-committee of the board, the audit committee includes board members, and the principal and the director of corporate services typically attend audit committee meetings. That is the forum in which we agree what we should include in the audit programme or any changes that we need to make to the audit programme.

Colin Beattie: Dr Kemp, why did the SFC issue no internal audit tests on additionality? The

auditors say that it is the normal course for such tests to be issued, but that did not happen in this case.

Dr Kemp: I will check the guidance, but my recollection is that it was fairly clear on what was allowable activity and what was not, and what the systems round about that were. It is worth stressing, though, that this is not a new issue or something that was introduced in 2014. There were related study rules as part of the old funding systems, which are now part of the new funding system. All that has changed is how we define full time and what is over and above that. It is something that most colleges have been dealing with for many years.

Colin Beattie: We understand that the college missed this aspect. It is a question of what other mechanisms were in place that should have picked it up and why it was not picked up.

Dr Kemp: In this case, as well as what was published in the guidance, the college was told about the rule verbally by its outcome manager in several meetings.

Colin Beattie: The college was told about it.

Dr Kemp: Yes. As well as the publication of the guidance and so on, there was discussion of the issue.

Colin Beattie: Who specifically would have been told about it?

Dr Kemp: From our point of view, our outcome manager was dealing with it. I ask Annette Bruton to clarify.

Annette Bruton: When I came into post, I looked at the issue in some detail. I found evidence—it was one of the things that I picked up quite quickly when in post—that there was a problem with our curriculum frameworks. We began working on that within a couple of months of my being in post. I wanted to look into the issue to see what had gone wrong. There was certainly evidence of the outcome agreement manager having had discussions with several different people in the executive team about reducing that additionality over time. Some of that had been done, but not sufficiently so to meet the guidelines that were issued in 2014. Mr Beattie was just discussing what the auditor might pick up at the end of the year, but I picked up the issue through the work of the senior team I was directing when I came into post.

Colin Beattie: It was not the auditors who brought the issue to your attention?

Annette Bruton: I picked it up as part of a review that I was having done on the curriculum frameworks because I could see from the student

recruitment problems that we were having that something was wrong.

Colin Beattie: It was not the auditors who brought it to your attention.

Annette Bruton: It was not brought to my attention by the auditors at that stage, although the auditors did some work on it later.

Colin Beattie: You already knew about it by the time that the auditors came to you.

Annette Bruton: I picked it up through two routes, one of which was a review that I had asked for of the curriculum frameworks. The first issue was that I wanted to know how much additionality there was around the curriculum frameworks; the second was that I wanted to know whether our curriculum frameworks were generally complying with all the rules that are set, because I was worried that we were not recruiting and I wanted to know what the curriculum frameworks looked like. That was one of the things that we picked up and one of the reasons why we went to the funding council to ask it to reduce our target in-year. I did not know the full extent of the additionality until further work had been done later in the year and I had had that verified by the audit team.

Colin Beattie: The timeline that I am looking at says that 10 October 2015 was the deadline that you had for returning data for funding purposes to the SFC and that that data was accompanied by an audit certificate and report that was provided by internal audit. What did that audit certificate and report signify? What did the report say? Did it agree with the figures? Did it agree that the figures were compliant?

Chris Brown: Yes, it did.

Colin Beattie: The report said that the college was complying with SFC guidelines. Clearly, it was not.

Chris Brown: No. By that time, the college had amended its certificate because the funding council had identified the excessive use of additionality. The college had taken the approximately 5,000 weighted student units of measurement—SUMs—out of the claim and had signed an amended certificate. When we signed our audit certificate, it was accurate and the college's claim was accurate. That is all described in our report, which accompanied our audit certificate and which we submitted to the college.

Colin Beattie: Was that the point at which the SFC was aware that there was a problem?

Dr Kemp: We were aware of the problem around a year before that.

Colin Beattie: A year before that.

Dr Kemp: Yes.

Colin Beattie: You knew about it before internal audit did.

Dr Kemp: Yes. Our outcome manager would have had discussions in November 2014.

Colin Beattie: In November 2014, you were aware that there was a problem—

Dr Kemp: Yes.

Colin Beattie: —and internal audit was not aware of that until July or whatever 2015. The incoming principal found it before internal audit picked it up. That seems odd—the timing does not look good.

Chris Brown: We do audits at a particular point in time and we report on what we find in that audit at that point in time. Everything that we reported in our audit in October/November 2015 was absolutely accurate. That is not to say that we were not aware of the issues before then, but we had not done the SUMs audit that we do every year.

Colin Beattie: You told me before that you were not aware.

Chris Brown: No. What I said was—

Colin Beattie: You told me that you became aware at the end of the financial year when you downloaded the 45 pages from the website.

Chris Brown: Well, we were not aware of the specific guidance that the funding council had issued to us to allow us to do the SUMs audit. We were aware before then of the discussions between the funding council and the college on one plus activity.

Colin Beattie: Would that not have triggered a thought in your head that you needed to look into the issue a bit more?

Chris Brown: We did look into it. The underlying issue for the college is that it is under-recruiting students. It is not recruiting a sufficient number of students and it has known about that for a number of years. Indeed, the issue has been on the college's risk register for a number of years and our audit plan is based on that risk register. We had an audit in financial year 2014-15 that we agreed with the audit committee and management and that we carried out in January 2015. The audit looked at how the college took action when it identified that it was under-recruiting students, what action it took and how it reported that action to the executive and the board.

As part of the audit programme, we flagged up the underlying issues that were causing or at least contributing to the college's not being able to recruit sufficient students. The outcome of that was that the college recognised that it was under-recruiting. At that point in January 2015, it was

something like 43,000 SUMs below its target, so it had to do a lot of recruitment. It was able to recruit a large number of students, but one of the things that it did to increase its activity was to apply more activity to some of its existing students in breach of some of the funding council's guidelines.

Colin Beattie: I think that there is a bit of a circular argument with regard to timing, but I will leave it at that for now.

Alex Neil: I believe that Mr Williamson's previous title was director of finance.

Alan Williamson (Edinburgh College): That is right.

Alex Neil: So we have this problem in the college. The funding council is aware of it in 2014; the auditors pick it up in mid-2015; and then the new principal picks it up. You were the director of finance. When did you know about the problem and what did you do about it?

Alan Williamson: Generally, throughout the year, quite a lot of work is undertaken on additionality. Any additionality changes go through the reporting, and there was certainly a belief that the reporting that we were looking at included additionality agreed with the funding council. That is my perspective.

Alex Neil: So when did you realise that this problem existed?

Alan Williamson: The problem really came out in the final further education statistics return, which was round about October time.

Alex Neil: Of two thousand and what?

Alan Williamson: Of 2015. With the final FES return, it became much more apparent that there were difficulties with the additionality claim that we had put in.

Alex Neil: When did the guidance come out?

Alan Williamson: It came out in June 2014.

Alex Neil: So why did it take all that time for you to highlight that?

Alan Williamson: It was not a case of me highlighting it. The guidance was given to all the executives, and the vice principals of curriculum and quality are there to implement the changes to the frameworks through the staff. Under that procedure, I rely on the reports that I receive from that and the information that I am given through reporting.

Alex Neil: Sitting here, I think that it looks like a total failure. The funding council was aware of the problem. Did it not get on to you and say, "You've got a problem here"?

Alan Williamson: The funding council was liaising with the vice principals through the outcome agreement manager.

Alex Neil: So nobody from the funding council got on to you and said, "You've got a financial problem here."

Alan Williamson: Not to me. I would rely on the information internally.

Alex Neil: It seems to me that there are an awful lot of cooks with this bit of broth and nobody seems to be in charge and looking at the whole system. There are fundamental systemic issues that need to be addressed. How much money does the college spend on audit?

Alan Williamson: It is probably about £35,000 or £40,000 a year.

Alex Neil: And how much does the funding council spend on audit?

Dr Kemp: I do not have that information.

Alex Neil: Right, but I suspect that it is a lot more than £35,000. It seems to me that we have a lot of people involved and nobody seems to be talking to others.

10:45

Dr Kemp: Let us be clear that the funding council was speaking to almost all of the senior management team at various times—the two vice principals who had curriculum responsibility and the deputy principal at the time. The issue would have been well known to the people in the college who were responsible for the curriculum framework.

Alex Neil: You are all passing the buck. At the end of the day, who should have picked this up when it should have been picked up and done something about it? You are all passing the buck.

Dr Kemp: We are fairly clear. We spoke to the college towards the latter part of 2014 while the activity was still going on. We indicated that it was an issue and, when it came through that it still had not been addressed when the final further education statistics came in, we clawed back money, because we felt that the college had not abided by the rules on one plus activity or related study.

Alex Neil: Well, I mean—

The Convener: Sorry, Mr Neil, but Ms Bruton wants to come in.

Annette Bruton: It is in direct response to Mr Neil's question. We need to be clear that management mistakes were made by the college. The college should have picked up that guidance and taken action. One of the problems that I found

when I went to the college was that the management structure was getting in the way of somebody taking ultimate responsibility for the issue. We have since changed that, and we now have a clear lead and responsibility on everything to do with credit, application, the curriculum and so on. I took quite quick action, supported by the board, to ensure that we got the structure into the right shape. We should never say never, but it is highly unlikely that that would happen now, because the guidance goes to a single person rather than different people. Also, we have made the lines of accountability much clearer.

To answer Mr Neil's question, management errors were made in the college, because the issue should have been picked up and dealt with.

Alex Neil: How many full-time equivalent permanent lecturers now work in the college, and how does that compare to the last couple of years?

Annette Bruton: I am sorry, but I do not have that information with me. It is in the region of 547, I think.

Alex Neil: Right. Has there been an increase or decrease in the number of lecturing staff in recent years, given that you have been underrecruiting students, or do you not know?

Annette Bruton: I do not know, because the number of FTE lecturing staff changes year on year. We have some people on permanent contracts and some people on part-time contracts. Some people work only two or three days a week, and some people come in for just one semester to deliver short full-time courses. We have the figure, but I just do not have it with me—sorry.

Alex Neil: Could you let us have the current figure and the figure for each of the past two years?

Annette Bruton: Yes, we can make that available.

Alex Neil: Since the previous hearing that we had on Edinburgh College, a number of people have written to me and to other members of the committee. I do not know whether the comments reflect reality but, as they are circulating widely, I will mention some of the most disturbing ones and give you the opportunity to tell me whether they are right or wrong. I have four or five, so bear with me.

The first allegation, if I can put it that way, is that almost all the heads of department took voluntary severance in 2016 and a new set of heads has just been recruited, most of whom have no previous experience of further education. Point 2 is that there is no Government control over what is said to be super-inflated pay for the senior management team or principals. Point 3 is that the

lack of an organisation chart helps to obscure the number of staff who are working on projects, and they are hand-picked staff, as project opportunities are not advertised. For example, a curriculum head was hand picked to improve the enrolment system. The result was the worst ever student recruitment year and a £3 million SFC clawback. The final point is that the principal's response to that—I do not know whether this refers to the current principal, who is Annette Bruton, or the previous one—was to promote the head to a new job with the title “associate principal” with no interview and no job advert. Are those allegations true?

Annette Bruton: I will try to deal with them in turn.

As I have just explained, we had a change in structure because we had problems with lines of accountability. The heads of faculty run big teams—for example, our head of health, wellbeing and social science runs a part of the organisation that is bigger than Borders College—and I needed to change the responsibility levels of those heads. The majority of the heads of faculty have changed. Three of the heads were promoted internally to assistant principal posts, so they did not leave under a voluntary severance scheme. From recollection, I think that two of the heads left on VS, and that was because their posts had been deleted from the structure. We have fewer heads now than we had before, and we have invested that money in front-line staff and front-line leadership—we have created a new leadership role in front-line staff.

Dr Kemp might want to talk later on about the issue of the Government having no control over super-inflated salary levels. There is an organisational chart for the college, which is published on our intranet for staff. I do not want to comment on what I think are potentially malicious comments about an individual that have been made. I certainly recruited someone to help with recruitment and retention because they were already working on a project in that regard when I arrived at the college, and I thought that they were making a good job of it. That person was interviewed by me to see whether they would be suitable to do that project.

Alex Neil: The information that we have is that, in 2011-12—obviously, you were not there at that time—there was a total full-time equivalent staffing complement of 1,165.8, of whom 517, or 44 per cent, were lecturing staff. In 2015-16, that figure was 1,162, of whom only 504—13 fewer than previously—or 41 per cent were lecturing staff. Does that not show that the figures are going in the wrong direction?

Annette Bruton: I can provide you with more detailed figures, but there are two or three influencers to take note of.

After the merger—here, again, I am reporting what I have subsequently found out, because I was not there at the time, so I need to be very careful—learning development tutor posts were created. Those tutors took on some of the roles of lecturing staff—administration, student support work and so on—which freed up lecturing staff to do teaching and preparation. The balance between those people who work directly with students and lecturing staff changed.

Another thing that has influenced the number of staff working in the college is the college's decision to bring catering back in-house. We did that for a couple of reasons: first, we thought that we would get better value and save money; secondly, we thought that we would get better quality; and, thirdly, we thought that it would provide an opportunity for the catering staff to work alongside the hospitality students. Therefore, although staff numbers in some areas of the college were decreasing through, for example, voluntary severance, staff numbers in other areas were increasing in the interests of getting better value and, in the case that I am discussing, as a result of a decision that it was better to have our catering handled in-house rather than by a private company.

There are a lot of nuances under the figures that you cite. With your permission, convener, I will write to the committee to give you some of the detail that we have on that.

Alex Neil: On the catering issue, my understanding is that, between April and June—and perhaps at other times, too—the internal catering seemed to operate at a surplus, which is welcome news. However, it seems that, although there was a commitment to reinvest that surplus in improving the canteen facilities, the quality of the food and so on, there is a feeling that that has not happened. Is that correct?

Annette Bruton: Mr Williamson might be able to say something about that. A catering review involving the students and staff is currently on-going.

Alan Williamson: Yes, there is an on-going review. We will be investing in some catering equipment, as well. Ultimately, however, the shops in the colleges are far better stocked and the atrium area is far better than it was before. There has been investment in that regard. I would also point out that the surplus was very small.

Alex Neil: I want to come back to the issue of the 50 learning development tutor posts. According to the information that I have, the learning development tutors do not teach, they do

not provide academic tutorials, there is no record of how many students they see in any one week and no other job has that job title. Is that all true?

I have one final question. How many agency workers do you have?

Annette Bruton: I am not sure that I know how many agency workers we have, but I will let Alan Williamson give you an indication of the kind of areas in which we might need agency staff. Usually, they are required just for cover when someone is off sick, but Alan will say whether I am right.

We have learning development tutors, we have student support services and we have specialists who work with students with additional support needs. That is currently under review. Learning development tutors will meet class groups or individuals on a weekly basis. They support pastoral care—in that respect, they do a similar job to the job that guidance teachers do in school—but they also support career development for students.

We know that there will be opportunities to look at all our support services, and our new head of services for students is looking at all that to see how we can achieve a better fit in how those services work together. The LDTs work very closely with the curriculum faculties that they work in.

Alex Neil: Will you write to us about the number of agency staff, or do you have the figure to hand?

Alan Williamson: I can give you an indication of the areas in which we occasionally employ agency staff. Last year, quite a number of staff in the nursery were on maternity leave. In catering, it is sometimes necessary to pull in staff at very short notice to deal with the volume of students who are buying food. The position is similar in our leisure facilities, and we use agency staff for roles that involve giving instruction in the gym or in sports.

Alex Neil: Will you send us the detail?

Alan Williamson: Yes, we can send you the detail.

Liam Kerr: I want to ask about the financial side of things. The college faces severe financial challenges—there is a £2.5 million funding gap. Is that correct?

Dr Kemp: Yes—the drop in activity that was agreed with the college would equate to roughly that sum.

Liam Kerr: I want to look at voluntary severance. It would appear that the cost of the merger was about £17 million, of which voluntary severances cost about £14.8 million or £15 million. According to the figures that Alex Neil gave earlier,

there appears to have been a net change in staff of nearly four. Does that not suggest that the cost per individual shed has been about £4 million?

Dr Kemp: I make it clear that the figures that were cited earlier, which were circulated yesterday, are not ones that we recognise. There are figures on the number of staff who left, but they are different. I think that Annette Bruton has said that she will give you those.

As part of our post-merger analysis, we did an additional evaluation for Edinburgh College, because we did not feel that the process had gone smoothly. Neither the current management of the college nor the funding council felt that the voluntary severance process that was gone through at the time of the merger was carried out as effectively as it could have been. I do not think that the senior management team or the funding council would argue with that, but we simply do not recognise the figures that you cited.

Liam Kerr: Do you recognise the figures from a different source that suggest that 18 management staff left by voluntary severance at a cost of £1.8 million, which represents an average of £102,000 per person?

Annette Bruton: Which year are we talking about?

Liam Kerr: According to the paper in front of me,

“One reason for the high cost of the merger ... was that the College paid out £1,836,000 in VS to 18 top management individuals”.

I do not have the year, but the figure relates to the merger.

Annette Bruton: I do not know whether Alan Williamson can help with that. We do not recognise that figure.

Alan Williamson: I would have to look into the figures.

Liam Kerr: Let me rephrase the question. Do you recognise that 18 management staff have left the college over the past few years? If that is the case, how much was paid to them?

11:00

Annette Bruton: I am sorry, but I do not have first-hand information about what happened before I started in 2015. I can get that information for the committee.

From my understanding of it, there was a significant reduction in middle managers at the point of merger and, as the three colleges came together, that was the main area for the reduction in posts. Looking back on it—although you have to be careful about hindsight—I think that the

voluntary severance could have been managed differently. Any voluntary severance that we have now is under completely different arrangements and is far more cost effective for the public purse.

Liam Kerr: Is it, though? Talk to me about how voluntary severance is calculated under the Edinburgh model.

Dr Kemp: By that, I take it that you are referring to the fact that Edinburgh College offered a far higher number of months per year worked than many other colleges at the time of merger. Most colleges offered something equivalent to a year's salary if someone had worked there for 12 years—a month's salary for each year worked—but Edinburgh College's scheme went up to 21 months. The funding council only funded schemes up to a year's payback so, if someone had worked for a college for 12 years, we would fund up to a year's salary, roughly. The Edinburgh College scheme was far more generous. The element over and above the one-year payback was paid by the college and we could not control that.

In the current circumstances—now that colleges are part of the public sector—we can control that and the current VS schemes that operate in colleges, including Edinburgh College, are at a far lower rate.

Liam Kerr: What rate?

Dr Kemp: Broadly, payback is one year. If someone worked for 12 years, they would get one year's salary.

Annette Bruton: A maximum of 12 months' salary.

Dr Kemp: Roughly, a month for a year, up to a maximum of 12 months.

Liam Kerr: If one accepts voluntary severance, one will get a month's pay per year of service.

Dr Kemp: Yes, broadly, although the schemes have some banding that simplifies that.

Annette Bruton: Up to 12 months.

Liam Kerr: Is that over and above a notice period?

Dr Kemp: Under current agreements, we would not make a payment in lieu of notice.

Annette Bruton: We would not pay in lieu of notice. The set notice period is contractual. For college reasons, we might want to keep somebody for a longer period or to let them go right away, but we would not pay for their notice.

Liam Kerr: There was a significant period during which up to 21 months' pay was paid, around half of which was funded by the college. Who took that decision?

Dr Kemp: The decision to offer 21 months was taken by the then principals and boards of the three colleges and that was the deal that was on offer at the time of merger.

Liam Kerr: What happened to them?

Dr Kemp: They left.

Liam Kerr: Under voluntary severance?

Annette Bruton: One of them took the post of principal at the college and the others left.

Liam Kerr: I appreciate that we are running out of time, so I will move on to student numbers.

The Convener: There is plenty of time, Mr Kerr.

Liam Kerr: I have picked up somewhere that student numbers seem to have dropped rather significantly and I would like confirmation of that. At the point of merger, there seemed to be 35,000 students.

Annette Bruton: I have been at pains to make it clear in the public domain where the 35,000 number came from, as there were never 35,000 students in the three legacy colleges. That figure might have referred to the number of applications or to individual applicants, which is not the same as the number of unique students. Last year, we had 19,000 unique students and that figure has stayed roughly the same since merger—recruitment went down last year, as you know, which is one of the reasons for our financial difficulty. The confusion came about when the figure of 35,000 applications was published.

At that time, students were able to make up to five applications to the college. It was therefore very difficult to tell from the management information that was around in the college whether it was 35,000 single students applying to do only one course, or 35,000 divided by any number up to five, because each student could have made more than one application. However, the numbers of students coming through the door has stayed roughly consistent with the number from last year's downturn following merger. We therefore need to be careful with the claim, which persists in some quarters, that there were 35,000 students.

Another aspect, which I cannot talk about at first hand but which I saw from my review of what happened, is that, at the point of merger, the legacy colleges of Edinburgh College were asked to estimate how many students they thought they would have. They answered that in terms of the number of applications that they expected to have, which is where I think the 35,000 figure came from. Looking back, I do not think that that was a reasonable assumption: it was overoptimistic.

Now that we have done enough with our management information systems in the college to get good data, which I now believe we have got,

we can see that student numbers, apart from last year when there was a problem with recruitment, have roughly stayed the same. That was the basis on which I went to Dr Kemp earlier in the year to say that I thought that I had good evidence for the need to rebase Edinburgh College lower and then, if the region demanded it, think about growth from there.

There is a lot of confusion around that figure of 35,000. I can say categorically that there were never 35,000 students in those three colleges.

Liam Kerr: How many were there?

Annette Bruton: The problem is that I do not know, because the students were counted differently in the different colleges, which had different ways of counting.

Liam Kerr: But they were counted.

Annette Bruton: Their SUMs value was counted and reported to the founding council.

Dr Kemp: If we talk about students, we are talking about individual enrolments and head count. We can end up with a very large number of students, some of whom are on very short courses, and it is quite confusing to compare. The underlying issue at Edinburgh College that we think has affected some of what has happened there is that, if we count the number of credits, which again is slightly confusing because we start the period on weighted SUMs and end up on credits, it shows that the demand is insufficient for the amount of activity that the college has. That is something that we recognised some years ago, and we had been working through the outcome agreement to reduce the activity at Edinburgh College and move activity to other places where there was higher demand. That was operating with a relatively slow slope down because we wanted stability in the college as well and wanted to understand exactly what the demand was there.

When Annette Bruton came into post, she reviewed all the curriculum and recognised that that gap was a bit bigger than had previously been estimated and asked us to rebase the college. The number of students as defined by credits or FTEs has declined in Edinburgh College, and the drop relating to the rebasing was about 6 per cent of the total numbers. However, we think that that is in some ways a positive thing in that we now have a better understanding of what the demand is in Edinburgh College. We can fund that and use the activity that is freed up there elsewhere, where there might be greater demand, and so get a better balance between supply and demand across Scotland. That leaves us with the task of supporting Edinburgh College through the business transformation plan to get it to the right size.

Liam Kerr: But, presumably, you would not say, going back to our discussion earlier, that what was a significant fall—whatever else it might be, it seems to be a significant fall—in student numbers is a measure of success.

Dr Kemp: No, absolutely not, but let us be clear. I talked earlier about the success of the mergers programme—I have been open and honest with Annette Bruton and her board on this—but Edinburgh College is the one college where we think that the merger has not been as well implemented. Our post-merger evaluation is fairly clear on that point.

Liam Kerr: I have a final question on that, Dr Kemp. If you accept that the merger has not been as successful as it should have been, who is responsible and what has happened to them?

Dr Kemp: There have been changes at the top in Edinburgh College. Annette Bruton is new in post, as is much of the senior management team.

Alison Harris: I am a little bit confused. Dr Kemp cannot tell me how many students there are, because some are on full-time courses and others are on part-time courses. He then talked about the demand for courses.

Dr Kemp: We can tell you the number of students.

Alison Harris: Was that not a question that somebody asked but we did not get an answer to? Am I the only one who is confused here?

Liam Kerr: I was a bit puzzled by that, too.

The Convener: Let us give the witnesses the chance to answer.

Annette Bruton: Just to be clear, my answer to Mr Kerr was that I cannot say with any certainty exactly how many students that there were at the point of merger. I am very clear about how many students we have right now: a little more than 15,000 students are enrolled for semester one. At the end of last year, we had just over 19,000 students enrolled. We anticipate having slightly above that number for this year.

Alison Harris: That is a much more specific response. I had totally misunderstood what you were saying. That threw me off, but it is fine now. It was important to get that clarification.

The Convener: I am going to ask a couple of questions. Will Ms Bruton or Mr Williamson tell me how much Edinburgh College has spent on consultants?

Alan Williamson: There is a very small spend on consultancy. Which year are you talking about? Last year?

The Convener: Yes.

Alan Williamson: The figure would be very small. I would guess that it was about £50,000 to £60,000.

The Convener: How about the spend over the past few years?

Alan Williamson: I would have to check.

The Convener: Dr Kemp, is that spend more than you would expect there to be in other colleges?

Dr Kemp: I would have to see the figures. We are not aware that there is a high spend. It depends on how you define consultants. There was an interim principal for a while—that could be defined as a consultancy. I am not aware that there has been an out-of-line spend at Edinburgh College.

The Convener: How about spend on garden leave, Mr Williamson?

Alan Williamson: On garden leave?

The Convener: You are smiling. Why?

Alan Williamson: Again, I would have to check that. From recollection, I would probably say that the figure was about £70,000.

The Convener: How many staff over the past few years have been on garden leave?

Alan Williamson: I would have to check that out as well.

The Convener: Are you aware of any staff being on garden leave?

Alan Williamson: Previously?

The Convener: Yes.

Alan Williamson: I am aware of one member of staff on garden leave.

The Convener: Is it usual in the college sector for staff to be on garden leave, Dr Kemp? I have heard of that happening in the City, but not in colleges.

Dr Kemp: It is not usual in the college sector; it would be quite rare. Like Mr Williamson, I am aware of one case in Edinburgh College.

The Convener: There is just the one case.

Alan Williamson: I am not aware of any more, but I would have to check that.

The Convener: What percentage of your staff have been checked through the protecting vulnerable groups scheme, Ms Bruton?

Annette Bruton: We are almost up at 100 per cent. Had you asked that question six months ago, the answer would have been slightly different, because we needed to catch up with our PVG checks. We have put a lot of resources in human

resources into PVG checking and we have improved our systems.

Everyone who had direct contact with students was PVG checked on their way into the college. We needed to roll over the programme of the rechecking of those who had predated PVG checks.

We have recently reviewed our PVG position, and we are now in a very good position with our checks. We are now at the stage where, I think, half a dozen people who previously had the right qualifications need to update their PVG. I would need to check the exact figures. The PVG system for checking people as they come into post is well established.

The Convener: You were behind, but you have managed to improve the situation.

Annette Bruton: We were behind, but we have caught up.

The Convener: Okay; good.

I will return to the topic of additionality. It is this committee's job to follow the public pound as best we can. It is clear to me and to members that things have gone wrong with the spend of the public pound at Edinburgh College. I want to delve a little deeper into that.

The response to Colin Beattie's initial questioning was very unclear. Mr Neil said that people were passing the buck on who knew about the guidelines from the SFC that said that additionality was no longer claimable. Mr Williamson, will you give me an idea of the number of staff who you think were aware of the guidelines?

11:15

Alan Williamson: The senior team and the heads of the curriculum areas would have been aware of them, so we are talking about maybe 30-odd staff. I emphasise that, when the guidelines come in, a lot of work is undertaken in looking at course frameworks, subjects on those courses, and the attraction of credits against them. That is all very much within the curriculum end. There was a view that that work had been undertaken.

The Convener: Were you part of that senior team?

Alan Williamson: I was. That is right.

The Convener: Were you aware of the new guideline that additionality was no longer claimable?

Dr Kemp: It is allowable to claim for additionality in some circumstances. The issue is when that has not been previously agreed with the funding council. There are courses for which it

makes sense to offer some credits over and above the full-time equivalent, as that suits employers better or better prepares the students. The issue is that we need to control that amount, so we require limits on it and that is agreed with the funding council in order that the amount is not uncontrolled. However, there are circumstances in which additionality is perfectly acceptable and is a good thing.

The Convener: I am sorry—I probably misphrased what I wanted to say. We are talking about the change in guidelines from the SFC and that change not being properly implemented, are we not? Were you aware of that change, Mr Williamson?

Alan Williamson: I was aware of the change in the policy, but there was on-going, regular dialogue between the curriculum vice principals and the funding council.

The Convener: My understanding is that the college continued to overclaim. Is that correct?

Annette Bruton: Yes, that is correct.

The Convener: Why was that, Mr Williamson?

Alan Williamson: There was a belief in the college that what had been agreed with the funding council was represented through the reports that we received on the weighted SUMs figures.

The Convener: I am sorry, but I do not understand that. You will have to tell me that in layman's terms.

Alan Williamson: If there is additionality above the agreed additionality level, the courses in the framework really have to be changed to bring down the weighted SUMs that are attached to them. That brings the level down to the level that it ought to have been at. Therefore, the teaching of them would not attract credits. The reports give the up-to-date position. There was a view that the up-to-date position included the changes in additionality.

The Convener: Okay, but you knew about the change in the guidelines.

Alan Williamson: I knew that there was a change in the guidelines.

The Convener: So if you were director of finance at the time, why did the college continue to overclaim?

Alan Williamson: Because the curriculum side is responsible for the implementation of the guideline.

The Convener: So it was not your fault.

Alan Williamson: I rely on the information that I receive through the reporting and—

The Convener: Receive from whom?

Alan Williamson: From the system. The reports are system generated.

The Convener: The system in the college?

Alan Williamson: Yes.

The Convener: I presume that people populate that.

Alan Williamson: That is right.

The Convener: So you are saying to me that you received false information from colleagues that led you to overclaim on behalf of the college.

Alan Williamson: I do not know whether the information was false. I took the information as read and therefore I based my financial projections on the numbers that were coming off.

The Convener: So you knew the new guidance from the SFC. Did you think to check at all that the information that you received was correct?

Alan Williamson: The responsibility for that lay on the curriculum side, which had the dialogue with the funding council. I believed that what was being agreed on additionality was being changed in the system and that therefore the reports that I received gave me the accurate picture.

The Convener: You are saying to me that there was a misunderstanding among some staff in the college who provided you with information about the new guidelines.

Alan Williamson: That is what I believe.

The Convener: Were they members of your team or other senior managers?

Alan Williamson: I think that there was a mixture of both. I think that they were in the team and senior managers.

The Convener: Okay. How come the issue has been such a problem at Edinburgh College but maybe not at other colleges?

Dr Kemp: It is an issue on which we are actively engaging with quite a few colleges. It is not that there has been a substantial change of policy on this—there have always been rules for what used to be called related study. However, the difference is with the new simplified funding method. I am sorry if this sounds really boring and technical. There used to be something called the full-time tariff, which related to the number of SUMs going into a full-time place: if you got a particular number, you were paid for a slightly different number, and there was less clarity about the number of SUMs in a college and about what it was paid for. The removal of the full-time tariff makes additionality more financially advantageous for a college, so we need to make it quite clear

when an additional course is a genuinely good use of public money.

We clarified the rules in the context of the new funding system a couple of years ago, and we have been engaging with quite a few colleges to understand why they have a particular level of additionality and whether that is appropriate. Sometimes, that has led to the amount going down and sometimes we are quite happy with the situation, so the amount does not go down. This is something that we are doing across the sector.

The Convener: Are you satisfied that the Scottish funding council did enough to apprise staff at Edinburgh College of the new guidelines and to educate them in that respect?

Dr Kemp: Yes. As far as Edinburgh College is concerned, that is one of the reasons why we applied a clawback. However, we used that money to help with the business transformation plan. We had engaged very heavily with the college through the outcome manager and with senior managers on the issue. I am absolutely satisfied about that.

The Convener: I understand that there was even a workshop. Is that correct?

Dr Kemp: Yes. The outcome manager engaged on the matter several times and with several people in the college.

The Convener: Okay. Mr Williamson—if the funding council was going to such lengths with the outcome manager and holding a workshop, why were so many staff still providing you with wrong information that allowed Edinburgh College to overclaim?

Alan Williamson: I am not so sure that all were being provided with “wrong information”—

The Convener: I am sorry—I cannot hear you.

Alan Williamson: I am not certain about “wrong information”. There was a belief that the information that was being agreed on additionality had worked its way through into the reporting system, and we were using the reports that came off that.

As for who attended the funding council events, I cannot comment on that; I do not know who attended them.

The Convener: Were concerns being raised by any of your senior colleagues or members of your team with regard to what was going on with claims?

Alan Williamson: All I know is that there was dialogue with the funding council on additionality.

The Convener: Were any concerns raised with you personally?

Alan Williamson: No other concerns were raised with me, which is why, as I have said, I was using the reports that were coming off the system.

The Convener: So, you were not concerned at all. Did you attend one of the SFC workshops?

Alan Williamson: No, I do not think so.

The Convener: Okay—but you knew the guidelines.

Alan Williamson: I was aware of them.

The Convener: Were you not concerned about the information that you were receiving and the sums that it was leading you to claim.

Alan Williamson: No. I place some reliance on my colleagues, too. If they are working with the funding council and are interpreting the guidelines, any changes that are required to the course frameworks will be followed through.

The Convener: Is not it your job as director of finance, however, to be apprised of the guidance and to double-check with colleagues that the information that you are getting is correct before you submit the claims?

Alan Williamson: I am responsible for the finance, estates, human resources and information technology. With regard to the data, I rely on my colleagues to ensure that whatever is being interpreted through the guidelines and whatever has been agreed with the funding council actually work their way into the reports.

The Convener: With respect, I would expect a director of finance at an institution the size of Edinburgh College who commands a salary such as you command to be aware of a guideline change and to ask questions of colleagues who provide you with the information. After all, you knew that you were responsible for the claims for the additional money.

Alan Williamson: I am not responsible for the claims. The funding comes through the activity that we produce.

The Convener: So who is responsible? You were director of finance.

Alan Williamson: Yes, but the two VPs were responsible for implementation of the guidance on additionality. If they had raised a concern to say that they were overclaiming on additionality, I would have liaised with the funding council, as well, to establish the extent of any clawback.

The Convener: Surely that is only part of a vice principal's job—they perform a number of functions in a college. Your role was director of finance, and it was your job to keep the finances in order. Should you have raised questions with them rather than them raising questions with you?

Alan Williamson: Given the outcome, and with hindsight, perhaps I should have been questioning more.

The Convener: So you feel that, looking back, you should have questioned more the data that you were receiving before submitting claims to the SFC?

Alan Williamson: Given the outcome, and with hindsight, I should have done that.

The Convener: Mr Williamson, you have since been promoted, have you not?

Alan Williamson: No.

The Convener: I understand that your title is now chief operating officer.

Alan Williamson: The title has changed, but I have not been promoted.

The Convener: Okay. There has been a financial mess at Edinburgh College—I cannot think of any other way of describing it. What would you put that down to?

Alan Williamson: Since the merger, Edinburgh College has had quite a lot of difficulty achieving its income targets. That has probably been compounded by the austerity measures. In addition, we have had real difficulty with commercial and international aspects and with tuition fees. A supplementary aspect is that, when a college is not achieving credits, particularly on the HE side, it also does not attract a Student Awards Agency for Scotland fee on top. The big challenges have predominantly been on the income side.

The Convener: You said that, looking back, you probably should have questioned colleagues more on the information that they were giving you regarding additionality. Do you take some personal responsibility for the situation that has emerged at Edinburgh College?

Alan Williamson: Not to do with additionality.

The Convener: Do you take personal responsibility to do with something else related to the situation?

Alan Williamson: No.

The Convener: But you said that you should have asked questions of colleagues.

Alan Williamson: What I said was that, with hindsight, I perhaps should have asked.

The Convener: Does that suggest that you are taking some personal responsibility for not asking those questions?

Alan Williamson: If the additionality had come in and we had been fine with that, I would have been using the same types of reports and the

same numbers. The additionality was not completed in accordance with the agreed figures, so perhaps—with hindsight—I should have asked more, but we were not working on the basis that we were not going to achieve the additionality figure that had been agreed.

The Convener: Can you confirm that no colleagues in your team and no senior colleagues raised concerns with you about the issue at all?

Alan Williamson: Nobody raised concerns.

The Convener: It seems to have been quite an unsatisfactory situation. However, unless members have any other questions—

Colin Beattie: I have one more question, convener. We have heard nothing from Mr Harvie, so I wonder whether he will comment about efficiency and the results that came from internal audit.

Hugh Harvie (KPMG): In my role and in giving my opinion on the financial statements, I look to the confirmations that come from the funding council and the work that is done by internal audit to provide me with evidence on additionality and all the other credits that are claimed. As you pointed out in discussing the sequence of events, I was not aware of there being an issue until October, when Mr Williamson made me aware of it.

Colin Beattie: Was that in October 2015?

Hugh Harvie: Yes—sorry. That was when I was looking at the July 2015 results. At that stage, I understood that Mr Williamson also told Mr Brown about the potential issue.

Colin Beattie: That was when the SFC came back and told the college that there was a problem. That was when you became aware of the issue.

Hugh Harvie: That is correct—that was the first time I was made aware of the issue. At that stage, the focus of my work was to understand what the funding council's position would be in relation to the clawback so that I could ensure that it was correctly reflected in the accounts.

11:30

Colin Beattie: Mr Brown has said that he was aware of the problem some time before. Would you have expected to be alerted to that at any point?

Hugh Harvie: I was surprised that people were aware of the problem in advance; I was not made aware of it. As I said, before I form my opinion I wait until I have the best available evidence, and that would be confirmation from the funding council. I would not necessarily have expected to

be told about the problem in advance of such confirmation. However, as I say, I was surprised when I heard about that today.

Colin Beattie: Thank you.

The Convener: I have one final question. Ms Bruton, at what point did you become aware that Mr Williamson was in receipt of money that the college was not entitled to claim?

Annette Bruton: We were not in receipt of it, because we claim it as we go through the year. There were two elements to it. When I came into post I could see that there was something wrong with student recruitment, and the funding council made me aware that we needed to drive down the amount of additionality that we were claiming. Therefore, within weeks of coming into post, I asked for a review of the curriculum frameworks, which was undertaken by the senior curriculum staff. We reduced the claim that we were making at that point, and I went to the funding council to ask it to reduce our overall targets.

Then, coming up to the fourth quarter of the year and the FES 4 report, I asked further questions about whether we had driven out all the additionality that we needed to drive out. I sought further assurances on that and asked again for that to be done. I asked a member of staff from outside the executive team, whose department was expert in doing work on additionality, to take another look at it with the management information team. At that point they uncovered that the fact there was still additionality over and above what we had agreed for that year, so we spoke to the funding council again. We were still uncovering those facts as the final figures were going in.

I am not sure whether I have answered your question, convener.

The Convener: I think you have. Thank you.

I draw the public part of our meeting to a close and thank our panel of witnesses very much indeed for their evidence this morning.

11:32

Meeting continued in private until 11:39.

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