



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 1 December 2016**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**  
**11<sup>th</sup> Meeting 2016, Session 5**

**CONVENER**

\*Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

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

Monica Lennon (Central Scotland) (Lab)

Alex Neil (Airdrie and Shotts) (SNP)

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

\*Ross Thomson (North East Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Russell Frith (Audit Scotland)

Paul Johnston (Scottish Government)

James Kelly (Glasgow) (Lab) (Committee Substitute)

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

Alastair Sim (Universities Scotland)

Owen Smith (Audit Scotland)

Liz Smith (Mid Scotland and Fife) (Con) (Committee Substitute)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit and Post-legislative Scrutiny Committee

Thursday 1 December 2016

*[The Convener opened the meeting at 09:00]*

### Decision on Taking Business in Private

**The Convener (Jenny Marra):** Good morning, and welcome to the 11th meeting in session 5 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone present to switch off or switch to silent their electronic devices so that they do not affect the work of the committee. Apologies have been received from Alex Neil, Liam Kerr and Monica Lennon. I welcome to the committee Liz Smith, as Liam Kerr's substitute, and James Kelly, as Monica Lennon's substitute. I invite Liz and James to declare any interests that they consider to be relevant to the committee's work.

**Liz Smith (Mid Scotland and Fife) (Con):** I declare that I am a member of the General Teaching Council for Scotland and a member of the governing boards of two independent schools—George Watson's College and St Mary's School, Melrose.

**James Kelly (Glasgow) (Lab):** I have no relevant interests to declare.

**The Convener:** Thank you.

Under agenda item 1, the committee is invited to agree to take in private items 4 and 5, as noted on the agenda. Do members agree to take those items in private?

**Members** *indicated agreement.*

## Section 23 Report

### "Audit of higher education in Scottish universities"

09:01

**The Convener:** Agenda item 2 is an evidence session on the Auditor General for Scotland's report "Audit of higher education in Scottish universities". I welcome Paul Johnston, director general for learning and justice, and Stephen White, strategic policy lead, both of whom are from the Scottish Government. We also have Dr John Kemp, interim chief executive of the Scottish Further and Higher Education Funding Council, and Alastair Sim, director of Universities Scotland. I thank you all for attending this morning after we rescheduled the meeting.

I invite Paul Johnston to make a brief opening statement, followed by Dr Kemp and finally Alastair Sim, before I open up to questions from members.

**Paul Johnston (Scottish Government):** Thank you. The higher education sector makes a pivotal contribution to the Scottish Government's vision for Scotland's education system, which is for a system that is characterised by equity and excellence. Higher education is also an essential catalyst in growing Scotland's economic strength. As the Auditor General recognises in her report, it plays an important role in relation to all four of the priorities that are set out in the Government's economic strategy—investment, innovation, inclusive growth and internationalisation.

I have provided two written submissions to the committee in respect of the Audit Scotland report, but I want to reinforce a small number of key points.

The report rightly states:

"The Scottish higher education sector is successful and internationally renowned."

That success is based on a partnership approach, with the universities, the funding council and the Scottish Government working together to deliver and sustain it. The Scottish Government's substantial financial investment each year—it has been more than £1 billion each year for five years now—is an essential element in delivering that success. The investment provides a stable base for our universities to attract a range of additional funding.

The investment also means that we are able to deliver on our collective ambitions to widen access to university education. In 2014-15, 14 per cent of Scotland-domiciled full-time first-degree entrants to Scottish universities came from the 20 per cent

most deprived areas of Scotland, which was up from around 11 per cent in 2006-07. That has been delivered while maintaining the Scottish Government's commitment to ensure that access to higher education continues to be based on the ability to learn rather than the ability to pay, meaning that more than 126,000 undergraduate students benefit from free tuition each year.

The Scottish Government recognises that there are challenges that need to be addressed. Audit Scotland has highlighted a number of those, and I am keen to see work progress in light of its recommendations. Our continued engagement with the university sector, including through the recently established strategic funding group, will allow those challenges to be faced together, albeit in the context of the overall funding constraints that are faced by the Scottish Government.

I look forward to answering questions on those matters from the committee.

**Dr John Kemp (Scottish Further and Higher Education Funding Council):** Thank you for this opportunity to discuss the Auditor General's report.

The report describes a successful university sector in Scotland. According to the 2017 *Times Higher Education* world university rankings, five of Scotland's universities are in the top 200 worldwide, which is more per head of population than almost any other country. A good part of that is down to the hard work and success of students, staff, managers and leaders in Scottish universities.

Performance in learning and teaching shows a generally positive picture. In past years, the sector has delivered beyond its funded places target. The number of full-time Scottish undergraduate students has been increasing over the past decade, and was at an all-time high in 2014-15.

However, there are challenges. Although the proportion of Scotland-domiciled undergraduate entrants to universities from the 20 per cent most-deprived areas has risen from 12.8 per cent to 14.1 per cent over the past five years, we recognise that we need to make further progress on the issue. That challenge is greater for school leavers, where the proportion from the Scottish index of multiple deprivation 20 is considerably lower than 14.1 per cent.

Scotland's very good performance in research is demonstrated by the results of the most recent research excellence framework, where the Scottish sector increased the proportion of Scottish research that was graded at the highest level, and matched or exceeded the performance of the other United Kingdom nations.

Recently, we published a review by Professor Graeme Reid on progress with the innovation centre programme. The review shows that good progress is being made and that there are ways in which the programme could be enhanced in the future.

The Scottish Further and Higher Education Funding Council will continue to work with the university sector and the Government to address all the report's recommendations. I am very happy to answer any questions that members have.

**Alastair Sim (Universities Scotland):** Thank you for the opportunity to give evidence and make an opening statement.

The Auditor General's report celebrates Scotland's universities as "successful and internationally renowned." The Auditor General recognises their contribution to the Scottish economy of more than £7 billion each year, and our central contribution to Scotland's economic strategy.

The Auditor General also identifies, in her words, significant "underlying risks" in universities' finances in 2014-15 and "significant challenges ahead". She points to real-terms erosion of teaching funding by 6 per cent between 2010-11 and 2014-15 and a real-terms cut of 69 per cent in capital funding over the same period, and she states that public funding was not covering the costs of research. She expresses concern that, overall, universities were not able to generate surpluses that meant that they were

"operating today without damaging the ability to do so tomorrow".

Looking beyond 2014-15, the Auditor General highlights

"significant challenges from increasing costs, potential further reductions in Scottish Government funding, and risks to"

universities'

"ability to continue to increase income from other sources, particularly fee-paying students from the rest of the UK and non-EU countries."

Those risks are now crystallising. SFC revenue funding of universities has been cut by 6 per cent in real terms since 2014-15, which adds up to a 12 per cent cut in real terms over the period of the Auditor General's report—that is, from 2010-11 to 2016-17. Over that period, average funding per student has declined by 8 per cent in real terms. We estimate that public funding now covers only 90 per cent of the cost of teaching home students.

Within a limited resource for SFC funding of research, increased research excellence across the sector has driven the perverse outcome that several of our world-leading research-intensive

universities have faced multi-million-pound cash-terms reductions in SFC research funding.

Increased pensions costs and national insurance costs, UK Government charges for international staff and the apprenticeship levy all increase the cost base, and we fear further restrictions on the recruitment of international students. In the most recent set of available accounts, five out of 18 institutions were in deficit, and other stakeholders' written submissions to the committee draw attention to the consequences of that for jobs. It is essential to students, staff and the wider economy that Scotland has a diversity of truly excellent universities. We do not currently have a sustainable financial basis for that.

University leaders have welcomed the Deputy First Minister's specific commitment that the Scottish Government will

"ensure that throughout the period of the 2017-20 spending review, the allocation for higher education from the Scottish Government's budget will support the excellence, competitiveness and accessibility of our world-class universities".

We look forward with confidence to the realisation of that promise.

**The Convener:** Thank you. We will now have questions from members.

**Liz Smith:** Perhaps Stephen White or Paul Johnston could answer this question. We were expecting the announcement of a widening access commissioner. Could you give us a quick update on that?

**Paul Johnston:** I am happy to address that. The Government accepted all the recommendations of the commission for widening access, one of which was the recommendation to appoint a commissioner. The timetable set out in the commission's report was the end of the year, and it remains the case that ministers plan to make an announcement on the matter shortly. You will appreciate that I am not in a position to make the announcement today; it is one for ministers to make and I hope that they will make it shortly.

**Liz Smith:** Thank you for that update.

We all agree that the success of the university system in Scotland is absolutely outstanding, for all the reasons that have been set out not just by the Education and Skills Committee but in various reports that have given it a glowing reference. That has all been very good news. However, as Alastair Sim highlighted, in the comprehensive and very good report that Audit Scotland produced in the summer are serious concerns about whether the funding will allow us to maintain that excellence, particularly when it comes to research and the quality of teaching.

There are three things that I think are extremely important. The first is whether we need a review of higher education funding, given what Mr Sim has said. It is a classic case: if we do not have sufficient money to deliver what we have been delivering, surely that suggests a need for the strategy to change. I would be interested in your comments on that. That issue must be set against the background of changing demand in terms of international and European Union students and the widening access agenda. My direct question is whether you believe that the Scottish Government should undertake a review of higher education funding.

**Paul Johnston:** I will pick that up in the first instance.

The issues around higher education funding are very live and we continue to work on them with the funding council and Universities Scotland in the strategic finance group that has been established in recent months. In that group, key partners, including a number of university principals and representatives from Universities Scotland, look at the data and have constructive discussions about the university funding requirements that will exist in the future. In that context, what the Auditor General has set out is helpful.

It is important to recognise that Audit Scotland has also set out that the sector has been successful in generating additional revenue on top of what Government has put in, and that the sector has made an overall surplus of £146 million in 2014-15. That is notwithstanding some of the risks that Alastair Sim has identified, which I do not dispute at all.

I absolutely recognise the need for us to work constructively and collaboratively on issues around future funding. That is exactly what the strategic finance group is doing.

It may be worth mentioning a couple of other aspects of work that are under way—you may wish us to expand on them in due course. We have begun a review of the learner journey, which was set out in the education delivery plan. That review is looking at the whole pathway from school to college, university and work, and it will get into issues around demand and supply. We are also undertaking the review of student support, which I recognise is a related issue. We are giving very active consideration to the issues.

09:15

**Dr Kemp:** As Paul Johnston said, every year, as part of spending reviews and as part of the funding council's annual budget decisions, we review how we fund universities, the volume of what we fund and the way in which we fund it. We do that with the Government and increasingly with

Universities Scotland. Essentially, we look at every available option in relation to changes to funding. To that extent, we review higher education funding every year. Do you mean a more fundamental review than that?

**Liz Smith:** Yes. One of the great successes of the Scottish system—over centuries, not just many decades—is its ability to have long-term, strategic oversight of what it is trying to do. As Mr Sim has outlined, the financial pressures on the system are now intense. However, the system is also under pressure as a result of specific aspects of Scottish Government policy, widening access being one of them, as well as external factors arising from the Brexit vote. As Audit Scotland has identified, those are considerable pressures. I am asking whether you believe that there has to be a major review of higher education funding in the long term.

**Dr Kemp:** The extent to which widening access will cause financial pressure is debatable. There are a number of ways that access to Scottish universities could be widened, for example by making better use of capacity in the system and by improving the learner journey.

You are quite right about Brexit. There are a series of issues to do with research funding that could be detrimental, but there are other sides to that—for example, on teaching funding—which might balance things out to an extent. We consider such issues each year as we look at spending review decisions.

Some issues, particularly in relation to Brexit, remain unknowns. We can begin to see the shape of what might be coming down the track, but we do not know exactly what that will be yet. When we do, I am fairly confident that we will work with the Government and Universities Scotland on how to deal with it. We are already reviewing those areas and will continue to do so as they become clearer. I will leave it to colleagues to say whether they think that a more major review would be useful, but those are things that we are looking at.

**Liz Smith:** I will pick you up on a specific point. Widening access is a specific policy agenda—the policy is that by 2030 20 per cent of university intake will be made up of people who come from disadvantaged backgrounds. That is a specific political choice that the Scottish Government has made. On top of that, there are issues around the need to provide more places in the university sector, if you are not to squeeze out other students. Do you believe that the widening access agenda can be delivered without the constraints on other students in the system that will arise if you are not going to provide extra places?

**Dr Kemp:** The number of young people in Scotland of school-leaving age has been declining for the past three years and will continue to

decline for another few years. Increasingly, entrants to universities do not come direct from schools; some go to university via going down the college route first. That means—and should increasingly mean—that people do not always need to do four years at university. There are a number of other things that affect the calculation of whether widening access can be done only by expanding the system. I think that it can be done by taking account of demography, reforming the learner journey and making best use of the places that we have. I do not think that it necessarily means additional funding for universities.

**Liz Smith:** Dr Sim, does that tie in with what you have just told us, which is that there is a major crisis of financial resources?

**Alastair Sim:** I will not claim a doctorate yet.

I gave some indications in my opening statement about the stress that the system is under. I come back to your question about whether that means that we need to review how the system is funded. How universities are funded is a political choice. We recognise that there is a broad parliamentary consensus in favour of free full-time undergraduate education, as there is in many continental countries. However, if we are to do that well, it comes at a price, and we are seeing the indicators of stress at the moment.

I do not agree that the situation on admissions is as John Kemp described it. Yes, there is a demographic dip, but application rates from qualified learners have accelerated faster. In 2010, about 30 per cent of school leavers got the equivalent of four highers; it is up to 35 per cent for in 2014-15, so the number of qualified learners is increasing. If we then look at the success rate of school leavers in getting into university, we find that back in 2009, 81.4 per cent of those who applied to university got in, whereas the proportion has now dropped to 73.7 per cent. We are seeing stress in a system that, even though it has expanded gently in terms of student numbers, has not expanded at the same rate as demand from qualified learners with the ability to learn.

**Liz Smith:** I want to tease out that point, because it is important. There are more Scotland-domiciled students going to university, but a growing number of well-qualified Scots are finding it much harder to get into Scottish universities because of the number of students who are applying for places—the system is increasingly competitive. Are you worried that the Scottish system will lose some of our very best pupils, because they cannot get into Scottish universities and have to look elsewhere?

**Alastair Sim:** That is part of the issue. What worries me more fundamentally is that there are students from all sorts of backgrounds who have



the ability to come to university and succeed, and who are finding it more difficult to get into university in Scotland than in other parts of the United Kingdom, because we have a capped system.

The Auditor General for Scotland said that from 2010 to 2015 demand from Scottish students increased by 23 per cent, whereas the number of offers made by Scottish universities increased by only 9 per cent. We want to offer opportunity to as many people as possible for whom that is the right option. Unlike in England, we operate in a capped system, so our capacity to do that is limited.

**Liz Smith:** Thank you.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I was intrigued by the proposal for a business education tax, which is in the University and College Union submission. How do you envisage that working?

**Paul Johnston:** Are you directing your question to the Scottish Government? It is not something on which I can update the committee at this stage. It is clearly a matter of policy, for ministers and ultimately the Parliament to consider.

**Colin Beattie:** Does UCU have an idea how it would work?

**The Convener:** To whom are you directing your question?

**Paul Johnston:** UCU is not represented here today, so I am not sure that I can speak—

**Colin Beattie:** That is true. My apologies. I have no one to interrogate on that one. I will move on to Scotland-domiciled students and places, which we were just talking about. The Scottish Government submission says:

“the number of Scottish-domiciled full-time first degree university entrants increase by 11% between 2006-7 and 2014-15”,

but we are hearing that there are issues to do with providing places.

**Alastair Sim:** The simple point that I was trying to make was that although, over time, we have seen an increase in Scotland-domiciled students getting into university, which we greatly celebrate, that increase is not keeping up with the increase in demand.

**Colin Beattie:** Unison said:

“the SFC is reluctant to hold universities to account for their performance.”

Is that true?

**Dr Kemp:** You would probably get different answers to that depending on whether you spoke to universities or some others. We hold

universities to account for their performance on a number of things.

That comment probably reflects a view—I am putting my own gloss on it—that we should sometimes be harder in ensuring that outcome agreement targets are met. There is always a balance to be struck in agreeing outcome agreement targets with institutions. It can sometimes be hard to have targets that they own and see as aspirational if we are then brutal in fining institutions for not meeting them. We always try to strike the right balance by working with institutions to get mutually agreed targets for improvement and then being proportionate in the consequences of those targets not being met.

If a university is not meeting its targets, we tend to look at ways in which it can improve or move provision about, rather than doing anything more drastic. Where there is underperformance in the number of students, we claw back funds. The correct level of intervention by the funding council on that kind of issue is very much a matter of interpretation.

**Colin Beattie:** Given that we give universities over £1 billion of public funds, how does the SFC exercise the clear regulatory role that it has?

**Dr Kemp:** We link the £1 billion-worth of public funding with the aims behind that funding largely through outcome agreements with institutions. In those documents, we agree with the institution the priorities for the funding, and the targets and success measures by which we will know whether it has succeeded. That is very much linked to the national aspirations of the Government, the funding council and the universities.

That is the prime method by which we link the Government funding and what universities do and, by and large, it works well. The success of the system that we have talked about and which the Auditor General's report talks about reflects that the system is broadly working. We constantly review it as priorities change, and our experience of how well it is working varies from year to year, but, by and large, that is our main method of linking the two things.

**Colin Beattie:** If there is an issue, what penalties do you have in your armoury to bring universities to heel?

**Dr Kemp:** We have funding as a sanction where we have agreed with a university that it will do X but it is not doing it. An example is the additional places for widening access that were part of the outcome agreement process a few years ago. Some universities got some additional places to recruit more students from SIMD 40. Where they were not doing that, we took the places away and moved them to universities that could do it. That is the kind of sanction that we would use. If we are

funding a university to do something and it is not doing it, we will reconsider that funding.

**The Convener:** Colin, is your next question on the same subject?

**Colin Beattie:** I was going to move on to a slightly different subject.

**The Convener:** Liz Smith has a supplementary question, if that is okay.

**Liz Smith:** On pages 49 and 50 of the Audit Scotland report, the comment is made that

"Universities are increasingly relying on income from non-EU students as part of their financial planning, but growing competition from the rest of the UK and other countries will make this increasingly challenging."

Notwithstanding what you have just said, Dr Kemp, there is an implication that the levels of funding that have to come in from those sources are significant. As we are all aware, when the new principal of the University of St Andrews was installed this week, she made some pretty blunt comments about the implications of the situation for one of our ancient universities. Do you accept that the pressure to raise that additional money is really significant?

**Dr Kemp:** Oh, yes. We recognise that, in the case of St Andrews, our funding is less than 20 per cent of its total funding. As is the case with other institutions, a good chunk of what that institution does relies on bits of the environment that are beyond our outcome agreements and that which we can control. We encourage universities to be outward facing and to pull in funding, students and researchers from elsewhere.

**Liz Smith:** Are you concerned that that might change the nature and structure of universities in Scotland? Sally Mapstone went so far as to say that there is the possibility of the university having a kind of private identity. Would that concern you?

09:30

**Dr Kemp:** I must say that I did not read her comments. She clearly made a statement that the amount of funding that came from SFC to the University of St Andrews was relatively small, but she also said that she accepted the accountability that went with that funding. She was thinking more in the long term about the positioning of the university and what it does to maintain the other 80 per cent of its funding, which we applaud. I did not understand her as saying that our funding was in any way causing a problem for the other part.

**Liz Smith:** We are talking about greater diversity. Mr Sim, would you be concerned if universities under the umbrella of Universities Scotland started diversifying?

**Alastair Sim:** I understood her to be addressing the genuine stresses that the university is under. It is a university that has a higher than normal proportion of EU staff. She was hideously worried about the prospect with regard to recruitment of talent from the EU and about the possibility of further restrictions on the recruitment of international students, who are important economically and culturally, and, as you said, are part of our ability to have a financially sustainable system in Scotland.

As we have said, given that public funding is not covering the costs of publicly funded activities in teaching and research, any university leader would look at how they could do their best. How do you make a university excellent and accessible? How do you maintain its international competitiveness? Every university leader must ask those things.

Our aspiration, which we are trying to achieve in our discussions with the Scottish Government, is to show that public funding can maintain an excellent internationally competitive and widely accessible university sector. We would be looking for an outcome in the Scottish budget that shows that we are starting on a trajectory back towards the recovery of sustainable funding levels that enable us to do what we want to do for students and to promote excellent research.

**Colin Beattie:** I want to look at a slightly different issue, which we touched on earlier. It is in connection with the impact of the limits on funded places for Scottish students and EU students. How does that affect university entry requirements?

**Alastair Sim:** To be blunt, if you have more pressure on places, you may have to put your thresholds up as part of a rationing system. What you need to do around that, which is hugely important, is ensure that you are applying that with contextual admissions. It is really important that, when you are looking at people who come from disadvantaged backgrounds, you look not just at their exam grades but the circumstances in which those exam grades were attained. For instance, does the person come from a school with low progression to higher education, do they come from a free school meals background or do they come from a neighbourhood of multiple deprivation? You should look at a range of factors. That student may not have two As and two Bs at higher, but if you think that they have had to work hard to get their three Bs, you need to give them a bit of extra consideration. Immense effort goes into ensuring that the capped system is operated fairly.

Looking at statistics on admission, I find it interesting that across the system 14.5 per cent of applications come from the 20 per cent most deprived postcodes by SIMD, as do 14.5 per cent of acceptances. Someone who comes from a

deprived background and applies to university has as good a chance of their application being accepted as someone who comes from a more privileged background.

**Colin Beattie:** How does it affect student choices and the courses that they might opt for?

**Alastair Sim:** I can express that briefly. In a capped system where entrance thresholds are relatively high, an applicant might have to pitch their application at what they can get into, rather than what they might ideally aspire to. We have a wide and rich range of options available.

Another thing that we have in Scotland is a four-year degree structure, in which people have the opportunity to find their way through different disciplines and specialisms over the course of four years. Someone's professional and personal future is not cast along tramlines in the sense that it might be in an English three-year degree.

**Colin Beattie:** How does SFC funding take into account the capped system?

**Dr Kemp:** There are two elements to the cap. There is the number of funded places that we offer to universities, but universities can recruit above that number and take students with only the Student Awards Agency for Scotland fee but no funding from us.

**Colin Beattie:** Do you direct funding to specific courses?

**Dr Kemp:** To some extent we direct funding to specific courses—to what are called controlled subjects, such as medicine, teacher education and nursing. We agree the numbers for those with the relevant part of the Government.

For most subjects, a number of places go to the institution rather than the subject. There will be incentives as part of our outcome agreement to do more science, technology, engineering and mathematics and so on to meet the needs of specific industries. However, we do not specifically allocate a number of places for chemistry, biology, history and so on in a particular university. It is up to the university to make those decisions.

As I was saying, universities can recruit a number of places above what we fund, but there is a cap in place, essentially to control the cost to the SAAS budget, because those places are paid for just by the SAAS fee.

**James Kelly:** Mr Sim, you painted quite a graphic picture of the challenging financial landscape that is faced by universities. In your opening statement, you indicated that, out of the 18 institutions, five were running at a deficit, which was presenting a challenge with regard to jobs. Will you expand on that a bit?

**Alastair Sim:** To put it bluntly, for a publicly funded activity we are being funded at below cost. We reckon that about 90 per cent of the cost of publicly funded teaching comes from the funding council. Overall, the Auditor General says that around 85 per cent of the cost of research is covered by the blend of funding council and competitively won—for instance research council—funding that we get. That puts the system under real stress.

University leaders want to retain talent as much as they conceivably can, but when you have a system under stress and you have to try to balance the books so that you have a university that is excellent in five years' time as well as excellent today, sometimes you have to take extraordinarily difficult decisions. You might have to reduce your commitment to certain areas of your academic effort or have voluntary redundancy programmes. You might, in some cases, have to move towards compulsory redundancy. None of those are things that anyone wants to do but, ultimately, if you do not have enough money to run an excellent university, you have to reduce your activity levels.

One of the things that particularly concerns me is the impact of that on the local economy. Typically, university jobs are relatively highly paid jobs in the local economy. I think that the typical salary plus on-costs of a university job come to about £48,000 a year. That compares really well with employment in tourism, for instance, where there is a lot of casualised labour and you are sometimes talking about only £10,000 a year. When you lose university jobs, you really are losing quite big economic impacts on the local economy. In a regional economy such as Tayside, almost 20 per cent of the local economy is in some sense dependent on having a world-class higher education sector at the heart of a cluster of economic activity.

**James Kelly:** Would it be fair to say that at the current funding levels it is going to be difficult to sustain the existing staffing levels?

**Alastair Sim:** Yes. That is what we have seen. Over the past year we have seen publicised examples, for example at the University of the West of Scotland in Dundee and at Robert Gordon University in Aberdeen, where there has been publicity about the really difficult and contentious decisions that have to be made in situations of financial constraint.

My genuine hope is that our trajectory is now heading towards sustainable funding levels. That is part of the good will that we are bringing to our discussions with the Scottish Government. If we are heading that way, that is great. We can sustain our economic contribution, we can continue to be at the heart of clusters of economic growth and we

can grow employment and student opportunity. I really hope that that will be the case.

**Paul Johnston:** I have already accepted—and I reiterate that the Government recognises—that there are pressures on the university system. Equally, this committee would expect that the Government and the Scottish funding council's point of view is that we should be very demanding about the need for public money to secure the best possible value and impact. It is important that collective work is done to secure greater efficiencies from overall public investment. The Auditor General made some comments about that in the report. She recognised that, to date, efficiencies have been secured, but that work must continue to ensure that we get the best possible value from the substantial public investment that has been made.

**James Kelly:** Everybody would agree about value for money, but is the Government concerned about the warnings that Mr Sim has given about not just the potential reduction in jobs, but the loss of expertise in the sector?

**Paul Johnston:** As we make overall spending decisions, we have to look at all the data that exists about the funding situation of universities and we also have to look at the financial context of many other institutions that are reliant on public funding.

Just a fortnight ago, this committee considered the college sector and we engaged with some of the financial issues for that sector. The Audit Scotland report tells us that the higher education sector's overall income increased by around 38 per cent in real terms between 2005-06 and 2014-15 and that there was a 60 per cent real terms increase in income from research grants and contracts over the same period. Sector spending increased overall by about 35 per cent in the same period and there was an overall surplus of £146 million in 2014-15.

That is not to say that there are not constraints that we need to consider carefully but, in future, we need to look at the overall picture and make decisions about funding in light of the demands that exist in the higher education sector and also in other institutions that are reliant on public funding.

**James Kelly:** You have quoted a lot of statistics, but my specific point was about the loss of expertise. Are you concerned about that?

**Paul Johnston:** We are absolutely committed to ensuring that Scotland's universities continue to thrive and to punch above their weight in relative terms, and that requires continued expertise in the university system. That is a subject of active deliberation and we will continue to work with the funding council and the university system on that.

**James Kelly:** I want to touch on an issue about access. I was surprised by the table on page 92 of the report on offer rates to Scottish applicants—*[Interruption.]* Sorry, it is exhibit 14 on page 42. I was surprised by the wide variation and by the fact that a significant number—seven out of 17—of the offer rates were less than 50 per cent for Scottish applicants. I know that there has already been some discussion on that but, to take the example of Glasgow Caledonian University, the offer rate is running at 46 per cent. Why would that be?

**Alastair Sim:** A lot of students put in multiple applications to universities. For instance, a student who thinks that they will get, or has got, really good grades might be ambitious and decide that they want to do a demanding and highly selective course at the University of Edinburgh, but they will also select other universities with courses that they are interested in doing but that might be slightly less demanding.

We tend to find that there is a bit of bunching up of applications to the most highly selective institutions, and obviously only a subset of the people who apply to them will get an offer. A person might be accepted by and end up going to an institution that is also very high quality but that has slightly lower requirements for highers or advanced highers. So the exhibit is a measure of selectivity.

09:45

Glasgow School of Art, for instance, is right at the top of the exhibit. I cannot see the Royal Conservatoire of Scotland in it, but it will be in a very similar position. For a person to get into such an institution and make their way in art or the performing arts, and if that institution is to recognise them as someone whom it can take on and help to build a professional and successful career, they really need to have top-level potential.

**James Kelly:** I have a question for Mr Johnston. From a Scottish Government perspective, is it a desirable policy outcome that, out of the 17 institutions that are listed, 11 have offer rates for Scottish applicants of 55 per cent or less?

**Paul Johnston:** I do not think that it is possible to be prescriptive about what the acceptance rate should be. That is partly because, as Mr Sim has identified, a number of students make multiple applications. Nonetheless, I accept what the Auditor General went on to say in paragraph 102 of her report, in which she pointed to the need for us to have a clearer picture overall of what is happening in trends in applications and offer rates. We accept the need to work on that further with the Scottish Further and Higher Education Funding Council and Universities Scotland.

**The Convener:** Mr Johnston, you said that you are confident that Scottish universities will continue to punch above their weight, but Mr Sim said that 85 per cent of the cost of research is being funded and 90 per cent of the cost of teaching is being funded. How does that work?

**Paul Johnston:** There is scope to look in more detail at the particular data that Mr Sim put forward. It is based on a transparent approach to costing—TRAC—system and is compiled by the universities themselves. It takes into account a wide number of measures, including a measure that relates to the universities seeking to secure funding or resources for future investment and improvement in the estate. I understand that research is funded at a lower overall percentage rate in England than it is in Scotland. I absolutely accept that, in teaching, the figures that we currently see suggest that the figure is significantly under 100 per cent.

**The Convener:** Mr Johnston, if you do not mind my saying this, I am not too concerned about what is happening in England; I am concerned about what is happening in Scotland. I know that when research grants come into the University of Dundee, for example, there is not sufficient money from the Scottish funding council to sustain those grants and the facilities that are required. How do you expect Scottish universities to continue to punch above their weight if you are underfunding them?

**Paul Johnston:** Universities have been and continue to be successful in supplementing the public money that they receive with money from a wide range of other sources. That has been absolutely key to the success that Mr Sim has pointed to and to the broader economic impact that universities have made. We absolutely need to look carefully at that data, and that is being considered in our strategic funding discussions.

I referred to England simply to say that the TRAC measurement is a UK-wide one, and we need to look at the measures right across the UK. In some measures, we see that Scotland compares as well as or, indeed, more favourably than elsewhere in the UK. That was my purpose in trying to make the comparison.

**The Convener:** You have just said that you are looking at universities' other sources of income. Liz Smith prompted our earlier discussion about the University of St Andrews, which obviously receives a lot of money from other sources. It is my understanding—maybe Dr Kemp can clarify this—that the SFC does not consider other sources of funding when it considers how to fund courses at the universities. Is that correct, Dr Kemp?

**Dr Kemp:** Up to a point. We look at the financial health of the whole institution. When we fund something at a university, we fund that thing—we do not make an assumption that the university will automatically pull in other funding.

Research is a bit more complex. There is a lot of—

**The Convener:** I am sorry to interrupt, but I want to put that point to Mr Johnston. Are you saying that you are looking at a different system of funding? You have referred all morning to other sources of income for universities and the need to take that into consideration. However, Dr Kemp has just clarified that that is not a consideration for the Scottish funding council, so where are you going with your point, Mr Johnston?

**Paul Johnston:** The Scottish funding council injects significant resources into universities, but the Audit Scotland report looks at the overall picture, which is essential. It would be making a false distinction to look only at one source of income. We need to look at the whole picture. When we do that, we see the overall success that the institutions are managing to secure.

**Dr Kemp:** To be clear, quite a lot of the external income that universities will pull in will not cover the full economic costs of research funding. Indeed, a lot of the research funders explicitly do not cover it all. That is part of the dual support system, where there is an interaction between our system and the charity funding and so on, which will not cover the real costs. You would expect some cross-subsidy there.

**Liz Smith:** Audit Scotland has—quite rightly—pointed to the need to see the broadest picture. The success of Scottish universities depends on not only Government funding but external sources of finance. We have to see that in the round. To return to what we have just said, and given the pressures on the system, there is a need to review higher education funding.

**Dr Kemp:** To be clear, we appreciate that there are other funding sources for universities, and that will affect how efficient our funding is and what it can be used for. My point was that, when we are funding something, we ought to expect to pay most of the cost of it; it needs to wash its face in its own right or it will contribute to problems at the university. I am not sure that that necessarily leads to the need for a wider funding review, rather than, as I have said, dealing with the matter through our annual discussions about the correct funding level.

Alastair Sim constantly makes the point to us about the difference in TRAC levels between Scotland and England and so on. We are aware of those things and can take account of them up to a

point—when we have the money—as part of our annual funding decisions.

**Liz Smith:** Audit Scotland and Mr Sim are making a clear case that, unless we do something radical, we will not have sufficient money in the higher education sector. Whether it comes from Government or other sources, we need a system that allows us to put more money into the sector. That is the point.

**Dr Kemp:** Yes—up to a point. There are other ways in which some of our aims for the university sector have been met other than through putting in more money. However, we need constantly to make best use of the money that we have available in the system in order to achieve the ends that we want from the system. We need to do that efficiently, effectively and in a way that is financially viable for the institutions.

**Liz Smith:** The funding council's role is to do that with the Government's share, and the accountability lies with the funding council and the Scottish Government for that part of university funding. The broader point, which Audit Scotland is clear about in its report, and which University Scotland is clear about, is that that is only part of how Scottish universities are funded. It may be a large part, but it is only part. The challenge, given Brexit, the widening access agenda, all the other pressures and the changing demand on the students, is that we need to see it in the round. The Scottish Government aspect, which is obviously the responsibility of the funding council, needs to work in tandem with universities, which are bringing in funding sources from elsewhere, to ensure that the bigger picture is addressed. I hope that the Scottish funding council would accept that that collaborative approach is absolutely crucial.

**Dr Kemp:** I completely agree with that.

**The Convener:** We have heard a lot over the past week about the proposals to merge the Scottish funding council, Scottish Enterprise and Highlands and Islands Enterprise. I ask Alastair Sim whether that is a good idea.

**Alastair Sim:** There are things in the phase 1 report that we welcomed. In particular, it would be good if we could get better alignment of the activities of public sector bodies with regard to promoting innovation and productivity. If there was a board that helped the bodies to work better together, that would be fine. If we could create a no-wrong-door approach, as the phase 1 report puts it, to make it easier for business to navigate through the support landscape, that would be good.

We have said clearly in evidence to the Education and Skills Committee that a lot of issues need extremely careful thought in phase 2. For example, the roles of the funding council in

supporting universities and of universities go much wider than enterprise and skills. Fundamentally, on the learning side, it is about education, and out of that, we grow people who can drive innovation and enterprise because they are adaptable, entrepreneurial and employable graduates. Similarly, on research, the fundamental aim is getting high-quality research in universities, which is the trunk from which applied research more easily translates into business growth branches. However, that requires the fundament of being able to do excellent innovative research.

If the merger proposals go forward, it is important that structures are built that do not put too much on to the proposed superboard. A limited number of people sitting round a table will not have the competence to deal with the huge remit that the board could be given, unless there are proper substructures underneath that whereby people can take an expert view. There should be a role such as that of the funding council in taking an expert view that challenges Government and tells it what it has to do to achieve the results that it wants, and that is also able to challenge universities. That intermediary role of being able to challenge both ways is incredibly important.

It is also important that we, as universities, are a force of initiative and are not drawn into ministerial direction. We have had good assurances on that point and on our risk of being reclassified as public bodies by the Office for National Statistics not being heightened by being drawn into a less arm's-length relationship with Government, which would be catastrophic, as we said in our evidence to the Education and Skills Committee.

**The Convener:** So you have had reassurances that the body will not be chaired by a minister. I do not think that those reassurances were heard in the Parliament.

**Alastair Sim:** The reassurance that we have heard is simply the reassurance that you have heard in the Parliament, which is that autonomy and academic independence will be respected.

**The Convener:** I might be wrong about this, but my understanding of what was said in the Parliament is that there is no assurance that it would not be chaired by a minister. Are you confident that ONS reclassification is not a risk?

**Alastair Sim:** We do not know what the structure will be, so I cannot give you an answer to that.

**The Convener:** Okay. In your answer to my first question, you seemed to say—I hope that I am correct, because it was quite a long answer—that it will depend on how all the institutions work together and on the structure. Your members must have a very open-minded approach on the merger

proposal if it is about just seeing how it will work. Are all your members of that view?

**Alastair Sim:** I do not think that it is about seeing how it works. The view is that we should use the opportunity of phase 2 of the review to get in there and co-design in a way that makes sense for the breadth of what universities contribute to the economy and society, which is much wider than enterprise and skills; that maintains our ability to be at arm's length from ministers; and that ensures that there is a body that has a challenging role with universities and Government. The approach is therefore not to wait and see but to get in there and see whether we can make this work. However, I do not know the answer to that yet, because we have to get the work done.

**The Convener:** Okay. My and my colleagues' understanding is that we did not receive assurances in the Parliament that the body will not be chaired by a minister. If it were to be chaired by a minister, which still seems to be a possibility, what view would Universities Scotland take then?

10:00

**Alastair Sim:** There is a real risk in that respect. As far as ONS reclassification is concerned, the more we come into the sphere of influence of and direction from Government, the higher the risk of being reclassified, which means that we cannot earn entrepreneurial income or hold reserves—

**The Convener:** Which Mr Johnston seems to be relying on.

**Alastair Sim:** What we are seeing very clearly in our discussions is the need to proceed with care, and that needs to be carried through in phase 2 of the review. Whatever the design is, it needs to maintain that firewall to ensure that universities stay at arm's length from Government and that we are neither heightening the risk of reclassification nor diminishing universities' capacity to be a voice in society that in many ways is aligned with Government. We are partners in achieving inclusive economic growth, but the fact is that we are not Government.

**The Convener:** Did Mr Johnston hear an assurance in Parliament that there would be no ministerial chair?

**Paul Johnston:** I do not want to speak for ministers on the matter, and I am not sure of everything that has been said in Parliament on it. I apologise, but I cannot absolutely confirm that. What I can say is that I recognise what Mr Sim has set out on the further detailed work that will be done in phase 2 of the enterprise and skills review. How the overarching statutory board will function, including how it is chaired, has to be looked at in detail.

Mr Sim referred to a sense of co-producing the outcomes of the recommendation. Universities Scotland is represented on the ministerial review group that is overseeing the work of phase 2 of the review; that group has met in recent days and will continue to meet as the work is taken forward.

**The Convener:** Is there a risk of ONS reclassification?

**Paul Johnston:** I am aware that issues around ONS reclassification need to be looked at carefully, and we certainly want to ensure that the new arrangements do not lead to any such reclassification. That is absolutely one of the factors that need to be taken into account as we look at the mechanisms.

**The Convener:** I assume that the Scottish Government is against ONS reclassification of universities.

**Paul Johnston:** We absolutely recognise the risks that that would create. I know that Parliament has discussed the issue in the past. The current status of universities attracts a wide range of additional funding and, as a result, we want to look at the issue carefully and ensure that there is no reclassification of universities.

**The Convener:** So you would not want to do anything to risk that happening.

**Paul Johnston:** I would not want to see reclassification.

**The Convener:** Does Dr Kemp have a view on the SFC merger?

**Dr Kemp:** Let us be clear that it is not an SFC merger but a merger of the boards—or, I should say, the creation of an overarching board. We are looking forward to engaging constructively in phase 2 of the review. As part of that, it should be recognised that, although enterprise and skills are important in what we do and are a subset of the output of our colleges and universities, it could be argued that, as Alastair Sim has said, education and research go a bit wider than that, and we think that a governance structure should emerge from phase 2 that recognises that. We look forward to engaging with the Government and others in phase 2 to make those points.

**The Convener:** On widening access, what is Universities Scotland's view of the current system, which is based on SIMD? Is it efficient and is it working?

**Alastair Sim:** SIMD is not enough on its own. What does it do? It tells you that you live in a postcode area with many indicators of multiple deprivation. Growing up in an area of multiple deprivation is one factor of disadvantage, even though, within one postcode area, you can cross a

street from a really deprived area to an area that is, to be frank, not so deprived.

We are absolutely committed to promoting wide access to universities—indeed, we have an action plan on that—but we have to look at the matter on a properly evidenced basis and examine the multiplicity of factors that indicate whether someone comes from a really challenged background. For example, do they get free school meals? What is their household income? Do they come from a school with low rates of progression to higher education?

To put it bluntly, only about half the people who get free school meals are in an SIMD 20 area. Half of them are in other circumstances of deprivation, and SIMD 20 does absolutely nothing to measure rural deprivation, so it is an inadequate measure.

For some time, we have been having a conversation with the Government and the funding council about the need to measure who individually can demonstrate that they really deserve special treatment, to recognise their circumstances of disadvantage rather than look at disadvantage on a postcode basis.

**The Convener:** You are in favour of a more sophisticated system of indicators.

**Alastair Sim:** Yes.

**The Convener:** Mr Johnston, why is Nicola Sturgeon's target for widening access based on SIMD alone?

**Paul Johnston:** The Government has accepted all the recommendations that are in the report of the commission on widening access. Chapter 4 of that report contains a detailed discussion of the different measures that can be used, and the commission concluded that SIMD is a valid marker of deprivation on the basis of a wide range of data. I could say a lot more about the helpful discussion on the possibility of using SIMD alongside other proposed markers.

The Government has accepted the recommendation that Mr Sim alluded to, which is that there is scope for further work to be done on getting the best possible markers, in the recognition that all the markers have some limitations. Nonetheless, the commission's conclusion was that, as matters stand, SIMD is a valid marker and the one that is best used at present.

**The Convener:** If, as Mr Sim said, you have been having discussions with Universities Scotland for years about the possibility of using a more sophisticated system, why has Nicola Sturgeon set her target on the basis of SIMD alone? Surely that is not very progressive.

**Paul Johnston:** As I said, the Government has accepted in full the commission's recommendations, which are expressed in terms of SIMD. One of those recommendations is that work should continue on getting better precision in the markers.

**The Convener:** You are open to having the more sophisticated system that Alastair Sim has talked about.

**Paul Johnston:** Yes—that is part and parcel of accepting the recommendations.

**Dr Kemp:** SIMD is good for setting the national target, as it is a good way of looking at which areas are more deprived and at the characteristics of people in quite small data zones and working out the overall success of the system. For setting a national target, SIMD is as good as we could get, which is why the commission came to its conclusion.

However, Alastair Sim is right in saying that, when it comes to decisions on individuals, SIMD is perhaps less good. The data zones that are covered by SIMD involve around 1,000 people and not all those people share the same characteristics. If a university was making a decision about whether to admit one person rather than another, SIMD would not tell it exactly whom to admit—the university would have to look at the people's personal characteristics.

SIMD is a good, robust and stable way of looking at the overall performance of a system over time. We should not lose sight of that. There are some things that it does not do well—it is not always good at the individual level and it does not work as well in rural areas—but it is a robust and stable way of looking at performance over time in meeting the needs of particular parts of the population.

**Gail Ross (Caithness, Sutherland and Ross) (SNP):** I draw 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, which is part of the University of the Highlands and Islands. I am glad that you talked about SIMD not being as good in rural areas, as we have found that quite a lot in Highland.

We tend to touch on Brexit quite a lot, and it has been mentioned that we do not know a lot of its implications. We accept that. However, Alastair Sim said that the amount for research and development is going down in cash terms. A lot of the research and development money that we get comes from the EU—30 per cent of UHI's external funding comes from the EU.

People are quite worried, especially in institutions such as the environmental research



institute at North Highland College, which has already had postgraduate places pulled. There are worrying implications from Brexit. You have already said that we cannot guess, but do you have an educated guess?

**Dr Kemp:** When I said that we cannot guess, I was not implying that we should sit back and wait to see what happens. As Brexit happens, we need to work with the Government and others to understand the impact of each part of it on things such as the regional funding that has been helping UHI and to understand where that will come from in the future. We need to work on possible ways of arranging things so that Scottish universities can continue to access research funding, as not all countries that access it at the moment are part of the European Union.

There is a series of decisions to be made as we work through Brexit and come to understand the implications and timings. With the Government, we will need to work out how to mitigate the effect of and possibly remove some of those issues. Although I said that some of those issues are unknowns at the moment, we are striving to make them known as soon as possible so that we can work with others to find solutions. We are very aware that Brexit will affect a range of universities and different European funds in different ways. UHI has particular issues.

**Alastair Sim:** Brexit is one of the huge things that we have to wrestle with in an extremely uncertain environment. It affects us in multiple ways—we have reflected on the need to attract staff from across the European Union. Another difficult situation that principals find themselves in is when European Union staff who are already here say, “What happens to me, what happens to my family and what happens to my access to public services?” The best that we can say—without speaking for the Scottish Government—is, “Yes, we value you—your contribution here is crucial.” Beyond that, we cannot give any answers, which is an unsatisfactory position to be in as an employer.

European research funding has been important, as about £95 million of research funding a year comes from Europe to Scottish universities. We would like to continue to participate in such networks—as some non-EU countries, such as Norway and Israel, do—not just because of the money, which could be organised in different ways, but because doing so keeps the ecosystem of cross-border collaboration going in a way that keeps universities excellent.

As you said, European structural funding is an issue, particularly for UHI. If there is no such funding, that will put quite a challenge back on the Government to find alternative ways of supporting activities. We also have to find a model in which

we can remain open to a reasonable cohort of European students, because they bring a richness to our campuses. We have to think about how that can be done.

In an environment with the uncertainties that I outlined in my opening statement, Brexit adds another layer of uncertainty.

**Paul Johnston:** Mr Sim has set out the issues clearly. Brexit is another area in which the Government must work and is working hand in hand with Universities Scotland and the funding council to do all that we can to protect the current diversity in the workforce, in the student body and in the funding arrangements that exist in the higher education sector.

The committee will be aware that the Government has established the standing council on Europe. Anton Muscatelli, the principal of the University of Glasgow, recently chaired a session to work specifically on what can be done to ensure the best possible protection for the university sector.

**Gail Ross:** Does Universities Scotland echo the call from the majority of Scottish Parliament members to the UK Government to reassure our EU workers and their families that they are welcome to stay here?

**Alastair Sim:** Absolutely. Those people are 16 per cent of our workforce and they are really important in our university communities. It is painful to be able to say to them only that they are welcome and not to be able to give them assurances about what their future will be.

10:15

**Gail Ross:** City deals are another aspect of funding that was mentioned in the Audit Scotland report. Those deals are springing up all over the place. Having been involved with what is called the Highland city and region deal—although it is really just the Inverness city deal—I know that a lot of the criteria for using the money are quite specific. Do you have any details of how city deals are being used by universities?

**Dr Kemp:** We do not have a collated list of the involvement of universities in city deals, but we are aware of that through our outcome agreement managers. For example, I know that the Aberdeen one is doing quite a lot of work on innovation, which Robert Gordon University and the University of Aberdeen are heavily involved in.

The Edinburgh city deal is at an earlier stage. There is quite a lot of discussion about skills aspects and innovation in that area. Alastair Sim might have more information about other city deals, some of which are at an earlier stage than

others. You will know that UHI is heavily involved in aspects of the Inverness deal.

There is a variety of models. The deals seem quite different from each other, which is perhaps appropriate because they are individual city deals rather than part of a single national programme. My sense is that, by and large, universities have been fairly big players in putting together the deals by contributing their existing funding and using the additional funding. We have been aware of the deals through our outcome agreement managers, but we have not been an official partner to any of them.

**Alastair Sim:** I echo what John Kemp said. Wherever there is a city deal, universities will be closely engaged in it. For example, the Edinburgh BioQuarter was a big theme in trying to further catalyse Edinburgh's extraordinary identity as a hub of biotechnology growth.

I offer a slight correction to something that I said earlier, because it is relevant to this question. The total employment that is attributable to higher education institutions in the Dundee city region is 12.5 per cent—I think that I previously gave a slightly higher figure, but the point is still relevant. That figure, a similar figure of about 7 per cent for the Edinburgh region and a similar figure for the Aberdeen region indicate that of course universities have to be involved in city deals because of their sheer economic impact and the fact that they are at the centre of clusters that feed off the student talent, the graduate talent and the discoveries of universities. We are fundamental to regional growth, so you would expect that to be reflected in us being at the heart of city deals.

**Gail Ross:** I have questions on student loans. In 2013, mortgage-style student loans that were taken out between 1990 and 1998 were sold to a private company, which has had less than positive reviews in a lot of cases. Was enough done to explain to people that the system was changing? Did people realise that if they had more than one loan—one with the private company and one with SAAS—they might be paying off those loans concurrently instead of consecutively?

**Paul Johnston:** As I recall it, the point that has been raised is not covered specifically in the report. I would be happy to follow up on the issue in more detail and provide a response from the Government. I apologise for not having in front of me an answer to that question.

**Gail Ross:** That follow-up would be good—thank you.

We have spoken about widening access and attracting students from deprived areas, which we rightly have a target for. However, the report states—you will be glad to know that the point is in the report this time—that grant levels have gone

down and loan levels have gone up. Page 48 states that

"There is ... no up-to-date national data available on how much students pay in accommodation costs or living expenses".

I come from the Highlands and I know that the creation of UHI has kept a lot of students in the Highlands, which is ultimately our goal.

However, there will still be students who cannot access certain courses in the Highlands and have to go to a city university, or who might choose to go to a city university, which is also great. It would be useful for us as elected members to have that broader statistic, which would also be useful for students and their families who are making such decisions. Are students from deprived areas adequately funded to move away, should they want to?

**Paul Johnston:** You raise important points, which were indeed referred to by the Auditor General—I see that on page 48 of the report. The issue of student support is so significant that the Government has set up an overarching review of the student support system, which I am sure that the committee is aware of. That is up and running and is chaired by Jayne-Anne Gadhia, who is the chief executive of Virgin Money. The review is bringing in a lot of partners to look at the whole system. As part of its work, I expect that review group to pick up on the matters that the Auditor General has raised in relation to student support and to feed them into the advice that it provides to ministers in due course next year.

**Ross Thomson (North East Scotland) (Con):** I want to touch on Liz Smith's first question, which was about the widening access commissioner. I appreciate that more detail is to come from ministers. Will the new commissioner be able to challenge the Government? In the Education and Skills Committee, there were submissions about the increasing politicisation of Education Scotland. What safeguards will you put in place to ensure that the new commissioner is protected against political interference and that, when they feel that things are not working on the ground, they can challenge the Government on it?

**Paul Johnston:** I come back to recommendation 1 of the commission on widening access, which the Government has accepted. That sets out what the role of the fair access commissioner should be, which includes holding to account those who have a role to play in achieving equal access. There are many players in the system that fall within that description. That includes the universities and the Government. We expect that the commissioner will hold to account the entire system on the basis that progress is needed right across the board.

**Ross Thomson:** Liz Smith and Jenny Marra asked about the widening access agenda and how it will be based on SIMD and postcodes. I have visited University of Abertay Dundee, which you can see from the papers had a 77 per cent offer rate. The university is very proud of being able to offer opportunities in the most disadvantaged communities. Is there a risk in basing the approach on the hit-and-miss assumption of postcode, because some SIMD areas also have affluent parts? For instance, the principal of Abertay lives in a SIMD area. Does that not provide a boost to middle-class students living in those areas, rather than deprived students? In that way, is there a risk of displacing the most able students?

**Paul Johnston:** In some ways that takes us back to our need to consider carefully the totality of the recommendations of the commission on widening access. It is not just about one recommendation. The commission gave careful consideration to the best possible measure to be used—accepting that there is not a perfect one—given the data that we have and that was accepted. What has also been accepted is the need to further work on refining the data that we have available, and that is what we will do.

**Dr Kemp:** I repeat my earlier point. SIMD is very good for measuring progress over time, particularly at system level, but also at institution level. It is less good at making individual decisions about whether to admit this student or that student. If universities are making the right decisions about contextualised admissions and are working with schools in the most deprived areas to increase aspiration and attainment and so on, that will affect SIMD without them making admission decisions based on SIMD, because it will overlap with the right actions. I stress again that SIMD is a measure; it is not the only way to select a student.

**Alastair Sim:** The fundamental problem that that exposes is that we might make the right choices at the university level in taking in people who present signs of coming from a challenging and disadvantaged background, but if we are not taking them in predominantly from SIMD 20 areas, we might be doing a brilliant job in widening access but it will not register on that metric.

**Dr Kemp:** If you are making the right decisions, it would.

**Ross Thomson:** I want to follow on from those answers and ask about the further work to refine the data. The convener pointed out that that had been discussed for some time. Is there a timetable? When will we see the results of the further discussions? When will there be a finer, refined model and when will it be presented to the committee or the Parliament?

**Dr Kemp:** The refining of data that we are doing with Universities Scotland will be done from now; indeed, to some extent, we have been doing it for the past year or two. It is largely about additional types of information, particularly at the individual level, so that we are not looking at where somebody lives or where they went to school, but at their parental income and other attributes. The information would be for individual targets in institutions and things that they could use in contextualised admissions. That work is on-going.

**Paul Johnston:** A timetable is set out in “A Blueprint for Fairness: The Final Report of the Commission on Widening Access”. Recommendation 31 of that report is that

“The Scottish Government and the Scottish Funding Council ... should develop a consistent and robust set of measures to identify access students by 2018.”

**Ross Thomson:** We learned today—I think that this is in *The Herald*—that the widening access policy is expected to cost more than £13 million in its first full year alone and annually by 2030. How accurate is that report? How sustainable is that?

**Paul Johnston:** The figures that I have in front of me show that, during the past four years, the Government has funded additional widening access and articulation places with a total of £128 million. Therefore, significant public investment has been associated with the progress that we have seen in widening access.

I saw the article to which Ross Thomson referred, but I have not been able to fully interrogate the figures. I would wish to do so with colleagues in the funding council before I could really comment on their accuracy. However, Dr Kemp might have more to say about that.

**Dr Kemp:** The assumption behind the figures in the article in *The Herald* simply takes what we currently do and adds more of the same. As I said earlier, there are ways of looking at the learner journey and considering demography, for example, and they might give us a different answer.

I refer to my earlier answer. The area is really complex, and we need to factor in several things, such as the total number of young people who are coming out of the schools, the number of older people who want to go to university, the overall participation rate that is wanted, and the learner journey that people have when they repeat level 7 of the Scottish credit and qualifications framework more than once. The figures in *The Herald* look reasonable if we factor in doing things in one way, but there are other ways of doing things.

**Ross Thomson:** Once Mr Johnston has had the time to do a forensic analysis of the figures, can he write to advise the committee? Obviously, that is with the consent of the convener.

**Paul Johnston:** Yes. We can certainly provide further information on that to the committee.

**Ross Thomson:** All my colleagues have touched on the fact that the overall funding for universities has been reduced, and it is expected to continue to reduce through 2016-17. The report advises a 6 per cent reduction in real terms. Research funding is projected to reduce by 7 per cent in real terms. Mr Sim highlighted in his opening statement and the convener highlighted that Scottish home students are underfunded by 10 per cent. Is the inability to sustainably fund our universities leading to a slow erosion of our institutions and the Government thinking that it can ignore that erosion because it is slow?

**Paul Johnston:** I emphasise our commitment to working with the funding council and the university sector to secure the continued success of our world-class institutions. We have a sector of which we are all enormously proud. What we need to do—and what we are doing—within the overall financial context is to work closely, imaginatively and fully to secure the continued success of the sector.

10:30

The committee is well aware of the overall restrictions on public finances. In giving evidence to the committee previously, the Auditor General recognised the tough—or the difficult—choices that Government needs to make on resource allocation. We want to ensure that funding decisions secure the continued success and sustainability of this sector.

**Ross Thomson:** Mr Sim, do you have any comments?

**Alastair Sim:** We certainly share that aspiration. To credit the Scottish Government, we are in constructive discussions with it. What do we want to see out of those discussions? On 15 December, we want a budget for 2017-18 that marks the start of a trajectory towards the recovery of sustainable funding for teaching and at least protects research funding in real terms. We also want the budget to continue the extremely welcome injection of capital funding that the Scottish Government made in September. As the Auditor General said, that had previously collapsed by 69 per cent in real terms, so starting to see a recovery on that was extremely welcome and will be economically catalytic.

I am optimistic that the quality of our discussion is securing recognition of the need to achieve that, and we are certainly bringing creative ideas to the table. However, that cannot be achieved just by saying, "Let's see the colour of your money." We are bringing ideas to the table about how one funds postgraduate taught students in a way that

makes masters-level study more accessible to Scottish students and financially sustainable for the funding council. We are also talking about whether there are ways in which the apprenticeship levy can be used to catalyse new ways of working between employers and the universities. We are in creative discussion, but we need to see a trajectory towards the recovery of financial sustainability.

**Ross Thomson:** I have one final question to put to Mr Johnston and Mr Sim. My colleague, Gail Ross, articulately raised questions on the challenges posed by Brexit. They cannot be overestimated. The most significant challenges will be to our higher education institutions. I appreciate what the panel has said on the importance of the protections that need to be put in place.

The University of Edinburgh principal said:

"The post-Brexit landscape will offer us many opportunities to thrive and we will be ready to take them."

As well as ensuring that there are important protections, what work are you doing on the negotiation process and access to the single market and so on to develop a plan for the post-Brexit landscape and its potential opportunities?

**Paul Johnston:** We need to look at all possible outcomes and ensure that, for a wide range of scenarios, we are ready to support the sector. That is an issue on which this committee and, indeed, the Parliament—rightly—expect to be kept informed.

**Alastair Sim:** We have discussed objectives with the Scottish Government, and I have broadly summarised them during today's session. We also have an influence on the UK Government—I do not know how great that is—through the Scotland Office and our relationship with Universities UK.

We understand the position that Brexit is encouraging businesses, institutions and universities to look beyond Europe for opportunities, but we are crashing up against the potential further restriction of our ability to attract international students and even international staff from abroad. We find ourselves in an ironic situation where we are being told to get out there and exploit international opportunities, but then we are being threatened with even more restrictions on our ability to compete internationally.

**The Convener:** Mr Johnston, you said that you do not want ONS reclassification. The Government must have risk assessed reclassification before the proposals emerged. In your risk assessment, how might that impact on the widening access agenda and the outcome agreements? Presumably, there are rules in place about how far you can push universities.

**Paul Johnston:** On the enterprise and skills review, the key point that I emphasise is that the work is on-going; it has not concluded. Therefore, the issues on reclassification that the committee has raised and that have been discussed this morning need continued consideration, and that will happen. However, I also emphasise that part of the stage 1 review proposes that the separate bodies continue to exist.

**The Convener:** Is that not dancing on the head of a pin?

**Paul Johnston:** Our assessment thus far is that we do not see that ONS reclassification is in any way likely from the proposals that we have put in place. However, I recognise that the issue requires to be considered as the proposals are developed during the coming months.

**The Convener:** You do not think that ONS reclassification will have any impact on how far you can push universities on widening access. You have done that work and you do not think that that is a risk.

**Paul Johnston:** That work needs to continue. It is important that we—

**The Convener:** You are saying that the proposal came out before the work was concluded and that you are confident in that.

**Paul Johnston:** No, I am not saying that. At the end of stage 1 of the enterprise and skills review, an overarching recommendation was set out on the creation of a strategic body that would ensure the overall alignment of our enterprise and skills systems, and the detailed implementation of that will be part of stage 2 of the review. The points that you raise—they are important—will be fully considered as part of stage 2.

I cannot envisage that the overarching arrangement that we have set out will, in any way, compromise the status of the universities or, indeed, the ambitions that the Government has set out on widening access. However, I absolutely accept that those matters must be considered carefully as the work continues.

**The Convener:** Let us hope that you are right. Thank you very much for your evidence.

10:36

*Meeting suspended.*

10:40

*On resuming—*

## **“The National Fraud Initiative in Scotland”**

**The Convener:** Item 3 is an evidence-taking session on the Audit Scotland report, “The National Fraud Initiative in Scotland”. I welcome to the meeting Russell Frith, assistant auditor general, and Owen Smith, senior manager, Audit Scotland, and I invite Mr Frith to make some brief opening comments before I open it up to questions from members.

**Russell Frith (Audit Scotland):** Thank you, convener, and thank you for the opportunity to brief the committee on the national fraud initiative.

The exercise, which is carried out every two years across the UK, helps public bodies minimise fraud and error in their organisations. It works by matching large volumes of data across the public sector in order to identify matches for further consideration by participating bodies. Those data sets include payrolls, pension information, creditor information, housing benefit data and information on deceased persons and failed asylum seekers. Audit Scotland's payroll is included in the exercise, and payroll data generally includes both staff and elected representatives at all levels.

It is important to note that matches do not necessarily mean that fraud or error has taken place. The data sets contain limited information, and it is always essential that the participating bodies properly investigate any matches to establish whether fraud or error does or does not exist.

The NFI was started by the Audit Commission in 1996 using implied auditor powers. The devolved nations' audit agencies joined in the early 2000s, and the power to conduct the exercise was put on a statutory footing in Scotland through the Criminal Justice and Licensing (Scotland) Act 2010. The initiative itself is a tool that forms part of the overall arrangements to help public bodies prevent and detect fraud and error; it is not the only part of those arrangements. Audit Scotland's role is to facilitate the exercise using its statutory powers to obtain data, and we prepare reports on the outcome of each exercise. In the 2014-15 exercise, 104 Scottish bodies took part and £16.8 million of outcomes were identified, taking the total that has been identified in Scotland to £110.6 million out of about £1.3 billion across the UK.

The value of such outcomes is only one aspect of the exercise's impact—there are others. The deterrent effect of people knowing that this data matching exercise takes place is quite important, and there are other outcomes that are not as

easily measurable in monetary terms. For example, ensuring the validity of blue badges helps to keep the relevant parking spaces available to those who really need them and are entitled to them. Moreover, even where no or very few outcomes have been identified for a body, the exercise provides that body with a positive assurance on the absence of fraud and error in those areas.

We have now commenced NFI 2016-17. There has been a small increase in the number of bodies taking part, which now include the larger further education colleges in Scotland. The Cabinet Office, which took over responsibility for the NFI in England following the Audit Commission's abolition, is looking to extend the range of tools available to participating bodies, including flexible matching to allow bodies to request more frequent matching at times convenient to them and something called appcheck, which is a fraud prevention service that allows bodies to check against the NFI databases before payments are made instead of having to do things retrospectively as part of the full once-every-two-years NFI exercise. In Scotland, we are also keeping an eye on the development of the new tax and social security powers to ensure that those data sets are available for inclusion in the NFI exercise and that those devolved benefits reach the right people.

In summary, we believe that the NFI continues to be a useful tool in helping public bodies minimise fraud and error. We are happy to answer any questions that the committee might have.

**The Convener:** Thank you very much, Mr Frith. Colin Beattie will open the questioning.

10:45

**Colin Beattie:** I want to start by looking at the outcomes. In the report, you estimate that, in the previous exercise there were £16.8 million of actual and notional savings. In paragraph 81, you estimate that the

"cash savings ... for the public purse are"

about

"half of the total outcomes".

You have also rightly highlighted the notional benefit with regard to blue badges, but there is also a cost to the council. After all, fraudulent or not, people were paying for those badges, so there has been a slight loss of revenue.

Looking at the bigger picture—and I am not decrying the deterrent effect that you have referred to—do you think that the outcomes are commensurate with the overall effort that is being put in?

**Russell Frith:** I believe that they are. One of the things that we do to help minimise effort is provide a number of software tools to participating bodies so that they can refine the matches that they receive and identify those most likely to give rise to an impact. We expect them to look at the higher-risk matches first and, if they are not demonstrating much value, we do not expect them to continue through all the lower-risk matches.

**Colin Beattie:** You say that there are 2,522 investigations under way to recover £4.2 million. Is that not a lot of expensive investigations for a relatively small return?

**Russell Frith:** Some of those investigations will be very short.

**Owen Smith (Audit Scotland):** With council tax, for instance, you might find that someone who is claiming the single-person discount is actually living with someone else. All you need to do is cancel that, change the council tax bill and recover the money. That kind of very simple match does not take too much time and is well worth doing, given that it means real revenue going back to the council. Indeed, in this exercise, the biggest outcome area was not fraud but errors in claims for single-person discount for council tax and people not disclosing that they were living together.

**Colin Beattie:** I agree that the NFI has a deterrent effect, but I do not believe that it is well known to the public. Given, then, that the effect is on those who are immediately caught out and perhaps their immediate circle, how big a deterrent is it?

**Russell Frith:** It is always difficult to measure something that you cannot see, but I point out that in some areas that were of high value in the very early exercises, the value of fraud and error has declined over the life of the NFI, including housing benefit and payrolls. Certainly, the value of pensions being paid after the people in question had died has definitely fallen away.

**Colin Beattie:** You have highlighted some issues with the quality of effort being put into this. In paragraph 94, for example, you state that, although

"central government bodies have, overall, significantly improved",

the national health service and local government have not. Is there any significant reason for that? You have mentioned one or two reasons with regard to local government, but you have said nothing about the NHS.

**Russell Frith:** You are right. For local government, the timing of the exercise, with the transfer of many of its existing fraud staff to the Department for Work and Pensions national fraud

and error service, probably did not help the prioritising of investigations.

As for the NHS, I would say that the level of participation is still very good, but it is a bit lower than that in the previous exercise. The fact is that it is more difficult to obtain buy-in in that area, because the nature of NHS activity and the data sets being used is such that the outcomes for the NHS bodies themselves tend to be very much lower than for local government bodies. The importance of keeping NHS data relates as much to how it helps other bodies to establish a match and whether fraud or error has taken place.

**Colin Beattie:** There is clearly an issue with local government, which you have highlighted by mentioning a number of the councils that have been a problem, but you have also mentioned the Scottish Police Authority, which is a bit of a surprise.

**Russell Frith:** The most likely explanation is systems that were still developing. At the time when the data was being collected, back in October 2014, the Police Authority was still very much developing its systems.

**Colin Beattie:** Let us hope that it will be a bit better this time round.

**Russell Frith:** I certainly hope so.

**Colin Beattie:** Looking at the quality of what is being produced, you are talking about late submissions and all sorts of issues around that. Is it not made clear to the participants what the deadlines are?

**Russell Frith:** Yes, it is.

**Colin Beattie:** There is no penalty, of course, is there?

**Russell Frith:** No, there is no penalty. In most cases, we do get the data, albeit a bit later. If that data is taken at a later point, it is still useful, but it means that the subsequent investigations are slightly more complicated because there is data coming from different audits at different times. The ideal for us is that all the data comes in as at the same date.

**Colin Beattie:** At paragraph 96, you state:

"NHS bodies' arrangements for NFI have weakened."

You are still saying that they are good, but the fact that they have weakened is worrying. Where are you taking that?

**Russell Frith:** We will be monitoring all bodies' participation in the exercise, not only the provision of data in the first place but when bodies access the matches that are provided, when they look at them, when they investigate them and when they mark them up. We will then work with the local auditors of each of those bodies to keep the

pressure on, to ensure that they are actively participating.

**Colin Beattie:** So you take it to the local auditor. That is your escalation point.

**Russell Frith:** Yes.

**Colin Beattie:** Would you not think that, if the arrangements have weakened, it is a significant issue that should be escalated to the Scottish Government?

**Owen Smith:** In most of the NHS cases, the arrangements have weakened from a high position to being satisfactory. The report is a two-year exercise, and every year we encourage and assist local auditors to review arrangements in each body, and they produce an annual audit report that goes to those charged with governance and to the Auditor General and the Accounts Commission so that they can discuss areas of governance, including how well they engaged with and participated in the national fraud initiative.

We do see success at local level, and sometimes this sort of exercise is just as much about getting momentum up to encourage bodies to engage properly and to produce self-help guides and identify areas on which they can improve. For us, the best area to identify for improvement would be getting the audit committees to have greater involvement in looking at how the NFI exercises are progressing in terms of delivering the materials and the data sets on time, having a resource plan, and knowing how to go in and investigate and what the results are, so that they have a full view of what has been found locally. That is the best way to engage.

We have had other successes. Two councils, Perth and Kinross Council and Angus Council, disagreed with an interpretation of the legislation on giving us the electoral registration data. We accepted that, but we asked what they were doing instead to use single-person discount information to prevent fraud and encourage more income into the council, and they are now using that data, so it is a win for us. It does not come through the national fraud initiative, but it is still a way in which we can encourage such matching. We did that through the local auditor as well, so we work closely with the auditors and the bodies to encourage them to make use of data and the NFI exercise to deliver the best for their taxpayers and for the public.

**Colin Beattie:** Can bodies opt out and choose not to participate?

**Russell Frith:** We have the statutory power to demand data from the bodies that are within the remit of the Auditor General or the Accounts Commission.

**Colin Beattie:** What is the penalty if they do not?

**Russell Frith:** There is not one.

**Colin Beattie:** There is not one?

**Russell Frith:** No, not in the legislation. However, there are things that can be done, such as naming bodies in the report and local auditors including it in their annual audit reports, which are also public documents and are considered by those who are charged with governance in the organisations. Peer pressure and publicity are the main tools that we have available to us.

**James Kelly:** I am interested in the outcome figure of £16.8 million that has been recorded. Is that £16.8 million either fraudulently or erroneously being taken out of the system?

**Russell Frith:** That is the estimated value of the outcomes from the exercise expressed in a way that tries to put all the outcomes into the same currency—in this case, pounds. Some of it will be value that has been taken out of the system. A single-person discount that has been claimed for the past few years is clearly a value that has been taken out of the system. However, for pensions that are being paid to people who are deceased, for example, the value that is recorded in this exercise is the value not only of any pension that has already been lost but an estimate of the future value that would have been lost had the match not occurred.

**James Kelly:** Why is that an estimate? Why can we not be more certain in the instances that you have cited?

**Russell Frith:** Because, in some cases, we are looking forward. How long a pension would have been claimed had it not been picked up through the exercise is very much an estimate. We use the remaining expected average life of a pensioner for that particular purpose. In the case of council tax discounts, two years' worth of discount is used consistently across all the agencies that undertake the work.

**James Kelly:** Does the data go down to the level of the individual transaction, or is any element of extrapolation involved?

**Russell Frith:** It all goes down to the level of the individual transaction.

**James Kelly:** How much of the £16.8 million that has been identified as an outcome of items being either fraudulently or erroneously taken out of the system has been returned to the public purse?

**Owen Smith:** Just under £5 million has been recovered. That is the value of the cash that has been recovered; what cannot be recovered is what

has been prevented from being paid out by the pension or single-person discount being stopped.

**James Kelly:** By taking action to stop an on-going fraud, for example, you are stopping an on-going exercise. You have identified £16.8 million in transactions, of which around £5 million has been recovered.

**Owen Smith:** Yes.

**Liz Smith:** I have a quick question. In paragraph 70, you make the point that SAAS generally has quite a good record on uncovering any student support that has been claimed erroneously. Am I right in thinking that the figure is very low and that, therefore, there are no major concerns about fraudulent claims?

**Owen Smith:** SAAS is on that—for want of a better expression—and works well in reducing that type of fraud. The NFI has proved an effective way to double check, but if people have fraudulent passports it is difficult and SAAS has to rely on the Home Office data as a second check.

From memory, I think that the figure has come down—

**Liz Smith:** That was going to be my next question. Is that an improved figure?

**Owen Smith:** Yes, in the sense that less fraud has been found, but SAAS is trying to find more.

**Liz Smith:** I understand what you mean. Thank you.

**The Convener:** Correct me if I have misunderstood this. The committee's job is to follow the public pound, and you have asked 104 public bodies to participate in the national fraud initiative. How do arm's-length external organisations and contractors play into that? Is there any investigation of fraud within those organisations?

11:00

**Russell Frith:** We do not have the power to demand the data from bodies that are outside the remits of the Auditor General and the Accounts Commission, but we have the power to accept voluntary participation by other bodies. For the exercise that has just started, we are getting data voluntarily from some of the ALEOs that are linked to councils, for example.

As was said earlier, the NFI is only one part of a public body's fraud and error prevention.

**The Convener:** Paragraph 11 on page 9 says that 104 bodies participated, but it adds:

"Two further education colleges were invited but didn't submit any data."



Can you tell me which FE colleges those were, please?

**Owen Smith:** They were the City of Glasgow College and Edinburgh College.

**The Convener:** Did they give reasons for not submitting data?

**Owen Smith:** No.

**The Convener:** No reasons at all?

**Owen Smith:** It is often an organic process of trying to encourage folk to see the benefits of using data matching. As Russell Frith indicated, 10 colleges are now taking part or have been invited to take part, six of which have already submitted their data. We still do not have data from Edinburgh or Glasgow. We will check again with them. The law lets us mandate it, but I do not think that we would ever go to court over it. That would not be a very good use of public money. We will ask the colleges again why they have not provided the data.

**The Convener:** The exercise is complete, is it not?

**Owen Smith:** That exercise is complete. We do the exercise every two years, so we have started another one. The date for submission of data for that was two days ago and another report will be coming in 2018.

**The Convener:** Has Edinburgh College submitted data to that?

**Owen Smith:** It had not when I checked on Tuesday.

**The Convener:** It did not submit for the last exercise and it has not submitted for the forthcoming one.

**Owen Smith:** So far.

**The Convener:** Okay. You said that you have the power to demand the information. Have you done so?

**Owen Smith:** We wrote to the colleges. In effect, we mandate the data from the bodies. However, as has already been raised, what do we do if we do not get it? There is no penalty. Personally, I would not want that, because the exercise is trying to add benefit to the public sector, and it should be seen as that.

**The Convener:** There is no penalty, but you said that, under the 2010 act, you have the legal power to demand the information. Hypothetically, if you were to take the next step, what would it be?

**Russell Frith:** As Owen Smith said, the date for submitting data has only just passed. We will now be looking at any organisation that has not submitted data, and we will follow up directly with

each of them to find out why they have not submitted it and whether it will be coming in the near future. We will consider what level of escalation we can apply depending on their answers.

**The Convener:** Okay, but to return to the report that we are discussing, you wrote to the colleges and asked for the data, but it was not taken any further.

**Russell Frith:** Yes.

**The Convener:** Okay. Were there any other invited organisations that did not participate? The report says that 104 bodies participated but it adds:

“Two further education colleges were invited but didn’t submit any data.”

How many bodies did you invite all together? If 104 participated, what number were invited?

**Owen Smith:** I cannot remember. It gets complicated with the Scottish Government because so many different bodies, payrolls and creditor systems are covered.

**The Convener:** I am sure.

**Russell Frith:** As far as I am aware, we got data from every other organisation.

**Owen Smith:** We got everything bar the two colleges.

**The Convener:** Out of the whole public sector in Scotland, it was just the two colleges that did not submit data.

**Owen Smith:** Yes.

**The Convener:** That is interesting.

**Owen Smith:** They have submitted data in previous exercises. Four years ago, the City of Glasgow College took part.

**The Convener:** Is there something to be said for making the initiative compulsory?

**Owen Smith:** I sit on the Scottish Government’s counter-fraud forum with many other bodies such as SAAS, the Scottish Public Pensions Agency, Police Scotland and the Convention of Scottish Local Authorities. The Scottish Government issued a new counter-fraud strategy last year, and within that we are all trying to work together to push this. The NFI is a useful tool, but it is not the only tool for data matching.

What we and the Scottish Information Commissioner want to see is bodies using their data—legally—to ensure that they are doing all that they can do to prevent fraud and error in the system. For me, it is a governance issue as well. It is really up to those who are charged with

governance to ensure that they are taking care of this. Audit has been filling a gap—

**The Convener:** Those in charge of governance at the individual institutions.

**Owen Smith:** I would ask questions of a council, a college or a central Government body, for example, if they were not taking part in the NFI or doing something as an alternative. There are examples of councils doing alternative data matching for council tax very successfully, which is good. We do not get too upset about it not being the NFI, as long as they are doing something. I do not know what we would get by making the NFI compulsory.

**The Convener:** You might get data from the Edinburgh and Glasgow colleges.

**Owen Smith:** You make a good point, but the colleges would have to investigate in order to provide the data. We do not do the investigations; they are done by the bodies involved.

**The Convener:** You have been able to quantify the sums recovered through the national fraud initiative. Can Audit Scotland quantify the money that it has saved the taxpayer through other work? Is that a question for the Auditor General?

**Russell Frith:** I think that it is a question for the Auditor General. However, in principle, estimating the impact of our work is a continuing area for us to look at. However, we have to bear in mind that the impact of a lot of our work is not necessarily wholly financial.

**The Convener:** Can you offset the cost of that work against the money recovered?

**Owen Smith:** Yes.

**Russell Frith:** No, in the sense that the cost of the initial exercise is met from Audit Scotland's funding, which is provided by the Parliament. For the individual bodies the answer is yes; the cost of their investigation exercise is offset against anything that they recover.

**The Convener:** So in a way it is a split cost. Your initiative is underpinned by the Criminal Justice and Licensing (Scotland) Act 2010. Does the fact that some bodies are not participating in the NFI suggest that there is a fault with the 2010 act?

**Russell Frith:** I am usually in two minds as to whether penalties or sanctions should be included in each piece of legislation. For something like the NFI, I think that it is preferable if we are able to persuade organisations to participate willingly, because that will also improve the quality of their investigations and is likely to lead to a better overall impact than if they feel that they are being dragged to do the minimum that they can.

**The Convener:** Thank you for your evidence this morning. The committee will now go into private session.

11:08

*Meeting continued in private until 11:31.*

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