



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 13 September 2018

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.parliament.scot or by contacting Public Information on 0131 348 5000

Thursday 13 September 2018

CONTENTS

	Col.
INTERESTS	1
DECISION ON TAKING BUSINESS IN PRIVATE	1
“SCOTLAND’S COLLEGES 2018”	2

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
19th Meeting 2018, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Bill Bowman (North East Scotland) (Con)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Iain Gray (East Lothian) (Lab)

*Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Angela Constance (Almond Valley) (SNP) (Committee Substitute)

Caroline Gardner (Auditor General for Scotland)

Mark MacPherson (Audit Scotland)

Mark McCabe (Audit Scotland)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 13 September 2018

[The Convener opened the meeting at 09:00]

Interests

The Convener (Jenny Marra): Good morning, and welcome to the 19th meeting of the Public Audit and Post-legislative Scrutiny Committee in 2018. We have apologies this morning from Colin Beattie, and Angela Constance MSP is attending in his place.

Item 1 is declaration of interests. I invite Angela Constance to declare any relevant interests.

Angela Constance (Almond Valley) (SNP): I have no interests that are relevant to this committee.

Decision on Taking Business in Private

09:00

The Convener: Item 2 is a decision on taking business in private. Do members agree to take items 4 and 5 in private this morning?

Members *indicated agreement.*

“Scotland’s colleges 2018”

09:00

The Convener: Item 3 concerns Audit Scotland’s report, “Scotland’s colleges 2018”. I welcome our witnesses: Caroline Gardner, Auditor General for Scotland; Mark MacPherson, senior manager, Audit Scotland; and Mark McCabe, audit manager of Audit Scotland. I invite the Auditor General to make a short opening statement.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. This report provides an overview of the college sector in Scotland, in particular the state of college finances and the learning outcomes for students.

The report identifies a slight improvement in the financial position of Scotland’s 20 incorporated colleges in 2016-17. However, that masks significant variations between colleges, with several facing financial challenges. Colleges are forecasting that their expenditure will increase faster than their income between now and 2020-21, leading to a growing financial deficit across the sector.

Staff costs are increasing, and the full impact of harmonising pay and conditions is estimated to cost an extra £50 million a year from 2019-20. Government funding decisions after 2019-20, along with cost of living increases, could add significantly to the financial pressures on colleges.

The Scottish funding council commissioned a college estates condition survey in 2017, which estimated a backlog of repairs and maintenance of up to £360 million over the next five years. The Scottish Further and Higher Education Funding Council is providing £27 million of capital funding to colleges in 2018-19 to tackle very high-priority repairs.

With the financial pressures on colleges, it is essential that they plan effectively. Colleges’ financial forecasts do not currently provide a reliable picture of the future financial sustainability of the sector, and the funding council and colleges need to address that as a priority.

The sector continued to exceed its targets for learning activity and student places. A high proportion of college leavers continued to enter positive destinations, such as training, employment and higher education, and student satisfaction remained high. However, in spite of colleges’ efforts to tackle the barriers facing students from deprived areas, the gap in attainment between students from the least and most deprived areas is growing.

Finally, this year’s report looked at the operation of regional strategic bodies in the three multi-

college regions. The regional strategic bodies have developed at different rates. There has been some progress since 2016, but the regional arrangements vary in how well they are meeting the wider aims of regionalisation.

Alongside me are members of the audit team at Audit Scotland, and we are happy to answer the committee's questions.

The Convener: Thank you, Auditor General. I invite Iain Gray to open questioning for the committee.

Iain Gray (East Lothian) (Lab): Auditor General, I think that all members of the committee are pleased to see that this year's report on colleges shows an improvement in the financial position of the sector, because, over recent years, that has been a concern with regard to the annual report. The news is good, and we should acknowledge that. However, you sounded some concern there about the financial position moving forward and I want to explore that a little further.

The report appears to indicate two problems or challenges, one of which involves capital. Some colleagues will pursue that in a bit more detail but I want to concentrate on revenue funding for colleges. Paragraph 29 of the report contains the funding council's recommended assumptions that colleges could use for longer-term planning. One is about capital maintenance; one is about the teaching grant, which, it says, will stay the same; one is about the cost of national bargaining, and says that colleges should receive some support in the next couple of years but that that will reduce to zero; and the fourth one is that

"colleges should factor in a 1 per cent increase for pay awards."

However, as the report points out, that is not a realistic assumption. How serious is the problem that the college sector faces on the basis of its current position and those assumptions?

Caroline Gardner: I think that it is serious, and that is one of the main messages of the report. The first thing to say is that, although we have seen an improvement in the overall financial position, it is a very slight improvement that represents a very small surplus across the sector as a whole, and colleges are operating within very tight margins, so they do not have much room for manoeuvre.

The three areas that you highlight are all significant parts of their costs. Briefly, on the capital costs, the overall backlog is about £360 million. This year, there is £27 million of funding for the very high-priority repairs that are required. That is a big gap and it is unlikely to be closed in the short term by similar levels of capital funding going in.

Beyond that, as we know, staffing costs are by far the biggest element of the costs that colleges have to meet. We do not know how the costs of harmonisation will be met after 2019-20. As you say, Government pay policy has moved on from the very tight restraint that we have seen over the past few years, and 1 per cent feels like a very tight assumption to be using, looking ahead. Those are the reasons why we think that the financial forecasts are not as reliable as they need to be. Even if colleges were using those assumptions they would be tight, and we know that some colleges have used their own assumptions because they think that their circumstances are different, so we do not have that clear a picture of what it means in practice.

Iain Gray: What do you think would have to happen in order to provide a sounder foundation for the sector?

Caroline Gardner: I think that there are two things. One concerns the fact that the Government is gradually moving towards providing a clearer picture of its medium-term financial outlook. We saw the publication of the medium-term financial strategy back in May. That contains a lot of information about likely tax revenues, and less information about expenditure in different portfolio areas, particularly outside the priority areas of health and social care, for example. More clarity about Government spending plans would help.

Within that, colleges are refining their forecasts so that they are not just based on assumptions but are really based on what they think that their cost pressures are, and they are then using those as a basis for planning on their own and with the funding council for what they are able to do to close any gaps that that shows up. Whether that means more funding or reducing costs will be part of that discussion.

Iain Gray: The other side of the issue is the activity that colleges are expected to undertake. That has also been a theme of the recent run of annual reports on the sector. Previous reports had shown a very significant drop in the head count number of students in the sector from a peak of just under 380,000 in 2007-08—there was a figure that showed that there were 140,000 fewer students. Previous reports that you have presented to the committee indicate that that was largely a reduction in students who were women, part-time and older people. That was because of a Government requirement on the sector to focus on full-time young students on courses leading to employability. I think that it is fair to say that that was the direction of travel. The report suggests that that has changed, is that right?

Caroline Gardner: Yes. Government policy, as you say, was to focus further education provision on full-time students on courses leading to

recognised qualifications. The impact of that was to reduce the number of part-time students and particularly older and female part-time students, given the makeup of people taking courses at that point. We reported that over a couple of years—the last two reports—and I think that Government policy has now shifted in the ways that you describe.

In exhibit 8, paragraph 37 of the report, we show the trends over the past six years, and we are starting to see a slight increase again in the number of students by head count. The largest increase was in part-time students, although, interestingly, the increase was made up of part-time students under the age of 16, as part of the developing the younger workforce policy, rather than being made up of the student population who were displaced previously.

Iain Gray: To be clear on that point, the increase in student numbers is almost entirely made up of what most of us would consider to be school students taking part in developing young workforce vocational opportunities in college. Is it also the case that around half of that increase is in one college—Fife College?

Caroline Gardner: The largest increase is certainly in part-time learners, particularly those under 16. I will ask Mark MacPherson to talk you through the detail of that number.

Mark MacPherson (Audit Scotland): On the latter point, yes, Fife made up half of that amount. If you look at exhibit 9 on page 22, you can see that there has been a small increase in the number of students aged 25 and over, so it is not solely down to the students under that age. Students over the age of 25 still make up about 42 per cent of the student population—which is still a large proportion—and they are mostly in part-time courses.

Iain Gray: The point that I am getting to is this: in planning sensibly, clearly the more that the sector knows about the financial position that it is going to be in, the better. However, surely it is also important for colleges to have some sense of stability in what they are required to deliver. Is it fair to say that that has also changed quite frequently over recent years?

Caroline Gardner: It is true to say that policy has shifted, with a shift away from part-time older students and towards full-time students working towards a recognised qualification. We are conscious that there is a lot happening on the enterprise and skills review and the wider strategic board. What we will be looking to see over the next couple of years is the way in which the objectives for further education colleges through the funding council are lined up with what Skills Development Scotland and the Scottish

Qualifications Authority are doing, and the wider planning for how all of those separate policy strands—developing the young workforce, the 15-to-24 learner journey and the wider economic strategy—are joined up. At the moment it is hard to see how that joining up is happening. It matters in any case. We are talking about people's ability to work and prosper through their lives, and it matters particularly at a time when Scotland is taking on new financial powers that mean that our economic performance will have a direct impact on how much money is available to invest in public services.

Iain Gray: So, in order to plan for the future, colleges could do with more clarity about where the finances will go and also what policy objectives the Government, or we, will be looking for them to deliver on.

Caroline Gardner: And how they join up with the other players under the strategic board, yes.

The Convener: Auditor General, are there any good examples across the sector of where that joined-up work is happening?

Caroline Gardner: I will ask Mark MacPherson to give you more detail on that in a moment. It is worth saying that we think that one of the things that the University of the Highlands and Islands is doing well is getting that picture right across the Highlands and Islands of what the needs are, what the colleges can deliver and where the gaps are that need to be filled, but there are smaller-scale examples as well.

Mark MacPherson: Skills Development Scotland also has responsibility for taking forward skills investment plans and it brings together the funding council, colleges, universities and the key stakeholders to discuss that. We have not looked at those plans in detail but they provide a platform for more localised engagement across the key areas that are linked to enterprise and skills.

Alex Neil (Airdrie and Shotts) (SNP): Good morning, Auditor General. Building on the theme from Iain Gray, can I talk about the financial progress of the sector? Two issues in particular that have arisen in previous evidence to the committee from various bodies have been about the best use of the existing resources. In Glasgow, for example, there is a strategic board but there are only two colleges: a very big one and a smaller one. The consensus view of the people I speak to in Glasgow is that that middle-ranking board is a complete waste of time and money. What is your comment on that? Would we not be better using that money to expand student bursaries in Glasgow, where they are desperately needed, rather than wasting it on an unnecessary tier of management?

Caroline Gardner: I have reported to the committee before that I think that the college reform programme developed in a way that left the regional bodies in a slightly odd position. From the starting point of a policy intention to encourage regionalisation right across Scotland, to an extent it became much more voluntary. As it stands we have only three regional strategic boards: one in Glasgow, as you say; one in Lanarkshire, which also includes two colleges; and one in the Highlands and Islands, where the University of the Highlands and Islands covers all the colleges in the area. They are quite different in terms of what they do and, as we say in the report, they have made different degrees of progress.

09:15

We say in this year's report that they are all now in a position where they are capable of delivering their core responsibilities, which was not the case last year, but it is not clear how they are contributing to the wider aims of regionalisation, which were about better outcomes for students and better links with employers. Until we start to see evidence that they are delivering those things, it is difficult to say that the policy of regionalisation has been a success. Mark McCabe may want to say a little bit more about what we know about the specific arrangements in Glasgow.

Mark McCabe (Audit Scotland): We say in the report that there are some mixed views about the establishment of the regional board in Glasgow. We have started to see progress over the past few years and we are seeing a lot more collaboration between the individual colleges through the board; there are more coherent strategies and they are starting to make some progress and get traction. We recommend in the report that the regional board works with the individual colleges to overcome some of the concerns that people have, in order to get more traction and make more progress.

Alex Neil: Where is the evidence that there has been any added value from having the regional board in Glasgow, apart from the rather large salaries that get paid to those involved?

Mark McCabe: We have seen that there is greater co-ordination. There are things such as curriculum hubs, where college courses are planned jointly to match economic and employer needs. We are seeing the board bringing together regional leads—

Alex Neil: Would that not happen without the regional board? There is no evidence that those things would not happen anyway without the regional board .

Mark McCabe: It is a difficult one to argue. Colleges have always done some joint work

together, but the board is there and it is starting to make progress in some of the areas that the aims of regionalisation are geared towards.

Alex Neil: Are you telling me that the regional board in Glasgow provides value for money?

Mark McCabe: We have not said whether it provides value for money or not.

Alex Neil: Should we not be looking at that? It spends a fair bit of money which, if redirected to student bursaries, I think and a lot of people think, would have much more impact on improving college education in Glasgow than it has being wasted on a bit of bureaucracy that very few people think is adding any value.

Caroline Gardner: What we are saying is that until all of the regional boards move on to demonstrate that they are able to deliver the planned benefits of regionalisation, they are not in a position to demonstrate value for money.

Alex Neil: How long have they been up and running? How long do they have? Is this another blank cheque?

Caroline Gardner: The establishment of the regional boards is a policy matter and, as you know, I cannot comment on that. I have reported this year that it is the first time that all three of them are in a position to fulfil their statutory responsibilities. It has been slow progress from when they were first mooted in policy and over time recognised as able to fulfil their functions by the funding council. They are there to deliver wider benefits that matter, which are to do with outcomes for students and better links with employers. Until they can demonstrate that, it is not possible for us to say that they are delivering value for money.

Alex Neil: How long have they been up and running now?

Caroline Gardner: It varies. The act was the Post-16 Education (Scotland) Act 2013, but they were recognised by the funding council as ready to take on their responsibilities at different points during the period since then, and I think that Glasgow was recognised only within the last year or so. Establishing them has been slow and demonstrating the benefits that they were set up to provide is obviously even slower. That is one of the findings of my report.

Alex Neil: There is obviously an issue there that we may need to take up with the Government about the need to demonstrate the value of these regional boards and to prove that they are necessary to achieving the strategic policy objectives in each area.

Caroline Gardner: It is also a question for the funding council, which has to recognise them as ready to take on their new responsibilities.

Alex Neil: I have a related question. We heard evidence about New College Lanarkshire. I do not want to specifically talk about New College Lanarkshire this morning, because we are having a further session specifically on the report about it. One of the themes emerging from that, and indeed from previous sessions with other colleges, is the layers of management and the allocation of resources within colleges, which seem to be very top heavy on senior and middle management and whose resources that are being spent on management would be better spent on delivery at lecturer level. Do you have any comment on that?

Caroline Gardner: I recognise that it is a concern that you have raised a number of times in the committee, Mr Neil. As you say, in New College Lanarkshire I think that it will be a focus of the evidence session that you have planned in the next few weeks.

It is not something that we have looked at directly in this report. We have looked at costs and performance. One of the things that we are interested in is the very variable performance of colleges across the country. Exhibit 10 is a kind of heat map that looks at the performance on a red, amber or green rating across the four measures of performance for each college. It is a very variable picture, from colleges such as Orkney College that are all greens to colleges that have much more red in there. It would be perfectly valid to ask the funding council what it knows about that variability of performance, what it is doing about it, and how that relates to what colleges are spending on their management and the other ways in which they organise and deliver their responsibilities. That is at the heart of value for money and, at the moment, I think that nobody knows enough about the reasons for the differences.

Alex Neil: My final point is a wider issue: the £360-odd million for backlog. I know that that is based on the Scottish funding council's survey of property in the sector, but there are a lot of unanswered questions about the survey. For example, how much of what is identified is genuine backlog and how much of it is planned replacement, refurbishment or expansion into new buildings? Having been in business, when I read the word "backlog", I interpret it as being works that need doing that so far have not been done. When I look at the projection and the breakdown of the years in which the money is required, I see that a fair chunk of it is on and after year 5 and a fair chunk of that is for new build and not for backlog. Should we not get the funding council to give us a much more accurate picture of what is genuine backlog?

Caroline Gardner: You are right that it is important to be precise about the terms that we are using. I think that the estates condition survey is a bit more precise than some of the wording that we have used and which has been used in the committee. The college estates condition survey identified that the total for repairs and maintenance requirements across the next five years is £360 million. Not all of that is backlog. The backlog of repairs and maintenance is £163 million across the five years. It has then prioritised within that what is very high priority—what is required to ensure that buildings are safe and can continue to be used for their purposes—through to the things that are nice to have but not essential.

Alex Neil: Despite the publicity that there was about this when the report was published, as you have just said, if we take the proper definition of "backlog", the real backlog is about £163 million and not £360 million. In presentation both by the funding council and in the audit report, should we not have two columns and not just one: one column for what is genuine backlog and one for planned improvement, refurbishment and so on? One is entirely separate from the other. When you are planning any kind of business, your backlog repairs, which are much more urgent sometimes, because of asbestos or whatever, are a completely different priority and very often funded in a different way from rebuild, refurbishment and so on. Should we not split the two?

Caroline Gardner: I am not sure that that is necessary for planning, which is what we are talking about. The £360 million is the estimate that comes from the estates condition survey for both the backlog of repairs and maintenance and the investment that is needed to keep the estate fit for purpose as it is changing the sorts of qualifications that are offered.

Alex Neil: It does not say that. Your report, in the key facts diagram, calls this

"estimated total cost of backlog of repairs and maintenance."

It does not say "and also new build", and so on. Therefore, it is very misleading.

Caroline Gardner: Paragraph 25 breaks down the £360 million.

Alex Neil: I know that it breaks it down, but the headline in the press release that went out and the coverage in the media all created this hysteria about the backlog, when in fact it was based on inaccurate figures. The figures were not all backlog; they were backlog and plans for new build.

Caroline Gardner: The £360 million is the total investment that is required over the next five years for repairs and maintenance.

Alex Neil: That is not what you say. You say that it is backlog for repairs and maintenance, so that is not accurate.

Caroline Gardner: I am sorry if that is the impression that we have given.

Alex Neil: It is.

Caroline Gardner: Okay, I am accepting that, Mr Neil. The important fact is that the £360 million investment is what is required to both deal with the backlog and keep the estate fit for providing qualifications across the piece.

Alex Neil: I think that we just need to look at the presentation in future.

Caroline Gardner: We will have a look at that certainly. Mark McCabe may want to add a bit more clarification on what is in the figures.

Mark McCabe: Yes. The £360 million does not include new build. The amount is for maintenance of the existing estate. The survey breaks the maintenance down into four categories of priority: very high, high, medium and low. There is an indication of what the profile of investment is required over the next four to five years.

Alex Neil: Sorry to interrupt you, but I have stuff from various colleges. One of them has a figure of £10 million for a new tower that is going to be built in year 5 or beyond. That is included in this figure, so that does not stand up to what you have just said.

Mark McCabe: Okay. My understanding is that it is for repairs and maintenance to the existing estate.

Alex Neil: If you look at the funding council and its terminology, you are all at odds in this. I think that you need to go back and look at it and present it more accurately and make the clear distinction between genuine backlog and planned new investment, because those are two different things.

The Convener: Auditor General, is it possible that your team could go away and review this and perhaps write to the committee with some clarification?

Caroline Gardner: We have all the figures here, but I do not think that it is a good use of the committee's time to go through them at that level of detail.

The Convener: I do not either, so perhaps we can wait for you to communicate with us with much more detail on how this breaks down.

Caroline Gardner: Of course.

The Convener: Thank you very much.

Can I refer you to the key facts on page 4 of your report? You report that there is a 10.4 per cent increase in Scottish Government funding between 2016-17 and 2018-19. It is my understanding that the colleges are spending the whole of that increase on the costs of harmonisation—is that correct?

Caroline Gardner: Certainly that is the largest part of the increase that is there. Mark, could you break down the figure for us?

Mark McCabe: Sorry—could you repeat the question?

The Convener: Is it correct that all of the 10.4 per cent increase is being spent on the cost of harmonisation?

Mark McCabe: Yes, the additional cost of harmonisation is £50 million from 2019-20 and that is a recurring annual cost.

The Convener: For any members of the public watching, I say that harmonisation in the college sector is what happened when regionalisation was being introduced and we found that staff in different colleges were on different pay scales and different pay rates; it was to bring all that into line.

The Scottish Government's funding increase for colleges is all going on staff costs—is that correct?

Caroline Gardner: We say in the report that most of it is to meet the increased costs that are associated with bringing pay and conditions into line. It is not quite all, but it accounts for most of the 10.4 per cent across the two years. It was 5 per cent in 2016-17 specifically to fund that.

The Convener: Auditor General, you said earlier in your answer to Iain Gray that the costs of harmonisation will no longer be met by the Government after 2019, is that correct?

Caroline Gardner: Not quite. What we know is that the Government has committed to meeting the costs for 2017-18 and 2018-19. We do not know what will happen after that. It is one of the reasons why greater clarity for the colleges would help them to make their financial forecasts more robust.

The Convener: So we do not know where that money will come from. What will the impact be on the college sector when that 10 per cent disappears?

Caroline Gardner: If that 10 per cent disappears.

The Convener: If it does, yes.

Caroline Gardner: The green part of exhibit 1 breaks down the expenditure of colleges, which is about £728 million. By far the biggest part of that is staff costs, which are shown in dark green, at

£463 million. If the £50 million funding that is currently available but not committed thereafter is not available, colleges would have to find savings of that volume from within the overall £728 that they spend or alternatively find other sources of income. However, as you can see on the left-hand side of that graph, beyond what they receive from the Government through the funding council, their other sources of income are relatively small in comparison. They come to a little bit less than £200 million in total, so to increase that by £50 million would be a real challenge.

09:30

The Convener: At the moment, the Scottish Government has given a commitment only to meet the costs of harmonisation until 2019. It might change its mind and find more money for that but, as it stands, there is no promise to fund it beyond that point. However, on top of that, colleges are being asked to make a 3 per cent cut every year. For some colleges, that can total £1 million. What will be the impact of the cut that they are being asked to make, coupled with the lack of money for harmonisation beyond next year?

Caroline Gardner: One of the overall messages of this report is that, although there has been a slight improvement in colleges' financial position, they remain under real financial pressure. There is the question of how they will fund harmonisation after 2019. They will also have to find cost-of-living increases and, as we discussed in response to earlier questions, the pressures on public sector pay are increasing, for understandable reasons. There is the pressure of meeting the required investment in the college estate and there is also the potential impact of Britain's withdrawal from the European Union. All of those represent really significant financial pressures on top of the efficiency targets that colleges, like most of the public bodies, are required to meet.

The Convener: Auditor General, as you will know, some colleges paid for harmonisation themselves when they saw this coming down the line, while some colleges did not and so are being given the money by the Scottish Government. Dundee and Angus College, for example, paid for harmonisation itself at a cost of £1.5 million. Do you think that the Government should refund that money? The college was organised and was able to manage the issue itself without the Government having to step in, so, should it be refunded for that?

Caroline Gardner: That is a question of policy which is beyond my remit. It is important to note, as the committee has investigated before, that different colleges were affected by harmonisation in different ways. Some of them started off with

pay rates and other terms and conditions that were well below the national picture, while others were closer to it, and the cost implications for them are quite different. That is why we think that the funding council needs to be working with colleges to understand what the costs are really likely to be over the longer term on a consistent basis, as a basis for a discussion about how those cost pressures can be met and the education that colleges deliver protected and enhanced.

The Convener: Thank you. Angela Constance has a supplementary question.

Angela Constance: I have various supplementaries. I will trot through them as quickly as I can.

The Convener: It would be helpful if you could ask a supplementary on that point, and then I can bring in Liam Kerr. I will come back to you after that.

Angela Constance: I have tried to come in on various points to raise supplementaries.

The Convener: If you could ask one now, I will bring you back in later.

Angela Constance: Okay. I have three or four supplementaries.

Auditor General, have you assessed the impact of Brexit on the college sector? What are your views on that?

Caroline Gardner: We have had a look at the high level, at the level of EU funding that colleges receive and at what they know about where staff and students come from and what the impact of Brexit might be. It is a question that the funding council is looking at closely. We are planning to publish a position statement on EU withdrawal and what it means for public bodies a bit later in October. I hope that that will give a clearer picture. Again, it is something that affects different colleges in different ways.

Liam Kerr (North East Scotland) (Con): I would like to come back to the assets issue, which is dealt with around paragraph 25. I understood the point that Mr Neil was making and I would like to ask a brief question on that. Paragraph 25 seems to say that the backlog of repairs and maintenance will cost about £360 million. In paragraph 24, the report talks of £74.4 million of capital funding being given to colleges by the Scottish Government, but £42 million of that is for a new campus. Like Mr Neil, I find that slightly confusing. Are new campuses included in the definition of repairs and maintenance?

Caroline Gardner: The £360 million figure comes from the estates condition survey, which the funding council has commissioned to determine what investment is needed in repairs

and maintenance across Scotland's colleges. It found that there is a backlog of £163 million, which is work that is currently outstanding. It then looked ahead and determined that the repairs and maintenance that are expected to be required over the next five years will come to just slightly less than £200 million. That includes stuff like wear and tear to the buildings. Mark McCabe can talk you through how that relates to what is in paragraph 24, which is I think at the heart of the question that Mr Neil asked.

Mark McCabe: In terms of the total capital investment, you are right: it is £74.5 million, and around £42 million of that is going to Forth Valley for its new campus. That leaves around £26 million to £27 million of a difference in the capital funding. That is the money that the funding council is allocating directly to colleges to cover what they have identified as being the very high priority repairs that are required within one year that were identified in the survey. That survey identified that those costs were in the region of £31 million. When the funding council validated that, it found that a couple of those costs were overstated and that figure came out at around £27 million. It fully funded the first year of very high priority repairs as well as the new build in Forth Valley, which comes to that total to £74.5 million.

Liam Kerr: I understand. What counts as very high priority? When we say very high priority, are we talking about something that could compromise the safety of students and staff?

Mark McCabe: Yes. The definition in the survey of very high-risk maintenance is:

"Works required immediately or within 1 year to repair ... or ... replace elements"

of a building that

"have already failed, or are at risk of imminent and unpredictable failures, with high risk of compounding damage"

causing

"loss of service and/or ... Health & Safety risk."

That is the definition that the surveyors have used.

Liam Kerr: That is a pocket of maintenance and a backlog of repairs that has to happen imminently. There is then a further £77 million that is required to do high-priority work, which is not quite as serious as very high priority. How serious is that high-priority work? Going back to the convener's earlier questions, where is £77 million supposed to come from in the next two years?

Mark McCabe: How that level of investment is made is something that the funding council will be looking at with the Government. The funding council and the Scottish Government will obviously be monitoring the investment and what that results

in to ensure that those figures are kept up to date, but they will need to look at what further capital investment is needed.

Liam Kerr: So, at least in theory, the £77 million could come from the funding council or the Scottish Government. Is that what you are suggesting, or are the colleges expected to find that?

Mark McCabe: I think that that is a debate that needs to be had between the funding council, the Government and the colleges.

Caroline Gardner: The point is that we do not know where it is coming from yet. With regard to Mr Neil's comment about the college in his area, as we understand it, the £360 million does not involve new build; it is all maintenance and repairs to the existing estate. We know how much is available this year for repairs and maintenance and for new investment, and it falls a long way short of keeping up with that £360 million. That is why we report it as being a pressure on college finances.

Liam Kerr: Out of interest, when something is defined as high priority, do you make a distinction or is any analysis done on if and how quickly a high-priority matter might turn into a very high priority matter that could compromise safety?

Caroline Gardner: That is part of the work that the surveyors who carried out the estate conditions survey have done. They have used their professional expertise to look at the condition now and over the five-year period, to determine what things are very high priority and urgently need to be addressed at this point, what requires to be done over two years to avoid things getting worse and, looking over the remaining three years, what investment is needed to keep the estate fit for purpose and to adapt it for changes to the types of teaching and learning that are carrying on. It does not include new build; it is about the existing estate.

Liam Kerr: In that respect, there will be a lot of competing calls for funding by the various colleges in relation to bringing their estates up to where they need to be. At paragraph 27, you recommended that the funding council produce some criteria so that it can decide where that funding should go. I understand from your report that that was produced in December last year, but it has not been published. Could you tell us why, if it will be and whether you have seen it?

Caroline Gardner: I do not think that we know why it has not been published. Mark McCabe, is there anything more that you want to say about it?

Mark McCabe: I do not think that there is a lot more to say on that. I do not know why it has not

been published. We have not seen that, so I cannot give you an answer.

Liam Kerr: It rather seems to me that if I was in charge of a college, I would find it an awful lot easier to plan if I knew whether my work was likely to be a priority or not. Is anyone asking that question of the funding council?

Caroline Gardner: You are absolutely right that that would help the colleges to plan. I suspect that the discussion that is going on behind the scenes is about how the capital funding that may be available can best be used to meet the very large investment requirement that has been identified.

Mark MacPherson: On page 6 of the report, we have recommended that the Scottish Government and the funding council should publish the criteria to allow that to happen.

Liam Kerr: Let us hope they do.

Angela Constance: Apologies for jumping around, but picking up on some of Mr Neil's earlier questions, is there any evidence that regional bodies were taking on some of the role and functions of the Scottish funding council or whether there remains duplication? Has there been any progress towards regional bodies acting, in effect, as mini funding councils, as was originally planned?

Caroline Gardner: I would say that the closest that we have seen to that is probably in the University of Highlands and Islands, where the colleges in the region face very particular problems because of their remoteness and the rurality of the populations that they serve. They are very small scale on the whole, which makes it harder to deliver the range of services and courses that are needed locally, and brings difficulties with regard to the challenge of sustainability around recruiting staff and students.

We have seen the University of Highlands and Islands start to bring the colleges together and to help them to understand how they complement each other, where they might be able to support each other, what support they can get from the university itself and the ways in which funding might need to move to meet those different patterns of provision. It is early days, but I think that we are starting to see that happening. It is much harder to see evidence of that sort of role being carried out in either Glasgow or Lanarkshire, partly because, as Mr Neil phrased it, in those areas there is one large college and one small college. In Lanarkshire, the larger college is the regional board. In Glasgow we have the separate regional body, and we are not seeing that focus on how they can start to move beyond what the individual colleges do to meet the needs of students and employers better.

Angela Constance: Do you have a view of how, if regional boards were stepping up and performing as mini funding councils, that process would be managed in terms of a reducing role for the more centralised Scottish funding council?

Caroline Gardner: I am not sure that that is a question for us at the moment. As I say, the policy itself moved on between the initial review of further education and the legislation, and we have seen quite different models emerging across Scotland, with most of Scotland not having a regional body at all. I think that it would be helpful for the committee to review how far those policy aims have been delivered on the back of our finding that, beyond the mergers and beyond the work that we are starting to see in UHI, there is no impact so far at all on those wider aims, beyond simply having a body in place that can fulfil its statutory responsibilities. That is really all that we are seeing at this point.

Angela Constance: You mentioned that performance in outputs and achievements was variable. Is that related to variable financial soundness? Is there any evidence of a link between financial stability and performance? Some colleges are more financially sound and are able to make decisions and plan ahead, as the convener said. Could you say a bit more about what drives that? Are the factors purely local, or are there big national factors, such as harmonisation? Are there exemplars of good governance and financial planning out there?

09:45

Caroline Gardner: That is a really good question and one that we tried to answer. However, we found that the farthest we could go was to say that it is complicated. There is no clear link between the colleges that are performing particularly well or particularly poorly in terms of outcomes, as shown in exhibit 10, and their financial health and financial sustainability. They fall into different categories. We know that many of the factors are local—the extent to which the local communities that colleges serve are more or less deprived, the state of the local economy, the number of other opportunities that exist for learners, and the extent to which there are flexible pathways for learners and students to work through. We think that the funding council should be using information about performance and financial health to understand what is driving this and what lessons can be learned. What can the colleges themselves, and the regional bodies, where they exist, do to get better performance and better value for money? How can the funding council support the colleges that are struggling?

Angela Constance: Is there evidence that colleges are meeting the needs of their local economy? How strong is that evidence?

Caroline Gardner: As we say, the evidence that the regional bodies are meeting those needs is not yet there. I think that that is one of the things we will want to look at when we pick up the issues with the enterprise and skills strategic board. FE colleges are not alone in doing that work—they have to work with SDS, the SQA and the enterprise bodies to do it. The role of the strategic board is to look at the evidence and the extent to which things are aligned and then to look at what needs to change as a result.

Angela Constance: That involves looking at indicators on the ground in a particular local economy. For example, I know that my local college would argue very strongly that it is meeting local economic need, and it would evidence that through the student demographics, course provision and its plans for the future.

Caroline Gardner: Yes. I would also expect the funding council to be doing that. It distributes large amounts of funding to FE colleges each year, and we think that it is important that it has a very clear sense not just of student performance directly but of how well students meet local employers' needs. That is particularly important in the context of our economic performance having a direct impact on the amount of money that we have to spend on services, infrastructure and all the things that are Government priorities.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): The convener mentioned salary harmonisation in relation to Dundee and Angus College. I will pick up on that issue in relation to Ayrshire College. As you know, Ayrshire College was one of the colleges that met the merger and harmonisation costs itself. Can you be clear about whether we are talking about a one-off award that is not consolidated, so that Ayrshire College will be not be paying for it in the years to come? Can you clarify that every college will be back to the same base level? Is the £50 million that you mentioned earlier the figure for the harmonisation bill for the whole college sector?

Caroline Gardner: That is the best estimate. It was produced by Colleges Scotland and accepted by the Government and the SFC. As we have said a number of times, the situation is complex because individual colleges started in different places. I think that the figure has become clearer and firmer over the two or three years of the negotiations. The figure of £50 million is the best figure that has come through for all staff—lecturing and support staff—in colleges, from 2018-19 onwards. It is the best figure that there is.

Willie Coffey: Does it cover all the colleges, including those that funded the harmonisation costs themselves?

Caroline Gardner: Yes. It is intended to cover all colleges, and the figure has been accepted by the funding council and the Government.

Willie Coffey: Do you have a figure for those that did not fund the harmonisation costs themselves?

Caroline Gardner: No. The figure is for the overall picture across Scotland. Mark MacPherson wants to come in here.

Mark MacPherson: I want to clarify one point. A number of the colleges that were formed as result of predecessor college mergers harmonised college pay and terms and conditions at the time. Ayrshire is one such college. We are now talking about national harmonisation. If after merger and harmonisation those colleges are still below whatever the final nationally agreed figure will be, they will have another element to pay as well. When we talk about harmonisation at point of merger, we are not necessarily talking about all the costs. There is local harmonisation as a result of merger, and then there is national harmonisation.

Willie Coffey: I wrote to John Kemp about the issue. He said:

"I recognise that if Ayrshire had not harmonised at the point of merger, it would receive a higher level of funding now."

That suggests to me that that higher award would be consolidated and a new baseline established. Am I wrong about that?

Caroline Gardner: I think that it is the same point that the convener made. Some colleges, because of local mergers or other factors, raised pay to a common basis at that point. That meant that the gap between that position and the national harmonisation agreement was smaller than it would have been otherwise. Those colleges met some of that cost from their own resources. Had they not done so, they would have a bigger gap to meet now, and the funding would have been available to them to do that.

The convener's question was whether those colleges should receive funding to compensate for that. That is a policy question, so it is not one that I can answer. However, it is clear that the gap is now smaller than it would have been, because of the action that those colleges took at the point of merger.

Willie Coffey: My point is slightly different from the convener's. All the colleges are back at the same point that they were at before the harmonisation awards were made by some of the

colleges. We are all back at square 1 or base 1, are we not?

Caroline Gardner: Yes, and the £50 million is based on getting from where we are now to the newly agreed terms and conditions—if I understand you correctly.

Willie Coffey: I am interested in whether we can get a figure for what was paid to colleges that did not harmonise at the point of merger. To me, that means that some colleges sat on their hands and waited for the Scottish Government to step in and pay them this money, and I do not think that that is particularly fair.

Mark MacPherson: I am not sure that all colleges are back at the same position. As the Auditor General has explained, the gap for Ayrshire is smaller now. In theory, if every college was funded for the gap, they would receive a smaller amount than they would have received if they had not harmonised, so you could argue that they would be disadvantaged in that way. We are not in a position to comment on whether the funding will be fully met in retrospect for any harmonisation that took place prior to the national harmonisation.

Willie Coffey: Could we get a figure from someone for the amount of money that was paid to colleges that did not harmonise at the point of merger? That was Scottish Government money, and it was paid to some colleges but not to others.

Caroline Gardner: We have the other side of that—we have the costs of the mergers, which we reported on in our “Scotland’s colleges” report of a couple of years ago. We can certainly pull that information out for the committee. In a sense, that is the other side. It is the additional money that went in when that first harmonisation happened, rather than the cost of not doing it for the other colleges, if that makes sense.

The Convener: Mr Coffey, we could get that figure from the Scottish funding council as well.

Willie Coffey: I have been trying, convener.

I will move on to my second point. As you know, Auditor General—you mention this on page 15 of your report—Ayrshire College has an additional millstone around its neck, with the legacy £2 million a year public finance initiative debt that it has to pay. I believe that the college is unique in Scotland in having that additional burden to pay. The debt is due over the next seven years and is bringing the college more financial pressures than perhaps are being experienced by the rest of the college sector in Scotland. Is any progress being made to try to resolve the matter, which is particularly serious?

Caroline Gardner: You are right that the college is unique. Other colleges that had PFI

contracts have now had those contracts bought out. The other public-private partnership deals are non-profit-distributing models in which the Government pays the charge directly, so the college’s budget is not affected. I do not think that we have anything more to say than what we say in the report, but I will check with Mark MacPherson.

Mark MacPherson: We know that the funding council and the college have been discussing the issue for a number of years. The college has obviously been aware of it since the point of merger. The latest information is what is in the report. We have not heard anything further.

Willie Coffey: Auditor General, did you say that some of the previous PFI contracts were bought out? Could you tell me when that happened, who was involved and what contracts were bought out?

Caroline Gardner: I think that West Lothian College was one college that had a PFI deal. Mark MacPherson can tell you what the current position is.

Mark MacPherson: Mark McCabe might be able to correct me if I am wrong, but I understand that in most of the PPP deals, the college will have been expected to make some contribution towards the cost of the deal, although proportionate amounts will have been provided by the Government or the SFC. I think that, as you say, Ayrshire’s situation is a bit different. It is unique in that sense.

Willie Coffey: Who bought out or paid for the West Lothian College PFI?

Mark MacPherson: I think that that will have been done by the Scottish Government via the funding council.

Willie Coffey: Can you tell me when that was?

Mark McCabe: I do not have the details for West Lothian, but we can find that out.

The Convener: Mr Coffey, if you have further questions specifically on West Lothian College, maybe Audit Scotland can write to you with further details.

Do you have any further questions?

Willie Coffey: No, thank you.

The Convener: Auditor General, I will briefly follow up on Mr Coffey’s first question and the point that I raised earlier. We have talked previously about trying to incentivise good governance—good behaviour, as it were—in public bodies. It seems to me really unfair, in the examples that Mr Coffey and I have raised, that the two colleges whose boards were able to foresee harmonisation coming, in line with government policy, and to pay and plan for it are now being penalised and getting less money. Is

there not an issue here about penalising good governance?

Caroline Gardner: I would not frame it in quite those terms, although I understand why it looks that way from an individual college's perspective. I would frame it more as being about the overall management of the reform programme. We know that individual colleges and regions were given an awful lot of discretion on whether or not to merge. The extent to which the funding council met the merger costs varied, and the overall evaluation of the reform programme and the benefits that it generated was not robust, in my view. We have reported that view in a number of our college annual reports.

What you describe is one of the consequences of the way in which the overall reform programme was managed, which left some colleges bearing more of the costs themselves than others, although not all of those were colleges that got ahead in the way that you describe. For example, funding for voluntary severance packages came through in different ways and in some colleges was not well handled—the committee has examined that in detail.

The Convener: Does management of the reform programme rest with the Scottish funding council or the Government?

Caroline Gardner: A combination, I think. The committee has looked at the issue in some detail in the past. The extent of the clarity around the reform programme's objectives and of the oversight of and challenge to the individual changes for colleges and groups of colleges that were merging varied quite a lot around the country.

Bill Bowman (North East Scotland) (Con): Good morning. Most of the questions this morning have involved financial information. In paragraph 9, you say that colleges had to restate or get help in calculating their financial position. In paragraph 31, you state what I hope is the obvious point that financial forecasts have to be based on "realistic and consistent assumptions". Taking those together, are you saying that colleges are not competent in preparing financial information or are there some renegade colleges that will just not do as they are bid by the funding council?

Caroline Gardner: Paragraphs 9 and 31 look at slightly different things. In a minute I will ask Mark McCabe to come in on paragraph 9, on the underlying financial position.

Paragraphs 29 and 31 relate to the underlying assumptions for the forecasts. This is the first time that the funding council has worked with colleges to develop forecasts on a consistent basis. That is an important step forward and I welcome it. The funding council's experience was that the colleges

did not all agree that the assumptions that it had proposed were the right ones.

In response to Mr Gray's question, we talked about the assumption on future pay increases. My view is that an assumption of 1 per cent on that is quite tight, given the pay restraint over a number of years since 2010 and the inflationary pressures that we are seeing. The funding council and colleges are still negotiating on what is an appropriate figure that recognises the constraints on public funding but that is not so tight that it cannot possibly be stuck to over time. That process is going on. I am not terribly surprised by that, although it is important that people get it right.

Bill Bowman: So the funding council just asks councils to do something and they can ignore it.

Caroline Gardner: I do not think that that is what happened. There was a dialogue between individual colleges and the funding council in which councils said, "For these reasons, we think that our assumptions on pay or on capital maintenance requirements are different."

Bill Bowman: Does that mean that the assumptions do not need to be consistent?

Caroline Gardner: It would be helpful if they were consistent. They also need to be realistic, given what individual colleges are facing and what the funding council expects to be available from Government funding. In a sense, the missing bit of the jigsaw is the Government's medium-term outlook and more detail about the funding that it expects to put in after 2019.

Bill Bowman: What is the right solution that would not have you commenting on it?

Caroline Gardner: It would be very helpful if there were a set of agreed common assumptions that colleges were applying and that were in line with the signals from Government about the funding that it will provide in future years.

Bill Bowman: Is there a governance issue, in that councils are not doing what they are being asked to do?

Caroline Gardner: I do not think so. As I said, there is room for the funding council to work with colleges in more detail to understand what underlies their financial position and their performance across the piece, so that they can ensure that money is going to the right places, but that is more complex than just a governance issue. It is about the funding council's role overall and the extent to which local autonomy and local accountability are in balance.

10:00

Bill Bowman: I suspect that I am not going to understand this.

Mark McCabe: I can add clarification on your point about paragraph 9, which is on the underlying financial position. In previous reports, we have made recommendations that that information should be added to accounts to give a more transparent picture of colleges' financial position. Previously in accounts, the financial position could be skewed by things such as depreciation and pension adjustments. The approach strips out some of that and tries to give a clearer and more comparable picture across the board.

This was the first time that colleges prepared that information as an addition to their accounts. As inevitably happens when something new is introduced, there were different interpretations of the SFC's guidance. It took a bit of additional work by the SFC and by us in looking at the accounts data to work out the true position. In paragraph 9, we are simply saying that there is scope to strengthen that guidance and to tighten up the definition so that colleges have a stronger position.

Liam Kerr: The report notes that there is a gender imbalance on the boards of the colleges and that currently all but three are falling short of the statutory gender representation objective. You recognise that that is not entirely in the colleges' control, as some of the board members are elected. You also cite UHI as taking steps to address the issue. What is the timeline within which colleges need to change or comply with the objective and what happens to the colleges if they do not or cannot do that?

Caroline Gardner: That is very much a question for the funding council, about the way in which it is taking forward that new policy requirement. As you say, there is a balance between the appointments made and the election, particularly of staff representatives, to boards. Colleges vary in the extent to which they have a plan for doing it and the speed at which they are making progress.

I ask Mark MacPherson whether he has anything to add.

Mark MacPherson: No. Sorry, but I do not have a date. I can confirm that from the legislation, of course.

Angela Constance: I just want to pick up that point and say that that the objective is not policy; it is in legislation. The clerks can check this factually but, if I recall correctly, things such as ex officio and elected members are not included. When Parliament passed the legislation—it was not unanimous but it was passed with hefty support—there was a clear expectation put across the public sector.

The Convener: I will move on to exhibit 10, which is about student satisfaction. I am slightly

confused about that, perhaps because of the colour coding. Will you send the committee the figures that it is based on, as I would find that helpful?

Caroline Gardner: Yes. Paragraph 44 gives the results of the satisfaction survey at national level, and we have that information broken down, if you would find that useful. In exhibit 10, we tried to summarise all four of the performance indicators to give a sense of how colleges are doing.

The Convener: Is it possible to send us the figures for all four indicators for all the colleges? I presume that you must have them.

Caroline Gardner: Yes, we have them.

The Convener: That would be great—thank you.

As members have no more questions for Audit Scotland on the report, I thank our witnesses very much indeed for their time and their evidence.

10:05

Meeting continued in private until 10:49.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba