



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 22 June 2017

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
17th Meeting 2017, Session 5

CONVENER

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

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Nick Clinton (Moray College)
Murray Easton (Moray College)
Peter Graham (Moray College)
Fiona Larg (University of the Highlands and Islands)
Anne Lindsay (Moray College)
Iain Macmillan (Lews Castle College)
Clive Mulholland (University of the Highlands and Islands)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 22 June 2017

[The Deputy Convener opened the meeting at 08:50]

Decision on Taking Business in Private

The Deputy Convener (Liam Kerr): Good morning and welcome to the 17th meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. At the outset, I ask everyone to switch electronic devices off or to silent mode so that they do not affect the committee's work. At agenda item 1, we are invited to decide whether to agree to take items 4 and 5 in private. Do members agree to do so?

Members indicated agreement.

Section 22 Reports

“The 2015/16 audit of Moray College”

08:50

The Deputy Convener: Item 2 is evidence on “The 2015/16 audit of Moray College”. We have already taken evidence from the Auditor General for Scotland and Audit Scotland, so I welcome today's witnesses. From Moray College, we have assistant principal Anne Lindsay, board chair Peter Graham, board vice-chair and chair of the finance and general purposes committee Murray Easton, and director of finance Nick Clinton. From the University of the Highlands and Islands—UHI—we have principal and vice-chancellor Clive Mulholland and secretary and chief operating officer Fiona Larg.

Before moving to questions, I will briefly set out some background to this evidence session. The Auditor General told us:

“We are seeing a failure of financial management, which at the highest level manifested in the need to ask for what was effectively emergency funding from UHI in 2014-15 and in 2015-16 so that the college could pay its bills and meet its financial obligations. That should not happen in a public body”.—[*Official Report, Public Audit and Post-legislative Scrutiny Committee*, 18 May 2017; c 27.]

The funding in question amounted to almost £700,000 in 2015-16. It is also worth noting that Moray College's staff costs accounted for 72 per cent of its gross expenditure in 2015-16, which is higher than the Scottish average of 63 per cent. It is estimated that those staff costs will increase to 78 per cent for 2016-17.

I now invite Peter Graham, the chair of the board, to make a brief opening statement.

Peter Graham (Moray College): Thank you very much. I am chairman of the board of Moray College, and you have taken the first three lines of my introduction, in which I was going to introduce people. I apologise; I will just catch up.

We want to get to the root cause of the financial situation. Although the financial year in question is 2015-16, almost all the underlying issues existed at the end of 2014-15. As with most significant incidents, there is no single cause. The situation arose as a result of a number of risks being exposed by a series of circumstances, events and behaviours that came together during 2014-15 and combined to create a sequence of deficiencies across the college's system of internal control, which resulted in the breakdown of financial management.

The biggest contributing factor was the poor performance of the then financial director during 2014-15, which was something that could not have

been legislated for. That was followed by a leave of absence during 2015-16. I must point out that Nick Clinton has been in place for only three weeks as our new financial director, so it is important that there is no cross-referencing or mixing up of financial directors.

Underlying risk factors that affected the wider control environment at the time included the following: the regulatory framework; changes in the education sector since 2014, including the Office for National Statistics reclassification process and associated changes in financial reporting; budgetary pressures, including reductions in funding, as well as inflationary pressures on payrolls and other costs; budgetary control, including weaknesses in process, compliance and systems; internal reporting, including inconsistencies in data and irregular timing of reports; senior management team factors, including changes at principal and assistant principal levels and compassionate leave being taken; and board factors including, for instance, the chair of the finance and general purposes committee having personal issues that meant that he was unavailable for a large part of that period.

There were also UHI factors: the role of the regional strategic body was still being defined and implemented, and there was the interrelationship between the two institutions. There were Scottish Further and Higher Education Funding Council factors, such as agreement to requests for early drawing down of funds from April 2014.

There was a fair catalogue of errors and mistakes, but the management and the board of Moray College believes that the issues that are within its control have been and are being subsequently addressed. Thank you very much.

The Deputy Convener: Thank you. I will direct the first question to Anne Lindsay, if I may. I believe that there was some confusion about your attendance today. Will you clear that up for us, please?

Anne Lindsay (Moray College): I am not aware of any confusion over my attendance. I think that the college decided that the best approach was for the financial expertise people—our director of finance and our convener of the finance and general purposes committee—to come today. As a senior executive member, I am happy also to attend.

The Deputy Convener: Right. Thank you.

I will look at the voluntary severance scheme, but before I do I have a brief question for Mr Graham. Did I hear correctly in your opening statement that you put a lot of the difficulties down to the poor performance of a previous finance director?

Peter Graham: Yes. I ask Murray Easton to answer on that for me.

Murray Easton (Moray College): I was not there at the time—I have been in the position on the board for only the past year—but it seems that what happened was that the finance director at the time had been there for a considerable time and had built up a strong level of trust with the board and the management team based on his track record. There had been nothing to suggest anything untoward in his performance—there had been no financial irregularities up to that point and no evidence of anything other than good and competent management of the college's financial affairs. It was only in that last year that somehow his behaviour changed. It seems that there were a number of contributing factors, including all the pressures of the changes that were brought in by the ONS reclassification, budgetary pressures on him, and other things that Peter Graham alluded to.

That does not necessarily mean that the underlying procedures and controls in the college were broken. There were some weaknesses that we picked up and addressed, but we could not legislate for that apparent change in behaviour, in which a new principal at the time and the FD, under pressure, resorted to a style of behaviour that seemed to be more about holding the line of the budget and not releasing bad news and being focused more on financial reporting obligations to the SFC than on using good financial data to run the affairs of the college.

The Deputy Convener: The previous financial director is no longer there.

Murray Easton: That is correct; he went on sick leave during 2015-16 and left the college in the middle of last year.

The Deputy Convener: Do you recall the terms under which he left? Was it a straight resignation, or was there—

Peter Graham: Can I answer that?

The Deputy Convener: Yes.

Peter Graham: It was a compromise agreement. It is confidential between the college and him, but it was a managed departure.

The Deputy Convener: Right. Let us look at compromise agreements and voluntary severance. There is a proposed scheme. Are you in a position to give us an update on where the voluntary severance scheme is, please?

Peter Graham: I am. We are still, with the assistance of the UHI, answering questions to the Scottish funding council, with a view to putting together a scheme. Applications closed two weeks ago. I do not think that it would be fair to the

parties who have applied to go into individuals, but there were a dozen applicants, 10 of whose applications we have made a business case for accepting. We are still in discussion with the Scottish funding council. As late as last night, we were talking to John Kemp.

The Deputy Convener: I think you said that 12 people have applied. Are any of the 12 members of the senior management team or senior members of the college?

Peter Graham: Yes.

The Deputy Convener: Are you prepared to say—

Peter Graham: I cannot. That would not be fair on those members of staff or our position. I am discussing the matter with the Scottish funding council. We are answering questions with it and are dealing with the matter and moving it forward. I do not know whether Clive Mulholland would like to add to that.

Clive Mulholland (University of the Highlands and Islands): Yes. The university, in its role as a strategic body, and the Scottish funding council are working with the college. UHI, too, has a series of questions about what is being proposed. That is still under discussion with the Scottish funding council, at the minute.

The Deputy Convener: Are you at liberty to say what proportion of the 12 applicants are from the senior management?

09:00

Peter Graham: No, I do not think so, really. I would want the Scottish funding council to advise me on how I should proceed with that. For me to suggest that there are members of staff who may or may not be leaving at this stage—we do not know; we have not got the funding council's agreement to our proposals—would be very difficult and unfair to those members of staff.

The Deputy Convener: But it is fair to say that it is at least a possibility that, in a situation that is considerably challenging, some members of the senior management team who perhaps could be said to have got the college into this situation may be leaving with a large pay-off in the not-too-distant future. Is that fair?

Peter Graham: I am afraid that I disagree with that. That is extremely unfair. I think that the current senior management team did everything that they could to help during the period, including Anne Lindsay, who stepped up to be vice-principal when the principal was away and when the other principal left. As far as I can see, the board addressed the issues.

Remember that I joined the board in August last year. I have been chair for a month, during which time I have done little else but this, as you might expect. However, the position, as far as I understand it, was that the senior management team very much stepped up to the mark and caught the problem at the point where things were going wrong. The principal left and the financial director was managed out of the business. The management team then moved very quickly, with UHI help, to start to remedy the situation.

The Deputy Convener: Is it felt that, of itself, the voluntary severance scheme will work? If we accept that some senior management and some, I guess, academic staff are going—

Peter Graham: And support staff.

The Deputy Convener: And support staff. This concerns me, because it rather strikes me that the end product that a college sells is, if you like, the ability to teach pupils. How do you—

Peter Graham: Can I point you to your own figures at the start? You said that 72 per cent of our income went on staff and that the average in Scotland was 63 per cent. We need to address that and bring the figure into line with the other colleges, but we are not allowed to make redundancies, so we have to do it in this way. That is our ambition, and I think you will see that our financial recovery plan is already achieving that.

The Deputy Convener: I accept that, but if the product is the provision of teaching—the provision of education—is it possible, in your view, to cut staff through a voluntary severance scheme without diminishing that product?

Peter Graham: I believe so.

The Deputy Convener: Have you done the analysis? Is there a business plan?

Peter Graham: Of course we have: we have very detailed analysis that we have submitted to the Scottish funding council. There is for every individual who has applied a business case that shows where they sit. We have spoken to their curriculum leaders and we have dealt internally to manage the transition so that it is not an influence on students. We have spoken to the unions and have assured them that we would not be taking any of these actions if we were unable to show that they would not impact on students and the student experience.

The Deputy Convener: Thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to talk about governance. What is the size of the board of Moray College?

Peter Graham: We are currently in transition. It was 18, but we have three members who are at

the point of resignation. The previous chair, who was the acting chair for a year—he was the vice-chair—Ash Major, will now leave even his position as vice-chair at the end of the month, and two other members of the board are retiring. Next week, we will interview three candidates who are coming forward to fill their places. We are not sure whether we wish to maintain the size of the board at 18 or gradually reduce it, but we are trying to make sure that we have a proper transect in the classifications that we need on the board.

Colin Beattie: Eighteen seems quite a large board.

Peter Graham: Yes, it does. It is a legacy that I have been left, and it is something that we will strive to amend. On any board, there are those who appear not to turn up from time to time and we need to have a managed process to deal with that, which we are putting in place.

Colin Beattie: Looking back at the role of the board over the past few years, as the difficulties arose, did the board receive regular financial updates all the way through?

Peter Graham: Obviously, I was not there at that time, as I joined the board in August last year. That question is probably for Murray.

Murray Easton: I was not there either, but the evidence suggests that the quality and the timing of the information were not what should have been expected by the board and the finance and general purposes committee. The information was not adequate.

Colin Beattie: Looking as far back as 2014-15, the auditor said that the board and committee minutes did not evidence decisions that were agreed. What was the point?

Murray Easton: The point of what?

Colin Beattie: The point of minutes that did not say what had been agreed.

Murray Easton: I do not know. All that I can say is that it is not that way now. I cannot comment on what happened at that time.

Peter Graham: Can I add to that?

Colin Beattie: We are trying to explore how the situation arose in the first place and ensure that it does not happen again, so we need to understand what went wrong and where the disconnects were.

Peter Graham: I could not agree more. There were failings, but we do not have the evidence. The people who were there at the time are no longer there and are no longer employed by the college—they are away from the institution—so I do not quite know how we can get that evidence. We know that the information was poor.

Colin Beattie: Looking forward, Murray Easton just said that it is not that way now and that proper records are kept, including proper records of decisions that have been taken—is that so?

Murray Easton: Absolutely. I would not say that the records that were kept at the time were not correct, as the basic accounting information was sound. What we are talking about is deficiencies in the process of sharing management information with the senior management team and the board. Different information was being shared in reporting to the SFC; different information was being held on the accounting system for forecasts, not for the accounts themselves; and inconsistent information was being given—and not on a timely basis—to the board.

What we have in place now is what I would call single data flow. It is a single set of financial information, and its primary purpose is to enable the management of the college to use that financial information to run the affairs of the college. The same core data set is then used to feed the Scottish funding council reporting requirements and the needs and requirements of the board, and that is done on a timely basis. We have quarterly management accounts, and we have an understanding about there being no surprises whereby, if anything comes out during the quarter, rather than wait until the next meeting of the finance committee or the board, the finance director will share that information with relevant members at the time to allow a live conversation to be had.

Peter Graham: Can I ask Murray to take us a little bit into the future?

Murray Easton: Do you want me to talk about the financial recovery plan?

Colin Beattie: Can I just ask a question? I am still looking at the historical side and trying to understand some aspects of that. At what point did UHI become aware of the difficulties, and what action was taken at that point?

Clive Mulholland: I will start off, and then I will ask Fiona Larg to come in. We became aware of the difficulties in June 2015, and we had to make a cash advance to the college. At that time, we took a report to our own finance and general purposes committee, and we then wrote to the college asking for an explanation of how it got to that position and for certain things to be done. We engaged with the college very quickly, and we sought additional information. We wanted a recovery plan, as we wanted to see what the college was going to do to get itself out of that position.

Colin Beattie: You became aware that there was a problem in June 2015. There were difficulties at that time with the board getting

financial information and dealing with the situation. What support did you give it?

Clive Mulholland: We offered lots of support. We offered the support of our existing financial staff, and we offered support at an individual level.

Colin Beattie: Was it accepted?

Clive Mulholland: No, it was not. That was the board that existed at that time; there is a different board now.

Colin Beattie: Do we know why that assistance was not accepted?

Clive Mulholland: I can only speculate, because I do not know what their thoughts were. At that stage, we were transitioning from a structure in which the relationship was directly with the Scottish funding council. Under the Post-16 Education (Scotland) Act 2013, the university became the regional strategic body, and, during that transition, there was some resistance in the relationships between the college, the regional strategic body and the funding council.

Colin Beattie: I presume that the college did not just say, "No"; I presume that it said, "No, because—".

Fiona Larg (University of the Highlands and Islands): I would say that it was not, "No, because—"; it was much more that the college felt that it had the situation under control. We had several meetings with the chair, board members and senior staff in the college at the time—

Colin Beattie: Did you accept that?

Fiona Larg: We continued to ask a lot of detailed questions for many months. Not all the information that we asked for was provided when we asked for it, but, over several meetings, we were able to get more information. Certainly, the college resisted direct intervention by us at that stage.

Colin Beattie: You just accepted that over an extended period.

Clive Mulholland: No, we did not. We pushed and pushed as hard as we could to get the information, but the board at the time was not willing to engage with the regional strategic body. We did get the information, however. As Fiona Larg said, we managed to extract the information from the board, and we got various data sets from the college.

Colin Beattie: According to the Audit Scotland report, the board of the college was struggling to get information, so the information that it gave you must have been fairly limited.

Clive Mulholland: Yes, you could say that. As it is an independent college, its board has a

responsibility to ensure that the information that it provides to the regional strategic body is correct, so we have to go with the information that is provided to us by the college.

Colin Beattie: If you knew over an extended period that there was a problem and you knew that the college was refusing assistance, what did you do other than press it? Surely, you escalated the matter up the line.

Clive Mulholland: We did, but we worked with the college and started to get the information out of it. We had a number of meetings with both the chair of the board at the time and the principal.

Colin Beattie: To whom did you escalate the matter?

Clive Mulholland: We escalated it to the finance and general purposes committee of the university and then to the university court.

Colin Beattie: And outside the university?

Fiona Larg: Yes, to the Scottish funding council.

Colin Beattie: What advice did it give you?

Clive Mulholland: The Scottish funding council worked with us to help the college as much as we could.

Colin Beattie: The SFC got in touch directly with the college.

Fiona Larg: No, it got in touch through UHI.

Colin Beattie: It was through UHI. I am trying to see where—

Fiona Larg: Any letter that went to the college was copied to us. Basically, the funding council was making sure—

Colin Beattie: What did the funding council tell the college?

Fiona Larg: That it was concerned.

Colin Beattie: You saw the letters. What did they tell the college—that it had to engage with you?

Clive Mulholland: Not so much in those words, but they said that the problem needed to be fixed and, as we were the regional strategic body, we all had to work together to solve the issue.

Colin Beattie: Was that not a bit weak? You had had months of problems, a board that was not engaging, inadequate financial information, a deficit situation and a college that was looking for funding. You escalated the matter and—nothing.

Clive Mulholland: I would not say that it was nothing; it just took a lot longer than we were hoping it would. We have learned our lessons from the situation. The explanation that I would give is

that, at that stage, when we were transitioning into the regional strategic body role, there were complications around relationships. Relationships were difficult at that time, when it came to who was supposed to be talking to whom. Since then, we have tightened up on that and we are getting much more regular financial information from all the partners. We have also put in place new committee structures in order to have much greater oversight. We will be much more directive and interventional in the future, because that is our role as a regional strategic body.

09:15

Colin Beattie: Do you think that, if you had been more decisive when the problem arose, it could have been fixed a lot more quickly?

Clive Mulholland: Potentially, yes. It was a learning exercise for us as we transitioned into a regional body.

Colin Beattie: Do you believe that now, as a regional body, you have the authority to intervene and direct the colleges?

Clive Mulholland: Yes, we do.

Colin Beattie: It seems to me that, in the past, you escalated the matter to the SFC and it just lay on somebody's desk.

Clive Mulholland: We have also made changes to governance. I will ask Fiona Larg to explain the appointment of the people who are on the board now.

Fiona Larg: I will put it into context. We took over the regional strategic body responsibilities on 1 August 2014. At that stage, we had legacy boards in each of our five incorporated colleges. Part of the Post-16 Education (Scotland) Act 2013 provided that, when the new boards came in, it was UHI as the regional strategic body that made the appointments of the chairs of the colleges and all the independent members, but it took quite a while to transition to the new boards. At that stage, the Moray College board had been appointed by Moray College itself and had a feeling of autonomy and much greater independence from UHI than the current board has, because the current chair and independent members were appointed by us. That has been a major change.

There was also a legacy of regular financial and performance information not being provided to UHI under the previous regime, because, up until 2014, all that we funded was higher education. It took some time to work with the partners to get them to provide all the data that we now get on a regular basis.

Colin Beattie: We are keen to ensure that this does not happen again. If I am interpreting

correctly what you say, you believe that you now have clear guidelines—for want of a better word—on how you would approach the situation in the future and that there would be direct intervention at a much earlier stage.

Clive Mulholland: Yes.

Fiona Larg: Yes.

Colin Beattie: The SFC does not seem to have backed you up with any particular strength when you approached it with the original problem. Am I wrong?

Clive Mulholland: No, I would not put it like that. There was confusion over the relationships between the college, the regional strategic body and the Scottish funding council, which was not—

Colin Beattie: The SFC was confused.

Clive Mulholland: We were all unclear. It did not help that, at that time, the board continued to write to the funding council when the roles were shifting to the regional strategic body.

Colin Beattie: You are satisfied that that would not be the case going forward.

Clive Mulholland: Yes, I am. We have put in place what Fiona Larg has described and other measures. We will be much more directive in the future.

Colin Beattie: I would be interested in seeing a copy of those rules or guidelines.

You say that you now have a process. I presume that that process is documented.

Clive Mulholland: At a governance level, that process is followed through the appointments that Fiona Larg has just talked about. At the executive level, we have changed the executive structure within the university and created two new bodies. There is a partnership council that involves all the principals, and we have started to scrutinise much more closely what is happening in each of the partners. We also have a new SMT that has a number of the principals from the partners on it as well. [*Interruption.*] Excuse me—my hay fever is playing up this morning. Together with the governance structure that we have put in place and the new data sets that we are getting, those bodies give us confidence that we have much better control over what is happening across the partnership.

Colin Beattie: I hope that that structure is not as bureaucratic as it sounds. Do you have a documented process for dealing with issues that arise in colleges?

Clive Mulholland: No. There is no specific protocol as such, because a multitude of issues

could arise in a college. We could spend all our time in writing processes or protocols.

Colin Beattie: I am thinking of a particular case in which a college is—for want of a better word—failing.

Clive Mulholland: We have a process in that the data set that we would use to examine the situation and the data that we would look at would be considered at a number of levels and the matter would then be escalated. It would be considered at the SMT and the partnership council and then escalated to the finance and general purposes committee of the university and, ultimately, the university court as the regional strategic body. In addition, we have a further education regional board that is made up of all the chairs of the colleges. It is quite a complicated governance structure.

Colin Beattie: Yes, it is. Have you ever thought of simplifying it?

Clive Mulholland: Yes, I have.

Colin Beattie: Are you going to?

Clive Mulholland: We have made changes to the governance structure within the limitations that we have at the minute.

Colin Beattie: Okay. Thank you.

The Deputy Convener: Thank you, Mr Beattie. I think that Jackie Baillie wishes to carry on the questioning in that regard.

Jackie Baillie (Dumbarton) (Lab): It is just a short supplementary question to the college, rather than UHI.

I think that the witnesses would accept that this is not—and I am sure they are not suggesting that it is—simply down to one person. The board and the senior management team have responsibilities too. I entirely accept that the three gentlemen here came in after the event—in the case of Mr Clinton, three weeks ago. I appreciate that it is difficult for them to answer for things that they do not know about. However, Anne Lindsay was there for the duration of the process and stepped up to the plate at least once if not twice to take the senior position. I wonder, Anne, if we could address to you some of the questions about what happened, what was done to fix the problems and what interaction there was between you and UHI. What did they ask of you? What did you do or not do in relation to those requests? We need a fuller picture from somebody who was actually there.

Anne Lindsay: We had a principal in place from August 2014 until March 2015—they were in post only for eight months. I was not in the college for some of that time, but that is not relevant. When I picked up the role in March 2015, it became clear to me fairly quickly that we did not have the

financial management information that we had had previously. As well as all the other contributing factors that we have already discussed—they should not be underestimated, to be fair to the teams—that year we had an unexpected and significant drop in our higher education student numbers. During that period—from August to March—we had not in any way altered our budgets to line up with the fact that we would have less income through having fewer HE students. From an operational point of view, that was the key impact that made the cash advance necessary. For whatever reason, we had not altered the budgets. In our normal processes—we follow them now, obviously, but we also followed them before—the budgets are set on targets and every September/October, once the student numbers are in, we realign them. That has served us well in the past. However, in that year, we had a significant drop in HE students that was not recognised.

As soon as I became acting principal in March 2015, we made an incredible number of changes to our budget controls. There is no doubt that, for whatever reason, the position really had deteriorated over a short time. I found that it was very difficult to ascertain our financial position. It took us some time, working with our FD, to establish where we were. That would not occur now—absolutely not—and it would not have occurred before then either, to be honest. It cannot be overstated just how long it took us to look forensically at all the accounts and all the finances for that period. That genuinely took time.

As a member of the executive, I worked quite directly with the director of finance at UHI at the time and sought help. In terms of the best way forward, I also immediately contacted our internal and external auditors. I contacted the SFC directly, because, as Fiona Larg said, regionalisation was emerging at the time. SFC told me that my link was through UHI, and I was comfortable with that. I received support directly from the executive team at UHI, and that helped.

Jackie Baillie: How long did it take to get the finances to a position in which there was a degree of clarity?

Anne Lindsay: We had quite a bit of clarity by about June or July. We also immediately improved the information that we were giving to the board. I completely agree that the information given to the board between August and March was not fit for purpose. It was not inaccurate; it was just lacking in detail and there was the minimum in terms of commentary—there was very little discussion of variances and so on. We immediately improved the information that went to the board. Again, that took a while. Over 2015-16, we were still identifying financial issues—they are in the

report—that had an impact on our cash flow the following year, and it took us some time to recognise them. Also, because of our financial situation, we immediately looked at trying to reduce our non-staffing costs as much as possible; obviously, student services and teaching were paramount.

Jackie Baillie: Just so that I am clear, according to what you are saying to me, it took from March to June or July to get some clarity.

Anne Lindsay: To get initial clarity, yes.

Jackie Baillie: Okay, we will agree to use the term “initial clarity”. At that stage, you were talking to the board about the issue, but then the problem repeated for another year.

Anne Lindsay: We continued to improve the information that was going to the board over that period, but I accept that it was not totally sufficient until the new board was in place.

Jackie Baillie: You required a cash advance of a similar magnitude the following year, so the problem remained.

Anne Lindsay: We required a cash advance the following year. I think that one of the factors that caused that was the £368,000 cash advance in 2014-15—to be honest, that was a large amount of money to have to pay back in one year. We always recognised that that might be difficult to achieve. Although I was surprised at the size of the cash advance required the following year, we always considered that there might be a cash advance issue due to the £368,000 in the first year.

Jackie Baillie: Can you clear something up for me? I might have misheard, but I think that I heard UHI say that the college did not accept help, yet you seem to indicate that you did. What is the truth?

Anne Lindsay: I personally received help on the executive side. I cannot discuss the board and its relationship with UHI’s finance and general purposes committee.

Clive Mulholland: I can clarify that. There was a good relationship with the executive and with Anne Lindsay in particular. The real challenge came from the board, and the pushback came from the board itself. I reiterate: it is a different board from what we have today.

Jackie Baillie: Thank you, convener—I will leave it there. I am sure that other members will pick up the issue.

The Deputy Convener: I want to be absolutely clear about this. Fiona Larg said that various bits of performance and financial information were not being provided to UHI to allow it to help. Does that

cross over with the period that Anne Lindsay is talking about?

Anne Lindsay: It does, in the sense that, in June 2015, the college was still trying to ascertain whether we had all the financial management information that we were used to having. From my perspective, it was not that we were not willing to send the information; we genuinely had difficulty in extracting the information for some time. We did a forensic check of our entire finance system. We put incredible new systems in place. We changed our software. We changed the work of the finance team. We immediately had significant information at executive level in terms of budgetary control. To be honest, my primary aim was to ensure that we were in control of our budgets again because, in my view, we had not been for a while. My primary aim was to ensure that we had budgetary information.

In the sense of providing higher-level information, we always provided what we had, but we were sometimes not able to justify or explain why the figures were as they were. It was a dramatic deterioration over a very short time.

09:30

The Deputy Convener: Okay, but Fiona Larg’s evidence was along the lines that UHI just was not getting the information. You seem to be saying that you did not have the information to give and were taking steps to remedy that. Why were you not telling UHI that you did not have the information to give it? What you are saying is not what I understood from Fiona Larg.

Anne Lindsay: I personally was discussing matters with UHI’s director of finance, who was of some support. I am not an accountant. In fact, UHI provided quite good financial support and told us what the key areas were and so on. I personally had a good relationship with UHI.

The Deputy Convener: Just for the record—

Murray Easton: It might be helpful if I could add a little clarity. There is an obligation on the college to do quarterly financial returns to the Scottish funding council. Those returns were submitted on time and would have been available to UHI. It would have had access to that level of information. The issue was whether the quality of the forecasts in the returns was appropriate and accurate or whether the forecasts were masking reality, such that, although UHI had information, that information was not telling the story of what was happening in the college. That appears to have been what was happening. Information was out there, but it may not have been appropriate and up to date.

Alex Neil (Airdrie and Shotts) (SNP): I will pursue that. Mr Graham explained that a litany of problems arose and that they seemed to arise quite suddenly. From what he says, the previous finance director, under whom all this appears to have happened, served the college well until a series of events seemed to happen at once. Obviously, something went wrong. I do not want to get into personalities, but did nobody think to suspend the finance director, given what was found out, and at least bring in someone from outside to get it sorted? Did he remain the finance director throughout the period?

Anne Lindsay: The finance director very shortly thereafter went on sick leave.

Alex Neil: Was he replaced by a temporary replacement?

Anne Lindsay: Eventually, but not for some time. It was not initially established when he would return. Another accountant in the college had her duties extended, and she led us through the period of getting back on track with all our information. We had a qualified accountant in the organisation.

However, there is no doubt that we were underresourced. We have to remember that we are talking about 2014-15, and I genuinely do not think that we can overestimate the real impact on finance staff of the things that were happening. We had regionalisation and we had the new reporting framework following the ONS reclassification of the college framework, so we had considerable change. My reflection is that, in finance, we perhaps gave too much time and priority to ensuring that all the reports were returned to UHI and the SFC and not enough to what I would class as the core finance role. There is an element of there being so much change that it was genuinely quite overwhelming, but I have to say that the staff who remained dealt with it all very well immediately thereafter.

Alex Neil: Thank you. You said that, when you were put in charge of things, you notified the internal and external auditors pretty quickly. What did they do?

Anne Lindsay: My reason for informing them was to ensure that Moray's problem was well known, because ensuring that we let everyone know that we had problems was paramount for me. Both sets of auditors were generally very supportive, and I had great discussions with them. We talked through different strategies for financial recovery. We talked about priorities, and, of course, the priority was budgetary control, which, at the time, was lacking. Both sets of auditors provided quite a bit of support in the brief initial timescale.

Once we had resolved our budgetary control issues and implemented the new systems—after a period of about six months had elapsed—I asked the internal auditors to do a specific audit on budgetary control, cash flow and so on to ensure that what we had put in place was fit for purpose and effective and that we were implementing it according to our own procedures. Although they made one or two recommendations to help us improve further, overall the internal auditors were satisfied that we were back on track.

Alex Neil: You notified the SFC. What support did it provide?

Anne Lindsay: I contacted the SFC directly, because, as I said, at the time we were literally just forming the Highlands and Islands FE region. Its response to me was that, due to regionalisation, I had to contact UHI instead. I had already done that, and I continued after that—

Alex Neil: The SFC batted it back to UHI, basically.

Anne Lindsay: Yes.

Alex Neil: Did the SFC leave it at that? Did it come back three months later to check? Was there no monitoring from the SFC?

Anne Lindsay: No. As Murray Easton said, we returned all the reports—we never missed a report—and the SFC did not come back.

Alex Neil: It did not come back at all?

Anne Lindsay: No. UHI—

Alex Neil: Right. It was very hands-off.

Anne Lindsay: The SFC? Absolutely.

Alex Neil: Can I widen this out a bit? Obviously, the University of the Highlands and Islands has a unique arrangement, given that it is made up of 13 colleges that are, in effect, also FE colleges. Building on what Colin Beattie said, if you start with Moray College, for example, you have the finance and general purposes committee, then you have the board, then you have UHI and, within that, a partnership board and other boards, as well as full-time staff and so on and the new appointee, and then, at the top of the tree, you have the SFC. It is little wonder that there was mayhem, is it not? How many bodies are involved? It must be a very bureaucratic and slow process with that number of people involved.

My question is for Clive Mulholland. What is the role in the Highlands and Islands of the SFC, UHI or the regional college board and the colleges? How much autonomy do the colleges have? Where do you come in, and where does the SFC come in to tell you what to do? What sanctions do you have if a principal or a board of a college decides that they do not agree with you? What

sanctions do you have, if any, to impose your point of view?

Clive Mulholland: I would not say that it is mayhem; I would say that it is very complicated. UHI is unique. It is a very different sort of university. The only way that a university presence in the Highlands and Islands could be created was by bringing the colleges together. We are a federal university; we are federated with the individual colleges. We have a number of relationships with them, which is where it gets complicated. The 13 colleges are academic partners of the university, so they deliver the higher education element. There is a partnership arrangement, but the university is also now a regional strategic body for further education funding. We play a number of roles, and that can be difficult to work through politically, particularly as we cover an area that is bigger than Belgium. It goes from the Shetland Islands all the way down to Argyll, and the pressures and challenges in each location are very different. We have a challenging position there in itself.

We had to consider that there was no location anywhere in the Highlands and Islands that would have the critical mass necessary to create a university. By bringing all the colleges together we were able to create the University of the Highlands and Islands, which has performed incredibly well. In the last research excellence exercise, we performed incredibly well for a university that is only four or five years old.

We are young, we are growing and we are developing. We still have a lot to learn. We have the complications of the regional strategic body, which came into being in 2015-16, so we have had to work and feel our way through them. Unlike a traditional university or an institution with a single governance structure, where you can be very directive, in a federated relationship you have to bring people with you, in a lot of cases. We have the geopolitical dimension of the partnership as well.

My view is that, over time, the governance structures will change. I am not clear on how long that will be, because it will depend on how fast there is an appetite for change, but it is a complicated structure. I have been in the Highlands and Islands for three years. I do not claim to understand the politics completely, but it took me about a year and a half to start to understand how the relationships all work.

Alex Neil: Is there not a built-in conflict of interests? The roles of higher and further education are distinct. Obviously, the colleges are involved in further and higher education. You now act as the regional college board as well as the university. It is a two-headed monster, is it not?

Clive Mulholland: We have turned that on its head. We see this as an opportunity. We are the first tertiary university in the UK, so we cover further education and higher education. We are proud of the fact that we are tertiary. We are breaking down a lot of the barriers around traditional education and the separation between further and higher education. Half of our higher education students do a vocational course first and then want to go on to higher education. We see that as being very distinctive. We see ourselves as mapping closely against the learner journey and as putting students at the centre. We see ourselves doing things that are very different. The problem that we have is that we come up against barriers because the structures are all set up for further education or higher education. We get difficulties when it comes to that.

Alex Neil: That leads to my next question: has the time not come to recognise that you are a different beast from the rest of the higher and further education system? Would it not be much more effective just to have one unified management structure, recognising the reality of the situation, perhaps with local boards looking at specific local issues? Have we not created an unnecessarily complicated situation where it is difficult for anybody to really be in control, particularly when something goes wrong? It seems to be getting batted from pillar to post.

Clive Mulholland: That is one option. There are other options that could be looked at to simplify the situation. We are looking at simplifying it. For example, we have just gone through a period where we had a strategy working group from across the partnership, and we have agreed changes that, we hope, will simplify and clarify where accountability sits. We have signed an agreement with all 13 partners on the process and where accountability, responsibility and decision making sit. We have started on that journey. I am not sure where that journey will end up. I suspect that it will end after my tenure as principal.

Alex Neil: To clarify, the SFC gives you as a university a budget from higher education funding. In terms of further education, does the SFC give money to the board for distribution, or does it specify how much each of the 13 colleges will get?

Clive Mulholland: We have two funding streams: one is the higher education funding stream, like any other university has, and the other is a further education funding stream, like any other college has. They both come into the institution. The higher education budget is managed through the court, as normal, but, because we also have responsibility as a regional strategic body, we have set up a committee called the further education regional board. That is a committee of court, and its responsibility is to

manage the further education budget on a regional basis. The money comes into the region.

09:45

Alex Neil: It comes into the region. I hear the point about managing the budget, but do you allocate the money between the colleges? Do you decide how much money Moray College gets?

Clive Mulholland: In essence, yes. The further education regional board, acting as the regional strategic body, allocates it on a regional basis.

Alex Neil: Right. They could get funding from your higher education budget as well, obviously.

Clive Mulholland: Sorry, I am not clear about what you mean.

Alex Neil: Presumably the colleges offer higher as well as further education.

Clive Mulholland: The colleges get two income streams. They get a further education income stream and a higher education income stream from the university.

Alex Neil: How long do you expect to be there? How long do you think your tenure will be?

Clive Mulholland: As long as I keep performing well, I would like to think that I will be there for a period of time.

Alex Neil: You have given the impression that you doubt that much will change in your time.

Clive Mulholland: No. What I was trying to say was about the timescales. Things move quite slowly in the Highlands. If it were to be so, change could happen in the next few months, or it could take three, four, five, six or seven years.

Alex Neil: Does it not require some national leadership to drive the change?

Clive Mulholland: Potentially, yes. Any political support would be great.

Alex Neil: Given what we have seen not just in this college but in at least one other college that has had problems out of the 13—we are seeing it later—it seems to me, sitting here, to be an unnecessarily bureaucratic and complicated arrangement that could be simplified. There is an opportunity to take a more innovative approach and have a more unified higher and further education system in the Highlands and Islands, which I would have thought was very much in tune with the needs of the Highlands and Islands community.

Clive Mulholland: Anything that simplifies the system would be welcome. We are a hugely complicated beast, but I would ask you to look at the institution's achievements over the past 10 years. We have had the university title for only four

years, and just last week we were awarded research degree-awarding powers by the Privy Council. We are clearly demonstrating our achievements. However, we could do a lot better. That will be the challenge for us in the next five to 10 years: how do we build on that foundation? Anything that simplifies the system and makes it easier for us to do that would be welcome.

Alex Neil: My final question is this: if a similar situation arose in any of the 13 colleges in the future, do you feel as though you are equipped to deal with that situation and expedite the solutions that you think are required quickly and timeously?

Clive Mulholland: We have better, more accurate information, and we get that information in better time. The university is now clearer about its role as a regional strategic body, so in the future we would be much more directive and interventionist.

Alex Neil: And you have the necessary powers to do that.

Clive Mulholland: We do.

The Deputy Convener: I have a very quick question on a matter that has arisen from Mr Neil's line of questioning. I presume that you could absorb some of the financial difficulties created by, let us say, Moray College by taking budget from Lews Castle College and sending it to Moray, could you not?

Clive Mulholland: In theory, we could. I do not think that Lews Castle College would be very pleased about that. What we have is a mechanism—a model for funding—that we inherited from the funding council when we became a regional strategic body. We have been transitioning into a model that we think is more appropriate for the Highlands and Islands, because the best people to make the judgment about what is needed in the Highlands and Islands are the people there: the boards, the universities and the colleges working together. We have been funded on a regional basis, and our role is to provide the regional educational opportunities. We can move funding around and change the model to incentivise and deliver on areas where there is need.

The Deputy Convener: There is a finite pot of cash, so when one college needs a cash advance you would have to pull it from somewhere else in the budget.

Clive Mulholland: We have pulled it out of the university, because the university is able to have reserves. Through the further education aspect, there are no reserves, but we can use higher education reserves that the university and partners have earned. We can use those for support, but the key challenge is not just providing the cash

advance but determining the root causes and trying to make sure that such an advance is not needed in the future.

The Deputy Convener: I accept that, but, just to be absolutely clear, if a college requires a cash advance to make it sustainable, you will use university reserves to make that advance.

Clive Mulholland: Yes. We can use those reserves.

Monica Lennon (Central Scotland) (Lab): I will begin by going backwards slightly. Peter Graham was quite frank in painting a picture of what had gone before, which I think that everyone would agree was pretty chaotic and dysfunctional. I am keen to hear what lessons have been learned and what difference the new board and the senior executive team are making.

It is fair to say that Anne Lindsay is the only person on the panel who has been at the college throughout. Will you say in your own words what the culture was like in the college? If the culture changed in that peak-chaos period, what was that change? Now that you have stepped up to be the most senior person, what leadership qualities and expertise have you brought, to change the culture?

Anne Lindsay: Of course, it has to be recognised that, since February 2016, we have a new principal, David Patterson, who is unable to be with us today. If he were here, I think that he would be informing you that we have done substantial work towards a new strategic plan. We have worked with and consulted staff, stakeholders and various groups to take that forward. A key part of the strategic plan is values, communication, culture and support for students.

On the finances, which we are discussing today, we have been working for 18 months or perhaps longer on our financial recovery plan. Now that we know our baseline and where we are, we are looking at taking forward our financial recovery plan. The plan has two streams and is based on growth through the university. We are developing at least two new degrees just now, which, obviously, we will share with our partners, and we have other plans to grow our HE numbers. We are looking to increase our commercial income, because we feel that we need to do that in the current environment. We are looking at taking forward various projects to increase our income, outside grant income.

Also, we have looked at reducing our costs. It was clear that our staffing costs were too high. Although this was not our first consideration, we very much tried to revisit the funding model, to see whether we could get more funding. However, we are where we are. The VS scheme that we have in place just now is one method. I have looked at our

staff costs: in the past 15 or 18 months, our staffing has steadily reduced and we have not filled vacancies to the same extent. We have very strict parameters that we use in that regard; we consider the impact on students, staff and service delivery.

Monica Lennon: I appreciate your expansive answer. I was keen initially to look back at some of the behavioural issues, because I want to be satisfied that the right skills and the right people are now in place. I wonder whether, from your experience, you can say which skills were lacking in the previous board and whether you are confident that the new board has the necessary skills to be effective in its role.

Anne Lindsay: With regard to the board of management?

Monica Lennon: Yes, the board.

Anne Lindsay: I have certainly noticed and welcomed a significant difference in the new board that was formed last August. I have been attending meetings only recently, after our principal went off on sick leave. I have just had two financial and general purposes committee meetings that were very rigorous and detailed. We talked a lot about our current position and where we sit with regard to the financial recovery plan. The board is very supportive, but there is an element of rigour.

Monica Lennon: Can you see what skills and experience might have been missing before, and what the difference is? You talked in quite general terms. I am looking for examples of the people who are on the board and what their CVs have brought to the role.

Anne Lindsay: Perhaps there is more knowledge and experience of finance matters on the board now. I think that the previous board would have recognised that.

Monica Lennon: Okay. Perhaps Peter Graham and Murray Easton will say what might have been lacking before and what you are bringing—

Murray Easton: Can I just offer—

Monica Lennon: May I just ask the question, please? What are you bringing to the board?

Murray Easton: Let me offer a little clarity. When I look back, the picture that I see—from what I have seen, read and understood from conversations—was not necessarily a chaotic situation. There was nothing to suggest that the college's books and records were not being properly maintained or that the procedures generally were inappropriate, nor was there anything about the capability of the board.

I know that this discussion has come out of the audit report for 2015-16, but the root cause was

2014-15, and, if we strip away everything else about process, procedures and people, we see that the financial model—the financial framework—under which the college was operating had broken down. That was the root issue—not the cause but the issue. In simple terms, we had got to a position where the cost base was exceeding the total income that was provided by funding and the commercial income that was generated by the college. The financial model had broken down, and that was what gave rise to the need for an advance of £368,000 at the end of 2014.

The issue around that was that information was of poor quality and was not being presented fairly and in a timely manner, so that, outside management, who were primarily responsible, the secondary lines of defence—that is, the board and the finance committee, UHI, the auditors and the SFC itself—were not able to see the issue unfold as it happened. It was only once we got to the end of the year that the size of the financial hole became real, and that is when people reacted. It could and should have been picked up earlier, but it was not.

By that time, the cash flow was negative. We had an end-of-year cash deficit. Two things need to happen at such a point: people have to try to fix the budget model so that they generate positive cash, and then they have to address the hole that they have already created. If that does not happen, the situation gets worse, and that is what happened in 2015-16. The size of the hole grew from £368,000 to £568,000—the amount of the advance. The rest of it was just about awareness and then resolution.

We now have a financial recovery plan that has addressed the issue and changed the business model for the college. We now have a two-and-a-half-year plan, so that, by the end of not the academic year ahead but the following one, we will be in positive income and generating positive cash flow. That was the core issue that needed to be fixed. It was not just about a chaotic context; the underlying financial model was broken. That is what management, with the current board, has addressed, and we are already halfway towards achieving the recovery plan.

Monica Lennon: Would a competent team have picked up the problems earlier?

Murray Easton: Absolutely. I am saying that, within the senior management team, I would expect the principal and the finance director at the time to have been sharing the information with the wider senior management team and with their finance committee and the board. That is what did not appear to happen—the sharing of the up-to-date situation and the bad news, and an understanding of the extent of the problem and

why it had occurred. If it could have been addressed earlier, the hole would not have grown deeper and deeper.

Peter Graham: Can I come back to your question relating to—

Monica Lennon: Yes.

The Deputy Convener: I will let you in, but I ask the witnesses to keep answers concise, as time is getting on.

Peter Graham: Can I come back to Monica Lennon's question about the ethos of the board? What Clive Mulholland is having to work with throughout all the colleges in UHI is an historical set-up that predates the revised education legislation. There was a team of people who had been there for a long time. To say that they were complacent is to use too strong a word, but people were relaxed and comfortable with the FD and the situations that were going on.

10:00

What Clive Mulholland has now, particularly at Moray College and probably as a result of all this, is a board that is much more structured around looking towards UHI and the future of that relationship. We are already discussing a unified accountancy package, which will be structured via UHI—we can see centralised services coming out of that, which gives some of the savings that people are looking for. However, I suspect that if change is imposed on college boards, it will meet resistance. I have been to a couple of further education regional board meetings, even in my new role as chairman. There are people who are stuck in their little class and saying, "I want, I want, I want", instead of, "Look, we're all in this together. We need to work this pie so that it is to the advantage of all".

Probably the biggest significant change on the board at Moray College is the willingness to move into the future in a proper and managed relationship with the UHI—the openness of the bookkeeping and the interrelationship with our new financial director. In the past two weeks, the financial director has already been to meet the UHI's FD. We have already discussed how we intend to move forward our finances. These changes of ethos, which I think is what you were asking about, are significant, because we are new to the game. We are not looking at the history, and we are not burdened by the relationships that there were historically. We have come in with a view. The reason that I have applied is because I want Moray College to be like Magdalene College in relation to the University of Cambridge, or something like that.

Monica Lennon: I was just hoping to hear that there has been a look back to the past, so that lessons have been learned and the same mistakes will not be repeated.

Peter Graham: Does that give you the answer to that?

Monica Lennon: We are getting there, thank you.

Mr Clinton, congratulations on your new job. We have not heard from you yet. The auditor found that the management accounts analysed the areas of overspend but did not provide explanations for the variances between budgets and forecasts, and also that there was a lack of audit trails. Can you reassure us today that all that has been improved and we will not see that complaint again?

Nick Clinton (Moray College): Yes, from what I have seen so far. I am just in the door a matter of weeks, so I have come in at a point where management accounts are being prepared and the budgets going forward are being looked at. There is certainly a narrative in place that was not there before.

I will be looking to expand on that and work closely with the F and GP committee, to understand what it wants. I will be looking at the reasons why and not just saying, "This is up, this is down, and that is a percentage of it." I will do some analysis and dig into it to find out what is actually going on and whether we need to take action or be concerned. As Murray Easton mentioned earlier, although the boards meet quarterly or so, there is a very direct line of communication whereby I will be in contact with Murray or the board if there is anything that I feel needs to be examined or brought to the board's attention. We will certainly ensure that, going forward, the board pack—the information—is robust, sound and has the narrative to go along with it.

Monica Lennon: What are you going to do differently from your predecessors?

Nick Clinton: Probably everything, to be fair, if we look at what did not happen back then. We are looking to understand the dynamics of the college and where the issues are. Clearly, we have a financial recovery plan, to which we are working. One of the big challenges and areas on which to focus is the non-funded income, which is very much at the forefront of my thinking. At a recent board meeting, we decided that there will be a committee, which I will chair, to look at getting new ideas to generate income, so that we pool those and push them forward, emphasising to the budget holders that as well as just saying, "I need this", they need to be having a more commercial outlook on things.

Monica Lennon: One of the witnesses this morning—I cannot remember who—said that it had been quite difficult to repay the previous advance all in one go. The most recent advance is almost £700,000. When is that to be paid back by? Is that part of the recovery plan?

Nick Clinton: As far as I have seen, yes. I know that there are staggered payments, from going back and looking at the cash flows that are done monthly, but all that is built into the financial recovery plan. Clearly, I am in the infancy of getting into the detail of everything just now.

Monica Lennon: Will that place a burden on the college's books? Mr Easton is nodding. Is it achievable to pay the money back in one year?

Nick Clinton: Yes. From the projections that we are looking at just now, and based on what has gone into the recovery plan, I make that assumption, but clearly until I am right into the detail I cannot give you a solid black-and-white answer.

Monica Lennon: Okay.

Another thing that I picked up from the Audit Scotland report is that a decision had been taken to delay property repairs, as a short-term funding measure. Mr Clinton, are you concerned that putting off repairing leaky roofs, for example, might lead to increased costs in future? What impact will the approach have on the value of assets?

Nick Clinton: There is potentially an impact, but I do not really have the background knowledge of what was or was not done in relation to capital expenditure or maintaining buildings.

Monica Lennon: Sure, but some risks are thrown up if you are putting off repairs.

Nick Clinton: Potentially, yes.

Anne Lindsay: A substantial round of maintenance work has been done. We have a very ageing building, of course, and it is expensive to maintain, but this year we have spent a considerable amount of time and money improving it. We have re-floored corridors, we have done a lot of painting and repair work, and we have put in new fire risk assessment work. Quite a bit of money has been spent this year on capital and maintenance.

Monica Lennon: What kind of repairs have been put on hold?

Anne Lindsay: We have a long-term maintenance plan, and to be honest, it is on schedule. We have some work that we are planning to do next year, once we have our capital maintenance funds for next year. I would not say that we are behind in our maintenance plan.

Our building is hugely costly. Our funding will never cover bringing it up to what we would like to see, to be honest. We just have to ensure that we do the best for our students and staff and, of course, that we do our best in relation to health and safety. We have a routine maintenance plan, on which our head of estates delivers, but the building is expensive to maintain.

Monica Lennon: What bearing does that have on the student experience? There are probably lots of investments and upgrades that you would like to do, to enhance the student experience. Is that a concern?

Anne Lindsay: Any college would love to do more for its students. We meet with our students regularly and have very good relationships with them. We have close links with our students, through many, many routes. We have just finished our learner survey for the year, and we are always very appreciative of the high praise that we receive from such surveys—we also know what is happening through other channels.

Monica Lennon: This is my final question, convener, which perhaps Mr Clinton and Mr Graham will pick up. What recent discussion have you had about the financial implications of the national bargaining commitments on pay harmonisation, terms and conditions and so on?

Peter Graham: As we have heard, the funding to the college comes from the UHI. In effect, the UHI is our SFC now, and we are discussing with UHI the impact of national bargaining. We are waiting to hear whether additional funding will be given to us in relation to that, but we have certainly taken the matter into account in our budget for next year, which we are in the process of moving forward. I do not think that a decision has been taken on whether the colleges are getting funding. There have been press releases and so on—I think there have even been some this morning. Clive Mulholland is probably more up to date on that than I am.

Monica Lennon: Just before we move on to Clive Mulholland, how much do you need?

Peter Graham: Is it £414,000?

Murray Easton: It is £400,000.

Monica Lennon: Is that for year 1?

Murray Easton: For next year.

Monica Lennon: Okay. What about for years 2 and 3?

Murray Easton: Who knows?

Monica Lennon: You do not know. Okay. Mr Mulholland, do you want to add to that?

Clive Mulholland: The only thing I can add is that, obviously, the funding that the college receives comes from the Government, through us. I cannot magic up any extra income, as such. We have been working across the partnership, modelling different things and looking at the impact of national bargaining. From a personal perspective, I think that it is the right thing to do. Like all organisations, we will have to figure out how we manage that as we go forward. Until we find out the final outcome, it is a case of guessing in the dark.

Monica Lennon: National bargaining is happening; it is settled. As employers, colleges will have to deliver on it. If the Scottish Government does not inject more money into the system to cover that—Colleges Scotland is on record as saying that it has concerns about the affordability—and you have to pick up the tab yourselves, will that create financial difficulties? Again, I am looking at Mr Clinton.

Nick Clinton: Absolutely, yes. We simply could not just add that to our cost base without having additional income.

Monica Lennon: It is national policy. It will have to be delivered. What would suffer as a consequence of not getting additional money?

Nick Clinton: I suppose that we would need to revisit the financial recovery plan and discuss it with the board, the other senior management and UHI.

Monica Lennon: Is that a risk that you are alive to, being very new in the role?

Nick Clinton: Yes. It is impossible not to be aware of it.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I would like to get back to the Auditor General's report on the college's performance to date. It was mentioned by the convener and others, and, I think, by Mr Graham, that the staff budget at the college was 72 per cent. The Scottish average is 63 per cent. However, the forecast is that the staff cost ratio will go up to 78 per cent. Is that accurate, and is that part of your financial recovery plan?

Murray Easton: No, it is not accurate. We have moved on with the recovery plan since then. I do not know what the percentages will be, but we did benchmarking exercises that suggested that our support staff figure was too high and that our academic staff figure was roughly in line with equivalent benchmarks. At the beginning of this academic year, we started with a staff base of 249 full-time equivalents. The last forecast for the average for the year had brought that down to 239, and that is now coming down to 234. We

have therefore made significant inroads into reducing the payroll budget.

Willie Coffey: The numbers that you have given me do not particularly help. The information that I have says that, for Moray College, the staff cost budget is 72 per cent of gross expenditure when the Scottish average is 63 per cent. Are Moray College's staff costs higher than the Scottish average?

Murray Easton: We have made interventions this year and there has been a reduction of 15 FTEs. I do not know what that will bring it down to, but it will bring us down well within the benchmark levels for other equivalents. I suggest that we will be back in line with, or below, the average.

Willie Coffey: Another statement here is that staff costs will increase to 78 per cent of gross budgets. Are you categorically saying that that is not the case?

Murray Easton: That is old information now. It has been superseded.

Willie Coffey: We can check that with others and come back to it. Can I start with the current position and look forward and give you a chance to tell us how things are going? I presume that the recovery plan is in place. Is everyone happy with it? Has UHI seen it? Has the funding council seen it? Is it approved? What is likely to happen in the next year?

Murray Easton: Yes to all the above. We have made a financial recovery this year. We started with an opening draft showing a bottom-up deficit, without any intervention, of 967, which was even greater than the deficit of around 800 for the past two years. By the time that the recovery plan had been put in place, which was around the end of the year, we had driven that deficit down for the current year to about 606. With on-going interventions and actions being fulfilled during the current academic year, the forecast in March had dropped the deficit to 515, and the latest one, as Nick Clinton presented, is now 460. We have therefore halved the deficit.

Willie Coffey: Are those figures hundreds of thousands of pounds?

Murray Easton: That is right.

Going forward, we are primarily dependent on the satisfactory support of the VS scheme and, if that comes through, we expect that it will give us in the order of, in full, about £350,000. You can see that the year-on-year deficit, all things being equal, would drop to around £100,000 by next year, and we plan to close that gap by further interventions within the college, largely around commercial income and other initiatives. For 2017-18, we project a deficit of only £150,000 and, by the following year, we project it being down to

around -£50,000 or even zero. We are halfway there already.

Willie Coffey: It is good to hear that. Can I hear UHI's assessment of the recovery plan? Are you satisfied with the figures?

10:15

Clive Mulholland: We have looked at the plan, and we have approved it in general. However, I return to what I said earlier about being much more interventionist. We are now going to put in place a support project board to work with the college, so that it can have additional expertise and we can have increased confidence that the recovery plan will be delivered. For example, Anne Lindsay, I think, mentioned growth and the new curriculum. We would want to be very much involved in helping to guide that work. We have the expertise to do that. You need to grow your income as well as manage your cost base. We will have a much closer, hands-on relationship with the college.

Willie Coffey: Anne Lindsay mentioned plans to grow HE numbers. Just before that, she said that one of the causes of the financial difficulty was a drop in HE student numbers. What is happening now? Are more HE students coming back?

Anne Lindsay: In one year, we had a very unexpected downturn. In the following year, 2015-16, we had a significant increase in HE numbers. In fact, we had record numbers of both HE and FE students the following year. Currently, our activity levels are beyond target on FE. Of the 18,097 credit target, we are delivering over 19,000, so we are very comfortable in terms of the student numbers. There genuinely was one year when our HE numbers dropped unexpectedly, and the following year there was a significant increase.

Willie Coffey: Good. Are your forecasts based on, say, 100 per cent achievement of your aims in the recovery plan? You also mentioned commercial income. Have you factored that into the recovery plan and assumed that you were going to get all of it?

Murray Easton: No, we have passed a judgement on it.

Willie Coffey: Sorry?

Murray Easton: We made an assessment of what is possible. We risked that and put in a certain proportion, which is around half of what we think is possible.

Willie Coffey: Okay. Is your assessment of the recovery plan that it is acceptable?

Murray Easton: Yes.

Willie Coffey: Okay. I see all the witnesses are nodding. Thank you.

The Deputy Convener: I would like to wrap up three very quick areas. Just so that I am clear about the current structure, is it correct that a new principal was taken on in March 2016 and is currently on long-term sick leave?

Anne Lindsay: Yes. He has been absent from the college since about April.

Peter Graham: He has a long-term illness. He has had a fairly serious operation, and he was told, at the time, that he was expected to be away for six to 10 weeks. It looks as though it will be slightly longer than that, but we hope to see him back in a part-time capacity within the next couple of weeks, building up to full time, probably, by the end of July.

The Deputy Convener: Reporting to him are Anne Lindsay, as assistant principal, and another, who is Tom McGarry.

Anne Lindsay: Yes.

The Deputy Convener: Presumably, the assistant principals will be very important in driving this process forward.

Other than the previous director of finance, who we heard about earlier, has anyone else left the college, whether by settlement agreement or otherwise, as a result of the performance and finance issues?

Peter Graham: A number of board members.

The Deputy Convener: But no one—

Peter Graham: What was the cause of the principal leaving? Was it direct?

Anne Lindsay: It was managed, yes.

The Deputy Convener: That was going to be my next question. The previous principal—I think that they were there for seven or eight months—

Anne Lindsay: There was a compromise agreement around the departure of the last principal.

The Deputy Convener: Okay. The last principal left under a settlement agreement. The director of finance left under a settlement agreement. Has there been anyone else?

Anne Lindsay: No.

Peter Graham: I am not aware of anyone else. I was not there, but I have not heard of anyone else.

Anne Lindsay: No. I am not aware of anyone else. I do not recall anybody.

The Deputy Convener: Okay. Thank you very much for coming along and for your evidence. I

suspend the meeting briefly to allow for a changeover of witnesses.

10:19

Meeting suspended.

10:22

On resuming—

“The 2015/16 audit of Lews Castle College”

The Deputy Convener: Under item 3, we will take further evidence on the 2015-16 audit of Lews Castle College, which is based in the Outer Hebrides. I welcome Iain Macmillan, the principal of the college, and I welcome back Clive Mulholland and Fiona Larg of the University of the Highlands and Islands. For clarification, the UHI is the regional strategic body for Lews Castle College, as it is for Moray College.

I will briefly set out some background to this evidence session. Lews Castle College has failed to meet its further education targets for eight years, albeit by a small margin and with extenuating circumstances in some cases. According to the Auditor General’s report, in one of those years, the Scottish funding council or the UHI sought to recover funding from the college.

We will explore how the college spent the public money that it received for activity that it apparently did not deliver; what role the UHI played in supporting or challenging the college; the impact of the college’s underperformance on other colleges within the UHI region; and how the college will now ensure that it delivers the appropriate volume of learning for its students.

I invite Iain Macmillan to make an opening statement.

Iain Macmillan (Lews Castle College): Thank you, convener. I will take a couple of minutes to set some of the context. As a college, we submitted a one-page summary of the actions that have been taken recently by the new board, to show the steps that we have been taking to address the issues that the Auditor General outlined in her report.

The college has a new board in place, and the independent members of the board have been appointed by the UHI. The new board has been fully in place since last September, so we are just coming to the end of its first full cycle of activity. The board is very focused on the challenges that the college faces, particularly with regard to student recruitment and the impact that failure to meet student recruitment targets has on the finances of the college.

In addition to conducting the formal board business, the board has met separately to consider specific issues relevant to the sustainability of the college. In those sessions, we focused first on risk and developing and upgrading the risk register for the college. Subsequently, we met to discuss curriculum and to develop a curriculum action plan that would change the way we delivered curriculum in the college as a result of the challenges that we face. A further such meeting is planned for early August to consider finance and to develop a financial strategy response to take account of all the challenges that we face and to ensure that, in future, we have everything in place so that we are able to respond to the changes in our action plans. It is all very well to plan to do something, but we are in a fairly volatile situation and, because we are very small, small changes have quite a significant impact on us. We are conscious that we have to develop a plan that is able to respond to particular scenarios, so we are looking to do that in August.

A key part of the finances for the college is the allocation model that is used for further education activity. The introduction of a new system in 2015-16 simplified the model. Quite a number of complexities in the previous funding model were lost as a result, and that has caused us difficulties in the Highlands and Islands in particular, because we receive funding and activity from the Scottish funding council, but we have had to develop a mechanism to allocate the funding and the activity.

Funding was fairly straightforward to the extent that, because the funding council had allocated the same amount of funding to the region, the same amount of funding was allocated to each college. However, the activity levels were a bit more complex and it took us, as a region, with the help of the funding council, until the autumn of last year to put in place a model that allowed that activity to match the funding. For 2017-18, we have new allocations of activity, which have reduced Lews Castle College's activity to the level that we have been achieving in the past two years. As a consequence, we have had a reduction in funding, which we have factored into and been able to accommodate in our budgets going forward. As with all these things, it will be challenging for us to meet that, so that is one of the reasons behind our strategic work in August on the budgets. It is important for the committee to understand that we are moving forward, that we are recognising these observations from Audit Scotland and taking them seriously, and that we are responding and will continue to respond.

Colin Beattie: I would like to talk a little bit about governance. The college has been underperforming now, to a greater or lesser extent, since 2008-09. What action did the board take about that?

Iain Macmillan: The college has been underperforming in terms of student activity levels. We are conscious of the challenges that we face in terms of the demographic changes that are occurring in the Outer Hebrides. The board considered some additional strategic responses, particularly in regard to curriculum, employer engagement, student engagement and marketing.

10:30

Colin Beattie: But the Auditor General says that those strategies did not work.

Iain Macmillan: They did not work in attracting the level of students that we needed. Again, some of the strategies that we could put in place will not halt some of the demographic changes.

Colin Beattie: It says in the report:

"there is little evidence of the board taking effective action".

Are you able to comment on that?

Iain Macmillan: There is little evidence of the action that the board took resulting in an improvement in the situation—I think that that is fair to say.

Colin Beattie: The UHI came on the scene in the latter part of the period of underperformance. At what point did you become aware that there was a problem, and how?

Clive Mulholland: If you look at the position of the college—this is picking up from where Iain Macmillan left off—you will see that it is in quite a fragile area. Its funding until 2015-16 came directly from the funding council, so a model has been in place for a period. We have taken that over and continue to fund at the minute based on that model. However, we as a region are looking at whether that model is appropriate for us in the Highlands and Islands. We are aware of that and we are aware that the college is not necessarily underperforming but may be overfunded. If we had stripped out that overfunding straight away, the college would be in an incredibly difficult position. There is the context therefore of the environment in which it sits. However, that does not mean that we should not be doing anything. We are starting to take action now. Through the further education regional board, which allocates the FE funding, we are looking at what the appropriate amount of funding is for this college and other colleges.

Iain Macmillan mentioned the demographic difficulties. We know that they are there and, with the college, we are starting to look at how we address those. The technology that we use in the UHI enabled it to exist in the first place. We use a lot of what is called network teaching. We have the opportunity to start taking the college out from the Hebrides and to teach across Scotland rather than

trying either to attract students in the Hebrides or to bring students in. We are starting to work to become much more sustainable.

Those are the plans that we are now starting to look at with the college. We are saying, "Right, where are the areas that you've got expertise?" For example, with traditional music, we can start to teach out from there. We recognise that there is an issue around funding but, if we had just funded based on the model, then, given its activity levels, the college would be in a very difficult position. We are looking at this on a regional basis with the college as part of the university.

Colin Beattie: When did you become aware that there was a problem?

Clive Mulholland: We have been aware since we saw the 2015-16 figures that there is a difference between the activity and the funding. We have been aware of that since we inherited that model from the funding council.

Colin Beattie: Did the funding council know about that?

Clive Mulholland: Yes.

Colin Beattie: It was aware that it was subsidising the college.

Clive Mulholland: I am sure that it was. I cannot comment for the funding council, but we just adopted the model that the funding council had.

Colin Beattie: Clearly, there are certain colleges that might, as you say, be in a fragile area and need a bit more support. Do you think that the college is capable of being turned around from a financial point of view?

Clive Mulholland: Yes, I do. It requires the support of the university to be able to do that. We need to look at new ways of working. For example, we are looking at having shared services. At the minute, we do more videoconference teaching than anybody else in Europe. Shetland College runs that for us. We have an opportunity to look at services and try to support the local college. We could put services in different colleges that are in difficulty. I am not saying that that is the whole solution, but that is part of the solution for dealing with a region that is quite fragile. I think that we get our strength from being part of a larger grouping through the university, rather than being colleges that operate in isolation. Colleges can access some of the capacity and capability that might be missing in a very small college.

Colin Beattie: My understanding is that the board consists of 13 members. Is that still the case?

Iain Macmillan: That is correct, yes.

Colin Beattie: That seems quite big for a small college.

Iain Macmillan: Thirteen is the minimum that is required by the Post-16 Education (Scotland) Act 2013.

Colin Beattie: The Auditor General's report says that there has been quite a turnover, although that is obviously a little bit historical now. At that point, seven experienced members had left, including the chair. Are the remaining six still on the board?

Iain Macmillan: Yes. I think that three of the independent members who were on the previous board are on the current board. The remaining members on the current board were staff members, and of course me.

Colin Beattie: Obviously, the previous board did not respond particularly well to the situation and failed to take the action that was required. Is the current board fully informed and engaged in taking the action that is required? Has UHI actually signed off on a recovery plan?

Iain Macmillan: The new board is fully engaged. It is taking a more active role in what we are doing, in an operational sense, to respond to the problem. In terms of our recovery plan, the information that we have put together on how we, as a college, have dealt with the reduction in funding has been passed to the UHI. It has been approved and has been through the committee process within the UHI. As far as I am aware, it has been accepted.

Colin Beattie: The UHI has approved the plan. Do you have to send it to the funding council as well? Is it engaged in this at all, or is it handled at regional level?

Clive Mulholland: This is handled at regional level, because we are the regional strategic body. The main role of the regional strategic body is to ensure the provision of further education in the Highlands and Islands. It is not necessarily to preserve the colleges, although the colleges are obviously the main delivery vehicles for that. Our main responsibility is to ensure the provision of further education in the Highlands and Islands.

Willie Coffey: Good morning to you. The last time the committee discussed this issue, I tried to spring to the defence of the college a wee bit in recognising its size. I questioned—reasonably, I think—whether it is really fair to apply the regional characteristics, targets and so on to a college like this in the Western Isles. I want to give you, Mr Macmillan, an opportunity to tell us about the kind of issues that small, rural colleges face. What we are hearing from UHI, quite fairly, is that there are all sorts of interventions to help, but that kind of

tells me that the model does not really work hugely well for your college.

Iain Macmillan: It is a very difficult one; I realise that, and it is probably something that I could talk about at length. One of our challenges is that although we are the smallest incorporated college—we are tiny, certainly in comparison with large regional colleges—there is an expectation that we will engage at national and regional level in exactly the same way as larger colleges do. We do that—we engage at regional and national level; but it probably takes a disproportionate amount of the college's time and resource to contribute. It would be useful if there were something in the funding regime that recognised that. Basically, we are funded on a per capita basis—for the number of students that we have. Within that—from that very low base—it is difficult to fulfil all the requirements, from governance right the way through to contributing at all the different levels. I recognise, from doing that and being involved in a lot of discussions at national level, that it is very hard to put in place one mechanism that satisfies the requirements of a large regional college and of a college like ours. We have a voice at regional and national level and we try to influence that; whether anybody listens is a different matter.

Willie Coffey: We compared Edinburgh College and Lews Castle, and the same sort of criteria applied to Edinburgh as applied to you. Some colleagues around the table were, well, if not surprised at that, just a bit concerned. The notion that you were seen as failing for eight years in a row sat a wee bit uncomfortably with me because of those criteria.

My colleague Colin Beattie asked whether you had to have 13 members on the board, and you said that you had to because those were the rules. It seems to me that we need a flexible approach that recognises the obvious differences in places such as the Western Isles.

Iain Macmillan: What we have, in the regionalisation process and in the changes that have come to us, is an opportunity to compensate for the challenges that we have as a small college by linking in to services that are available from the university or other colleges in the Highlands and Islands.

There is a need for us, as colleges, to work more closely together. Clive Mulholland, I think, spoke about sharing services. There is an assumption that sharing services is always about back-office services, but we already share, to a large extent, teaching; we certainly do across higher education and we will be looking to do that more and more at further education level. We will be looking to develop curriculum collectively so that each college is not developing the curriculum individually for itself.

There is expertise that we all need, whether financial, legal or in marketing. We need to be able to share that because Lews Castle is probably too small to function independently from colleges in the rest of the region. There is a need for us to work together. We have recognised that for a long time but, as islanders, we also protect our autonomy, maybe more than most. Therefore, there is a need for us to find an accommodation with partners that allows that to work well.

Willie Coffey: Do you find that you need more assistance by way of technology, online capability and so on to deliver what you do, much more so than perhaps Edinburgh might?

Iain Macmillan: We have well-developed expertise in using technology, because we realise that that is what will keep us sustainable. The college has played a significant part in developing the university and, in particular, network courses. At one time, a disproportionate number of the courses offered across UHI were led from Lews Castle because we recognised that we needed to do that. Clive Mulholland identified earlier the opportunity for us to provide some of that learning and teaching from Lews Castle to other people. Because we recognise that need, we are probably better placed and more motivated to make use of technology and break new ground. We have been doing that quite significantly, and I expect that we will carry on doing so.

Willie Coffey: Do you have decent broadband speeds that allow you to participate fully and properly?

Iain Macmillan: We are getting there. The broadband debate is an interesting one. We have first-class communications into the college sites, and there will be some improvement over this summer, but there are plenty of issues in individual pockets in the islands.

10:45

Willie Coffey: If you were to capture all of this and make a recommendation for change, assistance or something that would help your college, what would it be? Would it be to break free of the straitjacket of the one-size-fits-all approach?

Iain Macmillan: If somebody could sort out the VAT landscape so that we could provide services between individual colleges and individual colleges and the university, that would open the door to a whole load of sharing that we currently cannot undertake without incurring a 20 per cent VAT charge. I am an accountant by profession so, for me, that is the one infuriating thing that is really blocking us from addressing some of the bureaucratic challenges that we have. If

somebody could unlock that door for me, I would be really grateful.

Willie Coffey: Just to pick up on that a wee bit, what do you mean? You are constantly paying VAT for service sharing or—

Iain Macmillan: Yes. It is because we are separate organisations. Except for teaching, because education services provided directly to students are exempt from VAT, all other services incur a VAT charge of 20 per cent.

Willie Coffey: Why would you be particularly damaged by that compared with other colleges?

Clive Mulholland: Can I come in here? For some of the support services, such as student support, we are looking at whether we can provide a unified service across the whole region for all the colleges. We think that we can do that much more efficiently and actually improve the quality, because we will get better consistency. The problem is that there is a 20 per cent VAT charge on every partner straight away if the university provides it, so there is an extra 20 per cent saving on top to make before you even start to make savings. I think that that is what Iain is referring to.

Willie Coffey: How do we address that?

Clive Mulholland: HMRC.

Iain Macmillan: We are working on it.

Willie Coffey: You are working on it.

Iain Macmillan: Yes.

The Deputy Convener: Thank you. On a point of clarification, Mr Macmillan, you said that you are an accountant by trade. Currently, you are the principal and chief executive; and you are also the senior financial officer, I believe.

Iain Macmillan: Yes. When I was made principal, we did not replace the director of finance post. We have a finance manager, so we do have a professional accountant who looks after the day-to-day operational finances.

The Deputy Convener: Just for clarity, am I right to say that, in effect, you are doing all three roles: principal, chief executive officer and director of finance?

Iain Macmillan: At the highest, strategic level, yes. I do not play any part in the day-to-day operations but—

The Deputy Convener: Do you envisage that continuing?

Iain Macmillan: When I took on the role, we expected that we would be able to move fairly quickly to a shared services situation within UHI and that some of the financial expertise that I am currently providing would be available from

somewhere else within the network. I do not believe that we need a full-time finance director. What we need is that other brain and other viewpoint, which we would be better getting from somewhere else within the sector.

The Deputy Convener: Just to be absolutely clear, do you envisage it continuing?

Iain Macmillan: For the short term, yes; until we can find a solution.

Alex Neil: Can I just go back and build on Willie Coffey's points? We are here because the Auditor General has done a report saying that, for the past eight years, you have not met your targets, essentially. Obviously, for colleges, unlike universities, the main catchment area is the local community. I suppose that that is even more true of an island community. We are all very well aware of the demographic challenges—population changes, age structures and so on—particularly in island communities, and the Hebrides has had more challenges than most. May I start from the beginning? Who sets the targets? On what basis are the targets set? Are the targets realistic for an island community such as that on Lewis?

Iain Macmillan: From my point of view, the targets have been too high, but the funding that we receive relates directly to the targets, and the amount that we receive is what we need to sustain the level of activity that we have in the college. With this new model, we have started to move away from the way in which things have been traditionally. I would say that the targets are too high, but I would not want to see all the money that directly relates to the targets being taken away.

Alex Neil: I can absolutely understand. I worked in the old Cumnock and Doon Valley District Council—fortunately, I did not work for the council. I remember that the then chief executive—this is 30 years ago, I was very young at the time—used to complain about the Scottish Office looking at the funding for graveyards in rural areas in exactly the same way as it looked at the funding for graveyards in urban areas. It was a lot cheaper per unit, if I can put it that way, to maintain a graveyard in an urban community than it was in a rural community, because in a rural community there were 16 major settlements and every village wanted to retain its own graveyard, ergo the costs of doing so were much higher.

I have two questions. I think that you have answered the first one by saying that the targets are too high. What input do you or your board have into the setting of the targets? I presume that it is the SFC who set the targets originally? Is it an iterative process, or are they handed down from on high in Edinburgh—it decides what the targets

are, end of story? What is the process for setting the target?

Iain Macmillan: Traditionally, up until this year, our targets have been very much based on targets that were set a number of years ago. If I am correct, 2010-11 was quite a major change point for the FE sector for funding and activity. All the activity levels that we have had since have been based on the position in 2010-11. There has been so much change in the sector since then—as a result of regionalisation et cetera—but the targets have not really been revisited.

Alex Neil: The targets were set by the SFC.

Iain Macmillan: Yes.

Alex Neil: Did you have any input into the targets at the time?

Iain Macmillan: In terms of setting them, no, not really. You would look at them and say that you accepted them. We have always had the opportunity—or did in the past—to say yes or no to the targets, but it is one of those questions to which the answer has to be yes, because you do not really know what the consequences of no are.

Alex Neil: That is my point; you would be nervous about saying, “We can’t accept that target,” because then your funding would be cut. The second point, and this is where the analogy with the cost of graveyards in Cumnock and Doon Valley 30 years ago comes in, is about the unit cost of delivering a quality further education service in Lewis where, by definition, you have far fewer people—or units, if I can put it that way. It is a lot easier in a bigger college to reduce your unit cost because there are maybe 20 or 30 people in a class, whereas you would be lucky to get five or six people—maybe 10—in a class.

Are you saying, first, that the original targets were probably unrealistic to start with, and you did not have much of an input to them; and, secondly, that there is not sufficient recognition of the additional cost of delivering FE in a community such as Lewis? Would that be a fair comment?

Iain Macmillan: It is a fair comment. There are mechanisms within the funding process. We have been in discussions and we do get a premium for remoteness and rurality.

Alex Neil: But is it sufficient?

Iain Macmillan: No. One of the challenges in looking to do things at a national level is that there will always be a difference of view or opinion between urban and rural. Finding the right balance will always be difficult.

Alex Neil: Is it your opinion that, although there is a premium it is not—if I can put it this way—generous enough to recognise the reality of the cost pressures that you are under in a remote rural

island community with a very small catchment and an ageing population? Am I right in saying that Lewis still has a falling population?

Iain Macmillan: Yes. Let us assume that, for full-time courses, the average class size is 20; the highest average class size that we have had over a year has, I think, been nine. In theory, therefore, it costs us twice as much per student to deliver courses, but we do not receive twice as much funding per student.

Alex Neil: Obviously some of that can be addressed by sharing services in the future, but it seems to me that there is a fundamental in-built unfairness if targets do not reflect the reality of the situation and if the subsidy or the money that go to the college do not reflect the true additional cost—particularly unit costs—of being in a remote rural island community. It seems to me that we need to get those fundamentals right before we can judge whether the college is performing properly or not.

Clive Mulholland: Can I come in there from the university’s perspective? We are funded for further education on a regional basis.

Alex Neil: I am not blaming you, by the way.

Clive Mulholland: I am going to come on to that. I have an ask.

We are funded on a regional basis, so even though the college has underperformed and has not met its targets, the region as a whole has; in fact, it has overperformed. Our responsibility is to look at the situation on a regional basis. However, when the region includes colleges like Lews Castle College that are in very fragile areas, there are difficulties, and education is more expensive to deliver. If we had taken the decision, when the funding model came to us, to fund the college based just on activity levels, it would have had a catastrophic effect on the college.

We have to do two things. First, we have to try to reshape the college to get it to a better position. The other thing is this—and this is the ask. We argue that it becomes a political decision about what you are willing to fund, because the college may never be completely self-sustaining in its own right. That might be possible for the college as part of a larger organisation, but we argue that because of the additional teaching costs we should get increased funding for each student. It follows that, if you make that political decision, you support regional development.

Alex Neil: On wider economic issues, every successful Government’s policy since the Parliament was established has been to do what we can to increase the population and, especially, to retain younger people in the island communities. Therefore, reducing in any way the quality and range of services that are provided by

a college such as Lews Castle College will work against that policy because, clearly, the age profile of people who go to college is younger. It seems to me that we need to be very clear about the wider policy issues in relation to a community like Lewis. Inverness is at the other end of the spectrum and is supposedly the fastest-growing city in the UK, if not in Europe. Therefore, as you say, UHI is dealing with Inverness at one end and Lewis at the other and it has to be recognised that the two are in completely different scenarios.

Clive Mulholland: The primary purpose of the UHI being set up was to stop the drain of young people out of the region.

Alex Neil: Exactly.

Clive Mulholland: It was absolutely clear that when young people went to the central belt or elsewhere for education, they never came back.

Alex Neil: That is right.

Clive Mulholland: We have been very successful in retaining them, but that comes at a cost. In a regionally dispersed organisation, the costs are much higher; we have to maintain 13 libraries, 13 learning and resource centres and all that goes with them.

Alex Neil: The answer is for us to get control of VAT here and then abolish VAT on the cost of services between the colleges. That might fund the additional resources that we need for colleges such as Lews Castle College.

Clive Mulholland: If you could get rid of VAT, we would be delighted.

Alex Neil: Unfortunately, at the moment, we do not have control over VAT—but I am sure that that will change, Liam.

The Deputy Convener: Is that relevant, Mr Neil?

Alex Neil: Of course it is. It is relevant to what the witnesses were saying.

The Deputy Convener: We will move on.

Monica Lennon: I want to pick up the discussion that Alex Neil has led so capably. We settled on the point that what is set nationally will not always work at the local level. Has the college or UHI made a case to the Scottish Government about that apparent mismatch?

11:00

Clive Mulholland: Yes. I take every opportunity that I can to say—my colleagues across the partnership say it, too—that we face very big challenges that are unlike those that are faced by other universities in Scotland.

Monica Lennon: Do you think that the Scottish Government recognises those challenges?

Clive Mulholland: Yes, I think that it does. I think that everybody recognises the challenges. The difficulty is in what to do about them.

Monica Lennon: Thank you.

I know that previously a large number of your students were part-time learners and older students. Given the change in national policy, what are the learning opportunities for students who are over 24 in the island communities?

Iain Macmillan: We still have a wide range of learning opportunities, but what has happened as a result of the changes is that we have had to focus more on our full-time courses. Our resources are being taken up by the full-time courses, so we do not have the capacity to develop new activities for other groups. We have been working at building that activity back up again and trying to make sure that we are providing interesting and useful opportunities for people. In the past we were offering courses when nothing else was available, so it was a lot easier to attract people to come and do them, but we now have to be a bit more innovative and make things more interesting in order to attract people to come in. That has been difficult in the financial climate that we have had.

Monica Lennon: I am sure that, as part of the work that you are doing, you are always taking the needs of local employers into account. Are you able to say something about the local labour market and any change in trends since the new policies came into effect?

Iain Macmillan: Yes. We have been touched particularly hard, I think, by the downturn in the oil and gas industry. We have very good pathways through to qualifications on the engineering side of our activities that provided good opportunities, for young people in particular, to be trained to work in the oil and gas sector. Many of those people went to work offshore, but they maintained their homes and families on the islands. That has been a difficult transition for us because the assumption, particularly among young people in terms of their aspirations and perceptions, is that that tap has just been turned off, which it has not.

There are still opportunities in oil and gas but, unfortunately, much of the media coverage is about oil and gas being in crisis and about big reductions. That has resulted in fewer young people wanting to take engineering qualifications. We are looking to address that and to encourage more people to get back in there, because there is still work; there will be work available for them.

We have had particular challenges in respect of the construction trades and industry. There are

quite a number of courses that we still offer, but in which the numbers are getting so small that it is becoming very difficult for us to maintain traditional construction industry trades courses. We are working with the trade bodies and companies to try to do something about that.

Monica Lennon: That is helpful. I will finish. Are you getting support from the industries themselves? I know that the Audit Scotland report talked about how your marketing efforts have perhaps not been effective. Is there more that the industry can do to support your work?

Iain Macmillan: Yes, there is always more that the industry can do. We will not be able to train apprentices if they are not actually taken on by companies. Companies have, at times, been finding it difficult to even recruit traditional apprentices because—again—there seems not to be the motivation to go into an industry that is perhaps seen as uncertain and in which work is not guaranteed.

Monica Lennon: Thank you. That is helpful.

The Deputy Convener: I have a great deal of sympathy with the points that my colleagues make about the numbers and how it is all arrived at. My difficulty is that the college has effectively been funded for eight years—or, if you like, on eight separate occasions—in excess of what it needed for it to deliver. There has to be an argument that somebody is funding that and that the other colleges are almost subsidising that shortfall. That begs a question of UHI. As I understand it, you recovered that funding—which is, if you like, overspend—on only one occasion in eight years. Why did you not recover the money? Who made the decision, and based on what criteria?

Clive Mulholland: UHI was not responsible for that funding before 2015-16. The Scottish Funding Council funded the college before that.

The Deputy Convener: I was going to ask about the SFC afterwards, so perhaps you could deal with that now.

Clive Mulholland: The SFC funded the college, so that is a question that you need to ask it. We are aware of the situation that the college is in. The problem is—as I said—that if we were just to claw that money back instantly from the college, it would have a huge impact on it. We do not want to do that. We want to work with the college to develop as sustainable a model as we can. Again, that is another reason why you have a regional university and all the colleges within it.

The analogy that I would make is to a traditional university. The situation is a bit like that. There are some faculties that are seen as the cash cows and they support the others; for example, engineering and the business faculties quite often cross-

subsidise humanities faculties. In our case, we work together as a collective of all those; with 13 partners, we will always be in a position in which some are up and some are down, because the local challenges are very different at different times. As a group and an institution like that, we have to try to manage that process.

Ideally, I would like every college to be self-sustaining and to deliver a surplus that we could use to reinvest in the business, but there are certain restrictions on us. One way of dealing with that is for us to get better at what we do. As I said earlier, the other way is to push harder for additional funding for the region and to get recognition of the fact that it is more expensive to deliver across large parts of our organisation.

Iain Macmillan: Can I comment on that? I understand what the deputy convener is saying, but I have difficulty with some of your wording because it suggests that we are, because we are spending all the money that we receive, somehow using money in a way that is improper. We spend the money on delivering the learning and teaching that we offer across the piece. We are not using the money in an improper way; we are using the money to the best effect that we can in terms of what we offer. The reality is that if UHI or the SFC were to take the money back, they would find that we have spent it on delivering services. It is not that we have that money sitting somewhere or that we are not working for the benefit of our students—albeit that there are not as many of them as in the targets that have been set for us.

The Deputy Convener: I certainly did not intend to imply anything like that; let me give that reassurance.

Mr Mulholland made a good point, but is there not a risk that other colleges in the fold will look at what has happened over eight years as almost a disincentive for them to meet their targets? Irrespective of whether you were able to do so, they will be looking at the situation and saying that UHI recovered the overfunding—if I can put it that way—on only one occasion out of eight years, so why should they strive to meet their targets? Why could they not just do the same thing?

Clive Mulholland: I can answer that. We now have a process in place. It goes back to some of the questions that, I think, Mr Neil was asking earlier about involvement in setting the targets. We inherited the model from the funding council. In relation the seven years before that, you would have to ask the funding council.

We inherited the model and we are in a transition at the minute. We did not want to do anything that would put one of the colleges in peril and at risk. We now have a process in place, through our further educational regional board. All

the partners can input to that, and they determine how they will allocate the resources among the partnership. We are reducing the credits that are given to Lews Castle College; that is a deliberate decision. We are moving away from the status quo, but we want to do it in a managed way. As you suggest, I do not want us to be in a position in which people think that they can just sit back, so we are changing that process. The process will continue to evolve over the next couple of years as we refine the funding model.

The Deputy Convener: I have one final question, just to wrap up. Are you aware of other colleges in the fold that are experiencing difficulties in achieving their targets?

Clive Mulholland: Some of them are quite close to that, but—again—that is a reflection of their fragile environment, and it is a reflection of the financial environment that we are in, at the minute. None of them, however, is in the position that Moray College is in.

The Deputy Convener: Thank you. Colleagues have no further questions. I thank the witnesses.

11:11

Meeting continued in private until 11:30.

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