



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 4 October 2018**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>1</b>
<b>“SCOTLAND’S COLLEGES 2018” .....</b>	<b>2</b>

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**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**  
**22<sup>nd</sup> 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:**

Paul Johnston (Scottish Government)

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

Aileen McKechnie (Scottish Government)

Andy Witty (Colleges Scotland)

**CLERK TO THE COMMITTEE**

Lucy Scharbert

**LOCATION**

The Adam Smith Room (CR5)



## Scottish Parliament

### Public Audit and Post-legislative Scrutiny Committee

*Thursday 4 October 2018*

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Jenny Marra):** Good morning and welcome to the 22nd meeting of the Public Audit and Post-legislative Scrutiny Committee in 2018. I ask everyone in the public gallery to switch off or turn to silent their electronic devices.

Agenda item 1 is a decision on taking business in private. Do members agree to take agenda items 3 and 4 in private this morning?

**Members indicated agreement.**

## “Scotland’s colleges 2018”

**The Convener:** Agenda item 2 is on Scotland’s colleges. I welcome our witnesses today: Paul Johnston, director general education, communities and justice, and Aileen McKechnie, director for advanced learning in science, both from the Scottish Government; Dr John Kemp, interim chief executive of the Scottish Further and Higher Education Funding Council; and Andy Witty, director of sector policy from Colleges Scotland. Each of the three organisations is going to make a brief opening statement, and I ask Paul Johnston to start, please.

**Paul Johnston (Scottish Government):** Thank you very much. I am grateful for the opportunity to provide evidence to the committee in response to the Auditor General’s report, “Scotland’s colleges 2018”.

I am the relevant accountable officer for the Scottish Government and have responsibility for ensuring that the Scottish funding council’s strategic direction is aligned with the priorities of the Scottish Government and that it has the necessary controls in place to safeguard public funds. The accountable officer for the Scottish funding council is Dr John Kemp, and the funding council is accountable for the delivery of Scottish Government policy objectives, for the deployment of resources to deliver them and for the associated planning and risk management.

I welcome the Auditor General for Scotland’s report. It highlights what is working, where on-going work needs to be concluded and where there is scope to make further improvement. Colleges make a vital contribution to the Government’s commitment to improve the lives and the employability prospects of many of Scotland’s citizens. Scotland’s college sector is continuing to develop new and enhanced relationships with employers in areas such as curriculum planning, work experience and employability skills. Colleges have a clear role in delivering the skilled workforce that we require to generate inclusive economic growth.

I am pleased that the report identifies the fact that the sector has continued to exceed the national target for learning and highlights the significant role that the sector is playing in widening access to learning, with the proportion of learning hours to students from areas of deprivation, from ethnic minorities and with experience of care or disability all continuing to increase in the 2016-17 year. Student satisfaction remains high with over 90 per cent of full-time and 94 per cent of part-time students satisfied with their college experience.

The report also emphasises the regional variation in student attainment. That is a complex area and there is an interplay of many factors—including deprivation and labour market conditions—but the Government is determined to see attainment figures improve for all learners and will continue to work closely with the funding council and the sector to drive that forward, building on emerging learning from our national improvement project.

I am happy to leave it there, given that there are other statements. I look forward to answering any questions.

**The Convener:** Thank you very much.

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

First, I should say that the funding council accepts all the recommendations in the report that relate to it and has already implemented some of them. The report has many positive aspects. Generally, our colleges are serving people well: more than 90 per cent of students are satisfied with their college experience; and the majority of college leavers are in a positive destination six months after graduating.

Colleges continue to excel at widening access to both further and higher education. There was an increase of 43 per cent in care-experienced enrolments in 2016-17 compared with those in the previous year and a doubling in the number of senior-phase-aged pupils studying for vocational qualifications.

The SFC has used its outcome agreements to work with colleges to encourage and support the changes and we will continue to do that. We recognise that there are also challenges. Colleges operate in a changing world. The sector will need to continue to make sure that it is delivering the skills that people need through learner journeys that involve even closer working with schools and universities. The SFC and the enterprise and skills strategic board want colleges to be part of the upskilling system for people in work as well, and we want to develop that further.

Most importantly, we want to improve success rates for students. Colleges support some of the people with the lowest attainment prior to entering the system and we should aspire to do better and to improve success rates for all.

The SFC will continue to work with colleges to deliver all of those things while remaining financially viable, and I look forward to discussing how we do that with the committee this morning.

**Andy Witty (Colleges Scotland):** Good morning. Thank you for the opportunity to provide

evidence to the committee on behalf of Colleges Scotland, which is the voice of the college sector.

Scotland's colleges have an incredible depth and variation to them, and whether on access-level courses or degrees, professional development or modern apprenticeships, college learners have many diverse requirements. Through their flexibility, colleges provide the high-quality courses that meet the needs not only of learners but also of communities and employers.

Audit Scotland's "Scotland's colleges 2018" report details many positives for the college sector in Scotland as well as some challenges, and it outlines the tangible progress that is being made by colleges in key areas. It is encouraging that student satisfaction levels are rising, at over 90 per cent; that 95 per cent of confirmed college leavers are going into positive destinations of employment, further studying or training; and that colleges have surpassed the Scottish Government's learning activity target, with a little over 116,000 full-time equivalent learners.

We embrace diversity in the college sector and the Audit Scotland report confirms that the proportion of credits being delivered to students from ethnic minorities, with care backgrounds, with disabilities and from deprived areas is increasing. Attainment levels for Scottish index of multiple deprivation 10 and SIMD 20 have increased for both full-time further education and full-time higher education students since 2011-12, and colleges continue to play a significant role in widening access.

Some financial challenges for colleges are outlined in the report. Colleges Scotland is working in partnership with the Scottish Government and the funding council to help to deliver a sustainable funding model that will enable colleges to continue working with employers and producing the skilled workforce that our economy depends on while providing considerable benefits to students.

Colleges are having a significant positive impact on Scotland's inclusive economic growth agenda. The Fraser of Allander institute report published last autumn concluded that college graduates contributed an additional £20 billion to Scotland's economy over their working lives.

I am happy to engage with the committee this morning.

**The Convener:** Thank you very much, Mr Witty. I ask Iain Gray to open the committee's questioning.

**Iain Gray (East Lothian) (Lab):** One of the key aspects of the Auditor General's report this year is that colleges are in a better financial position than, for example, a year ago when she reported, although she raises some concerns about the

sustainability of the sector's financial position going forward. Notably, all the savings from the reform programme and the mergers and most, if not all, of the increase in revenue funding that has been provided will be absorbed by the costs of national bargaining and harmonisation. Is it fair to say that our colleges have, in fact, no increase in funding to deliver their core functions?

**Paul Johnston:** I am certainly happy to take that question. It is important to emphasise, as you recognise, that the financial health of the sector has improved. The report really is quite different from the one that we were looking at this time last year, and there has been a significant real-terms increase in revenue funding to the sector. We absolutely recognise that harmonisation represents an investment in the workforce, and additional funding has been provided this year to deal with the costs of harmonisation.

**Dr Kemp:** The Auditor General was entirely right to say that the savings from mergers a few years ago were £50 million and that the eventual cost of national bargaining is £50 million, but it is important to recognise that the two things are some years apart and that national bargaining so far has resulted in additional funding; it is not a cost. I would not like people to imply that the savings from the mergers are, in fact, funding national bargaining; that is not the way it has happened. There is additional funding for national bargaining so far and there is another year in which it is to be implemented. If the savings from mergers had not happened, we would be in a different place and national bargaining, if it was to happen, would cost even more. However, although the two things cost £50 million, they are quite separate.

**Iain Gray:** But the Auditor General was pretty clear that most of the real-terms increase of 5 per cent on 2016-17 will be absorbed by the cost of national bargaining. My question was: is there any real increase in funding for the college sector at all?

**Dr Kemp:** Yes. Between 2017-18 and 2018-19 a large chunk of the additional funding has gone into national bargaining, but there is also an increase of 1 per cent in cash terms to colleges to deal with the financial pressures as well. Yes, most of the—

**Iain Gray:** So the additional increase is 1 per cent cash, not 5 per cent real.

**Dr Kemp:** Because we are funded by the Government on a financial year basis, which is where the 5 per cent comes from, by the time you turn that into an academic year it is nearer 10 per cent, because some of the academic year is in the next financial year. Therefore, colleges have received an increase of nearer 10 per cent in real

terms, of which a good chunk is going to national bargaining, you are correct.

**Paul Johnston:** I refer to exhibit 1 in the Auditor General's report at page 10. On the left-hand side, SFC income is described as being up 6 per cent on 2015-16; and on the right-hand side, staff costs are described as being up 1 per cent on 2015-16. That is quite a helpful graphic that points to the additional investment that has been made.

**Iain Gray:** But in key message 4 on the previous page, the Auditor General talks about

"a real-terms increase of five per cent on 2016/17. Most of this is to meet increased costs associated with national bargaining."

So most of the uplift is going to national bargaining. Dr Kemp says that what is left is 1 per cent cash.

**Dr Kemp:** That is correct, yes. Most of it has gone to the cost of national bargaining.

**The Convener:** Paul Johnston, you said in your opening statement that the money has increased, but the fact is that it is not going to students. Is that right?

**Paul Johnston:** It is correct to say that most of the increased money is meeting the cost of national bargaining. That is to ensure that we have a workforce that can support students. I would not wish to suggest that investing in the workforce is not providing help and support to students.

**The Convener:** How about the colleges that met the costs of harmonisation when it was proposed a few years ago? For instance, Dundee and Angus College, in my area, paid for that itself but has not received a kickback from the Government. Will it have that money refunded?

**Paul Johnston:** It is quite important to note the distinction between some of the regional approaches to harmonisation that were taken and national harmonisation. I know that Dr Kemp has more detailed financial information about what is happening with specific colleges, so perhaps I could turn to him on that one.

10:15

**Dr Kemp:** It is important to draw a distinction between regional harmonisation and national harmonisation. In the case of Dundee and Angus College—what used to be Dundee College and Angus College—it did not necessarily harmonise internally up to the level of the national harmonisation a few years later. The two processes were quite different.

What is correct—and several colleges have raised this with me—is that colleges that had higher wage rates prior to national harmonisation received a smaller increase between 2017-18 and

2018-19 than they would have received had they had lower wage rates. The crucial thing there is not whether they harmonised at the time of merger but the level of wages in the college. Every college received an increase related to harmonisation for 2017-18—in the case of Dundee and Angus College, the increase related to national bargaining was about £2 million. That reflects the fact that even though it had harmonised before, there was still a gap between its wage rates and the level that was harmonised to and between the hours worked, holidays and so on, which had to be paid for. In the Highlands colleges, for example, the increase was about 20 per cent between those years. For the other colleges, it ranged from about 5 per cent up to about 10 per cent, and 10 per cent was the average for the sector as a whole. All colleges received some increase; and some were bigger than others.

**The Convener:** It still seems to me that those colleges with good governance who could foresee and were listening to Government and implementing things as they went along are being penalised financially, which does not seem to me to be fair or a good signal for the Government to send.

**Dr Kemp:** If, over time, we were to freeze the increases as they are for this year and next year, you are quite right that that would be unfair. The reason why we have given some colleges a bigger increase than others—because they have a bigger gap this year—is because the financial situation in colleges is very tight and we are trying to do it in the most efficient way possible.

Once fully implemented, our intention is to move to a funding system that is based on a cost per unit of education, which is the same across Scotland, allowing for rurality, deprivation and so on. Over time, we will move away from funding people based on what their wages were a few years ago to funding them based on what they are delivering.

**The Convener:** Will you look at the colleges that attempted to make early arrangements for this to see whether they have been financially penalised and, if so, put that right?

**Paul Johnston:** I am conscious that my colleagues in the Scottish Government and in the funding council are in regular dialogue with colleges across Scotland. Where colleges wish to raise particular issues with us then, of course, we will consider them carefully.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** This is very much on the same theme but in relation to Ayrshire College. Dr Kemp, I wrote to you to ask you for information about the colleges that did receive funding support at the point of

merger and you were unable to provide the figures. It says here in your letter:

“It is not possible to provide an accurate costing for harmonisation at the point of merger as the SFC did not hold detailed records of staff numbers.”

Why is it not possible to tell us how much was paid at the point of merger to those colleges that harmonised?

**Dr Kemp:** The essential point is that we did not pay for harmonisation in most colleges. In the letter that I sent to you recently, I pointed out that there were two colleges where we did make a contribution to harmonisation costs but for most colleges in the 2012-13 merger programme we did not.

What I was saying in the letter was that because wage rates were up to colleges and we did not fund them directly, we do not have an accurate costing of exactly what harmonisation cost in every college. One of the things that has been evident as we have assisted the colleges with national bargaining is that trying to work out exactly contracted hours, hours worked and holiday pay and adding that up to get a national figure for colleges is not a simple piece of arithmetic. We have done it now but it was not done in 2012-13 for each college as it harmonised; it would have been done by the colleges themselves. They will know the costs, but we did not fund it then so we do not have them.

**Willie Coffey:** Are you sure about that? I have the post-merger evaluation document in front of me here and it quite clearly shows a table of those colleges that paid their own harmonisation money at the time. Dundee and Angus is one of them; it paid £750,000 at the time, and Ayrshire College paid £565,000. About nine colleges in total paid £4 million out of their own resources at the time and have continued to pay it as a consolidated harmonisation. How come you do not know that?

**Dr Kemp:** Those are the figures from the colleges that were in the post-merger evaluation. What I was nervous about doing was validating those costs because doing so as part of national bargaining has been tricky. I accept that colleges did incur costs in harmonising and that we encouraged them to harmonise because it would lead to a better merger—part of our mergers guidance was to do that. It was not done as a precursor to national harmonisation, although many colleges knew that that was likely to happen; it was done because we encouraged colleges to do it in order to have better mergers.

We accept that there are additional costs and we acknowledge that colleges have incurred those for some years. Colleges that ended up with higher wage rates as a result of harmonisation or other decisions at the time will have received a



smaller increase in 2018-19 than if they had not. We acknowledge that that cannot persist and, over time, we will need to find a way of moving back to a cost-times-price way of funding.

**Willie Coffey:** What you have just said there has been confirmed by the cabinet secretary, who wrote to me and said:

"It is recognised that had Ayrshire and others not harmonised its terms and conditions at the point of merger it would receive a higher level of funding now."

Moreover, that would have carried on until you began to make additional harmonisation payments. What the convener asked you and what I am asking both you and Mr Johnston is whether you will revisit that because, in my and committee members' opinions, some of the colleges have suffered detriment as a result of their own good practice.

**Dr Kemp:** They have not got the same level of increase, but Ayrshire College's increase this year was 6.8 per cent, of which £1.9 million was for the costs of national bargaining so, just to be clear, there have been some amounts of funding to Ayrshire, Dundee and Angus and other colleges that harmonised to support national bargaining. I accept that that is less than it would have been had they had lower wage rates when national bargaining was coming in, and we intend, over time, to address that. The issue is whether we go back and address it retrospectively for colleges that have had low wage rates over the past five years. I think that that would be very difficult to do—I am not sure how we would do it.

**The Convener:** Mr Coffey and I are looking for a commitment from both Paul Johnston and Dr Kemp that you will look at the matter and come back to us on whether there is a potential solution for the colleges that we mention.

**Paul Johnston:** Clearly, we are committed to the success and the sustainability of the college sector and the individual institutions within it.

**The Convener:** That is a very wide statement, Mr Johnston. We are looking for a specific commitment on the issue that we raised.

**Paul Johnston:** I want to emphasise that we are looking at an overall financial settlement that has constraints but, as I have said already, we will absolutely look at the specific issues that the committee has raised today. We are happy to engage directly with the colleges and, if the committee wishes further information from us, we will provide it.

**The Convener:** That would be good because I do not think that the Government would want to be penalising good governance, which is what has happened here.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I would like to look at repairs and maintenance, which is an obvious issue to highlight from the Auditor General's report. According to the headline figures in paragraph 25 of the report, the estates condition survey that you published in December 2017 identified that £163 million of repairs and maintenance were needed over the next five years. The first thing that jumps out at me is that, if fees, inflation and other costs are taken into account, that figure suddenly becomes £360 million, which is more than double the figure. How does that work?

**Dr Kemp:** If we want to effect the repairs, we must take into account more than the direct cost of effecting them. Fees, VAT, contingencies and optimism bias all need to be built in in order to obtain a realistic idea of what costs will be incurred. Our approach to the issue was consistent with the ways of looking at optimism bias and costing for fees that are given in the Treasury's green book. If we had done it the other way round and said, "There's a backlog of £163 million there," and then said, "It's going to cost far more than that to deliver it later on," I think that we would have been being dishonest.

**Colin Beattie:** So, the £163 million for the works to be done did not even include VAT.

**Dr Kemp:** No—this is how the figure was worked out. The £163 million was the direct cost and then VAT, optimism bias, fees and so on were built on top of that.

**Colin Beattie:** It sounds like an incredible increase to me, but maybe that is how the process works.

For high-priority works, £77 million has been identified over the next two years. How serious is high-priority work? What sort of examples would that include?

**Dr Kemp:** The Gardiner & Theobald report, which we published in December, categorises work as "very high priority" and "high priority". The very high-priority work is on stuff that has already failed, such as a roof that is leaking. High priority is the next level down, such as a roof that is expected to fail within the next two years.

**Colin Beattie:** Comparing that with the £163 million, quite a high proportion is very high priority.

**Dr Kemp:** About 20 per cent is very high priority. I think that you are quoting the figure as a proportion of the £360 million.

**Colin Beattie:** It is important to understand which figure we are comparing the £77 million with.

**Dr Kemp:** Yes. We are comparing it with the growth figure, which includes the fees and the optimism bias. The bigger costs are in the “low priority” and “medium priority” categories. They relate to work that will be done in years 3, 4 and 5, but it is true that the cost of the high-priority work is a significant amount.

**Colin Beattie:** You say that £77 million needs to be provided over two years and that you are providing £27 million this year. How are you going to provide the funds for the second year?

**Dr Kemp:** The £27 million is for 2018-19 and it is already in place. We are in discussion with the Government about next year’s budget, so I am unable to say how much we will be able to allocate in future years. The estates condition survey was commissioned and is there to give us a firm evidence base for discussions with the Government on budgets.

**Andy Witty:** Many colleges have first-class facilities that reflect the investment that has already been made in the sector, but the picture is not consistent and the estates condition survey reflects that. Obviously, we are grateful for the funding for very high-priority work for this year. The £77 million that is needed over the next two years for the high-priority work became part of Colleges Scotland’s spending review submission, with a bid for half of it being put in for 2019-20. We are looking for that funding in order to be able to deal with those high-priority issues.

**Colin Beattie:** To what extent is the Government committed to meeting those repairs over the next five years? Is there a plan to address that?

**Paul Johnston:** We accepted last year’s recommendation by the Auditor General that the work should be done, and it is good to see that the work has been completed and that the highest priority work is now being addressed. We need to consider the specific funding allocations as part of this year’s budget process. You will appreciate that I cannot confirm today what the precise capital allocations will be for the sector, but I can certainly confirm that those issues will be considered fully as part of that process.

**Liam Kerr (North East Scotland) (Con):** Just to be clear, £77 million needs to be found across the college sector sometime in the next two years to deal with the high-priority works. If I am one of the colleges in question, am I going to get that?

**Aileen McKechnie (Scottish Government):** I will supplement what Mr Johnston said. We are in the middle of the budget process. We are working closely with Colleges Scotland and the funding council to understand what the priorities are. As Colleges Scotland said, it has bid for half of the £77 million, so that is in our thinking for the 2019-

20 budget process. Equally, thought is being given inside Government to an infrastructure investment plan for the next five years, and the funding council’s report plays into that. All of that is subject to discussion, but because the budget process for 2019-20 is live at the moment—clearly, we cannot pre-empt the budget processes for further years—we cannot commit. However, we are working closely with the sector and the funding council to understand what the needs are and how we might best address those.

**Liam Kerr:** Keeping my college hat on, can you give me any reassurance as to when I might know whether I will get the money so that I can make business plans for my estate?

**Aileen McKechnie:** Every college will find that out—as other parts of the system will do—when the budget statement is made in Parliament, and we expect that to be in December.

**Liam Kerr:** I have a daft-laddie question. Paragraph 27 of the Auditor General’s report mentioned the recommendation in “Scotland’s colleges 2017” that the funding council should produce some criteria so that it can decide where the funding should go. I understand that such criteria were produced in December 2017 but were not published. Have those criteria now been published and, if not, when will they be?

**Paul Johnston:** I think that the criteria were included in Dr Kemp’s letter.

**Dr Kemp:** The criteria were not for the disbursement of the £360 million; they were for new capital projects that would be over and above that—the replacement of campuses and so on. The criteria were in the letter that I sent to the committee a couple of weeks ago, and they are included in the papers.

Some of the factors that would be included in those criteria were also signalled in the circular in which we published the estates condition survey back in December. We are still discussing those with Colleges Scotland and have not completely finalised them yet, but they are in the public domain now.

10:30

**Alex Neil (Airdrie and Shotts) (SNP):** I want to concentrate on one or two issues that have come up in the report, beginning with the role of the regional bodies. For example, I notice that Glasgow, which has three colleges, spends £430,000 on a regional body, whereas Lanarkshire, which has two colleges, spends only £50,000. What is the value of the regional bodies? I am thinking, in particular, of the regional body for Glasgow. Where is the added value for that money?

**Dr Kemp:** The added value comes in bringing the colleges in Glasgow together to provide a coherent curriculum across the city, to plan and allocate funding to that coherent curriculum, and to offer one point of contact for businesses for things such as the flexible workforce development fund, foundation apprenticeships and so on. The intention in the legislation that set up the regional strategic bodies was that if the SFC is to fund a region as opposed to a set of colleges in a region—where there is more than one college in a region—there needs to be a body that pulls together the colleges in that area, that makes sure that they are funded at local level to deliver the needs of that region, that is responsible for the outcome agreement for that region and that ensures that the region gets what the SFC is funding. That is the purpose of the regional strategic bodies.

You are quite right to point out that there are differing levels of costs and that Glasgow's strategic body is the most expensive one. All three of the regional strategic bodies are unique, but Glasgow's is the only one that has a separate board—in other words, the role is not performed by a university or an existing college—so it has higher costs. However, those costs amount to about 0.4 per cent of the funding that it handles, which is broadly in line with the costs of the funding council. It is a more modest cost than it could have been. If you look at the financial memorandum for the bill that set up regional strategic bodies, it assumed that a regional strategic body would cost well over £0.5 million—I think that £560,000 was the assumed cost of a regional strategic body—and all three are operating well below that level.

**Alex Neil:** I realise that it is 0.4 per cent, but £430,000 would help quite a few students if it was given to them as bursaries. I am perplexed, because in Lanarkshire, the cost is an average of £25,000 per college, whereas in Glasgow, it is nearly £150,000 per college. Where is the added value?

**Dr Kemp:** It is absolutely right that we consider every pound that is spent on administration and whether that could be better spent on provision in colleges, but Glasgow and Lanarkshire are in very different circumstances. In Lanarkshire, there are two colleges and 80 per cent of the provision is in one college—the larger one, New College Lanarkshire—which is the regional strategic body. That is a different model. One reason why there is not a separate strategic body in Lanarkshire is to save on administration costs and have a leaner model. That is why it is done that way.

**Aileen McKechnie:** It might be helpful to list some of the successes in Glasgow. The regional board has produced its strategy. I am sure that Mr

Neil and other colleagues will have seen it and, if not, we would be happy to share it with you. The strategy is a demonstration of ambition for the city region of Glasgow. Successes include greater cross-college working in curriculum planning; in organisational development; in student experience; in delivering and developing the young workforce; in instituting data systems, regional capital distribution and regional approaches to procurement in shared services; in collective delivery of foundation apprenticeships; in a collective approach to the delivery of our ambitions on early learning and child care; and in collective approaches to delivery against the flexible workforce development fund.

There is a long list of activity that the regional board is driving in a collective pan-Glasgow way across the three colleges, which are significant in terms of scale. Through the reform, we reduced 10 colleges to three. Therefore, it is appropriate that we have a body that sits across that and drives the collaboration and alignment that we need to see to get the maximum benefit for the Glasgow city region.

**Alex Neil:** The real question is whether that could be achieved without that extra bit of bureaucracy, and I am not convinced that it would not be.

**Aileen McKechnie:** That is a fair question. We recently commissioned the funding council to do an exercise in order that we could understand better the value that is delivered and secured by the regional bodies and the regional system. That is a live piece of work that we are—

**Alex Neil:** Is that being done by outside consultants?

**Aileen McKechnie:** I do not think that the funding council has determined—

**Dr Kemp:** We have not confirmed that.

**Aileen McKechnie:** Next month, I will have a meeting with the college chairs, the funding council, Colleges Scotland and the College Development Network. We will have a conversation as a collective about how we can best understand what we deliver, how we deliver it and how we secure best public value from the delivery of that regional approach across Scotland. We are taking forward that piece of work.

**Alex Neil:** What about spending inside the colleges? How the money is spent inside a college matters from the point of view of maximising its impact on the local economy and local people. We took evidence from New College Lanarkshire, which has not had its problems to seek and still has not resolved quite a number of them. The relationship between management and the staff can only be described as appalling. Another issue

is the fact that a lot of money seems to be spent on layers and layers of management—we have had similar submissions on other colleges, including Edinburgh College, down the years—while not enough is spent on provision of the front-line lecturing services. Is that something that you monitor?

I am sure that the two colleges that I have mentioned are not the only two colleges in Scotland that are a bit top heavy on the layers of management and a bit light when it comes to the percentage of the money that is spent on the front-line service.

**Dr Kemp:** We do not decide on the structures in colleges.

**Alex Neil:** I did not ask whether you decide on that; I asked whether you monitor it. You are supposed to monitor performance.

**Dr Kemp:** As you will know, when I gave evidence to the committee on New College Lanarkshire, in response to one of your questions, we looked at the proportion of staff who earn more than £60,000 and found that New College Lanarkshire is broadly average. There is variation in the way in which colleges arrange their internal management.

If we were concerned about a college having an excessively heavy senior management—I stress that I have not seen strong evidence that any are way out of line on that—we would discuss that with the board and so on, but it is primarily for the board and the management to decide on the structure. They have responsibility for running their colleges efficiently. When we are concerned about inefficiency of any kind, we discuss that with the college board and its senior management.

**Alex Neil:** You picked £60,000, which is a fairly arbitrary figure. I did not mention senior management specifically; I referred to layers and layers of management. There are some people who manage only one person, for example. I am not saying that New College Lanarkshire is the only college with that problem. What concerns me is whether we are maximising the resources that need to be spent on the front-line service.

I will give an example. Recently, there was one class at New College Lanarkshire at which no lecturer turned up for six weeks. I do not know how often that goes on in New College Lanarkshire or in other colleges, but I find that appalling. To me, that is rank bad management.

**Dr Kemp:** Yes. I do not want to comment on that specific incident, but if things like that were happening, we would work with Education Scotland through—

**Alex Neil:** But how do you know about such things? You did not know that that was happening.

**Dr Kemp:** I did not know about that specific example but, along with Colleges Scotland, we are looking at how the outcome agreements are being implemented by each college and how students are being supported. We go through an annual engagement process that would uncover issues such as students not being taught. I do not know about the case to which you refer, so I would not like to comment on it, but I would be happy to look at it further if you want.

**Alex Neil:** The other issue is the relationship between management and the unions and staff. Again, that is not confined to New College Lanarkshire. From the evidence that we have taken it appears to be a pretty bad situation. It also appears to be the case that there is an ongoing situation at Edinburgh College. There is no doubt that there is at other colleges, as well. What are you doing about it?

**Dr Kemp:** Do you mean about the relationships between management and staff in individual colleges—

**Alex Neil:** That, and the consequences of the poor relationship. We had the principal in here a few weeks ago, and he described some of his staff as “troublemakers”. I think that that was the word. Am I right?

**The Convener:** No. The principal did not use that word. I used it.

**Alex Neil:** He endorsed it.

**The Convener:** That is correct, yes.

**Alex Neil:** That is pretty much the same thing, is it not?

**Dr Kemp:** I was sitting next to him when he did that, so I remember. Relationships between staff and management in colleges are issues for staff and management in colleges: the funding council cannot get involved in that. We encourage college management to work closely with the trade unions, to consult and to make sure that they are operating in a collaborative way, but the prime responsibility for management and boards of colleges is to work with their staff. College boards include staff members, so they are at the table when the discussions are happening. We want colleges to work as effectively as possible, but the prime relationship is between management and staff.

**Alex Neil:** I am not asking you to micromanage the colleges. Clearly, that would defeat the whole purpose of having college management teams, but you are the guardian of value for money. In effect, you are the accounting officer for all the money that is spent on colleges, which is an essential part of the economy, but I get the impression that your attitude is that once you have dished out the money it is *laissez faire*.

**Dr Kemp:** I have to say that if you were to put that to the colleges, they might say different. I am more often accused by colleges of being a micromanager than I am of running away and not asking what they are doing.

Through the outcome agreements and through our work with Education Scotland, we look very closely at where the money goes, how effectively it is being spent, whether it is meeting the skills needs of an area and whether it is delivering what students want. There is always a balance to be struck between the role of senior managers and boards of the colleges and the role of the funding council. I am more often accused of being a micromanager than the opposite.

**Iain Gray:** I want to move away from finances. Mr Johnston said in his opening statement that his responsibility is, as accountable officer, to ensure that the sector is aligned with the policies of the Scottish Government and is delivering those policies. For the college sector the pretty clear Government policy was concentration on full-time courses that lead to employability qualifications for students aged 16 to 24. In previous years, the committee has discussed the consequences of that, which was a very significant drop in student numbers—150,000 at the peak, with decreases being among part-time and older students.

However, that seems to have changed; this year the Auditor General reports an increase in part-time students for the first time in a number of years. She has also pointed out that 70 per cent of that increase is in students of school age—16 and under—rather than in older students. Is there any clarity about Government policy in what it is requiring colleges to do? I would like to know from Andy Witty whether the college sector is clear about what the Government is asking it to do, because it seems to change all the time.

**Paul Johnston:** I accept that a number of years ago there was a very deliberate decision to concentrate on full-time courses for young people, which reflected the labour market conditions at the time. I will turn to my colleague Aileen McKechnie in a minute, because this year we made changes to the letter of guidance that was sent to the funding council, in which we quite explicitly acknowledged the need to widen the range of people to whom college placements would be offered. There has always been a wide range, but it has, as the Auditor General recognises, widened. It might be helpful to hear some specifics on what we asked of the funding council.

10:45

**Aileen McKechnie:** In our outcome agreement guidance letter to the funding council in October last year, we were quite explicit. It said:

“Colleges are not required to prioritise full-time provision for 16 to 24-year-olds but rather should be responsive to the current needs of learners and the economy.”

That was to enable the sector to respond to the emerging conclusions of the enterprise and skills review and respond to the strategic board’s emerging strategic plan, and to enable the system to respond to changed economic needs.

As Mr Johnston said, when we introduced the focus on young people, the economy was at peak recession, so we felt that that was an appropriate thing to do. The fact that we have achieved our developing the young workforce target four years early demonstrates that it was a successful exercise that was absolutely supported by the college sector in respect of delivery.

We recognise that the economy has changed, so we need to refocus and enable the college sector to refocus its efforts in reaching out to accommodate a wider economic requirement. We are working closely with the sector in relation to the strategic board’s expectations about upskilling and reskilling people in the workplace. Colleges Scotland is represented on the strategic board in order to allow the sector to hear directly the emerging policy thinking, as it is being developed.

**Andy Witty:** The college sector understood and responded to the developing the young workforce direction of Government policy and was happy to do that. As has been explained, the labour market is changing and the increase in part-time students—the majority at this point are under 16; I will touch on that in a moment—is reflective of the work-based learning and the in-work contribution that colleges can make, which will be absolutely vital in driving up productivity in the Scottish economy. Colleges also have a very strong link through to the small and medium-sized enterprises that are the backbone of the Scottish economy. The increase in part-time learners is a positive development in that respect.

There are a considerable number of students below 16 years of age, which is happening because of the stronger links between schools and colleges through the developing the young workforce policy, which is helping to give people skills in appropriate areas and to find the right place for them to learn, going forward. The sector is trying to provide what is needed to build the skills base for the future.

**Iain Gray:** That is the contribution that colleges traditionally made. The sector, at the instruction of the Government, stripped out the contribution to in-work learning, to increasing productivity and to returners to work—all of that. Are you saying, Mr Witty, that your understanding is that the Government now wants you to put all that back?

**Andy Witty:** The college sector was responding to Scottish Government policy direction for developing the young workforce. We understood that and supported it. As labour market needs and Scottish Government policy needs change, we will respond. We are seeing the start of that: colleges have the flexibility to deliver on that and, ultimately, will be a linchpin in satisfying that need.

**Iain Gray:** Is the Scottish Government now saying it wants to put back into the college sector the activity of the 140,000 students who were stripped out of it? The Auditor General has said that it was largely women and people with disabilities who were affected by that change.

**Aileen McKechnie:** We are not saying that we are retreating to a position that we were in before we introduced the reform and before we introduced our focus on young people. We are saying that the college sector needs to be flexible and responsive to the needs of economic shifts.

The college sector has always delivered part-time places. We have encouraged it to be thoughtful. Part of the regionalisation ambition is to find out what regional needs are. The college regions all deliver something slightly different, which is part of the expectation because of geography, economic impacts and economic need.

We are working closely with the strategic board and the college sector to understand the national need and what the regional fit might be for that. Our emerging thinking from the strategic board is that there needs to be greater emphasis on in-work upskilling and retraining.

In terms of being ready for the jobs of the future, we do not yet know what the jobs might be, but the bulk of the workforce is already in the workplace. How do we train better those who are in the workplace? There are live conversations with the college sector about what its offer is and how it might flex. Learners must come in for full-time or part-time learning, but people who are in work must also be able to access upskilling and retraining so that they are better able to progress in their workplace or into other occupations and opportunities.

**Iain Gray:** Do you feel that that is a clear strategy for the sector? I ask because it does not sound very clear; it sounds as though the sector was asked to make a very significant strategic shift, but is being asked now to do something different, all over again. If I was a college, I would feel that that would make it quite difficult to plan my activities.

**Dr Kemp:** The college sector is very adaptable; it responds very quickly to change. The change that we were talking about earlier—prioritising young people—was 10 years ago. That has

worked through the system and, by and large, the number of part-time and older people had stabilised over the last few years. We are now talking about the emerging conclusions from the strategic board pointing us in a different direction, but we are not starting from a base at which all places in colleges at the moment are full-time courses for young people. There are still 200,000 people on part-time courses. The number is down from where it was 10 years ago, but that is still a fairly strong base.

The issue that we now face is how we use the capacity in colleges to respond to the current economic need, rather than to the economic need of 10 years ago. We have been working with the colleges so that they can adapt; this is not coming as a complete surprise to them.

**The Convener:** Foundation apprenticeships are an integral part of the subject of the discussion that we are having, are they not?

**Dr Kemp:** Yes, they are.

**The Convener:** Has the national target for 5,000 foundation apprenticeships been met?

**Paul Johnston:** I do not have the figure in front of me, but perhaps my colleague has.

**Aileen McKechnie:** That target is not due to be met this year. Our ambition is to secure 5,000 FAs—

**The Convener:** By when?

**Aileen McKechnie:** By next year, I think, but I am not quite sure of—

**The Convener:** Do you know how far towards the target we are, Ms McKechnie?

**Aileen McKechnie:** From memory, we are a third or more of the way through. I am looking to John Kemp, in case he knows.

**Dr Kemp:** FAs are funded by Skills Development Scotland rather than by the funding council.

**The Convener:** Yes. Please remind me who, exactly, is responsible for delivering foundation apprenticeships.

**Dr Kemp:** They are commissioned by SDS. They are largely delivered in colleges, but commissioning is often through local authorities.

**The Convener:** Mr Johnston, would it surprise you to hear that the target for Dundee was to have approximately 250 FAs, but we have only 13 foundation apprentices at the moment?

**Paul Johnston:** We should absolutely take that away. I would be happy to write to the committee to provide an update on how we are getting on with the target.

**The Convener:** Does that example represent the situation with foundation apprenticeships across the country?

**Aileen McKechnie:** There is a mixed picture across the country. The foundation apprenticeship was introduced as part of the developing the young workforce programme and is a new qualification: it is equivalent to a higher. We have had to engage hard in the system to get schools, colleges, employers, teachers and parents to understand the value of the FA, and why their young people would want to take up a foundation apprenticeship as opposed to doing a higher. That exercise in marketing, promoting and influencing choice is a work in progress.

**The Convener:** That is fair enough, but if you aim to reach the 5,000 target by next year, the figure of approximately 13 out of a target of 250 in one area must surprise you.

**Aileen McKechnie:** I was not aware of that figure; it is disappointing. We will take that away and look into the matter. SDS, as Dr Kemp said, is the lead agency for FAs, and it has offered assurances about ability to deliver. We want to be clear that although we have a target for foundation apprenticeships, what we are delivering is the best outcome for the young person.

**The Convener:** It worries me greatly, because of the situation with youth unemployment and opportunities for young people, that the figures can be so stark and so low. If you can commit to looking at that and coming back, that would be good.

**Bill Bowman (North East Scotland) (Con):** My question is principally to Dr Kemp, but maybe Paul Johnston will want to come in, as well.

Dr Kemp, in your submission, you talked about the colleges' financial position and the remarks that were made by the Auditor General—which, I must say, concerned me at the time—about colleges' inability to calculate their underlying financial position consistently, and that forecasting returns did not use common assumptions. For me, if they cannot calculate their underlying financial positions consistently—some were doing it right, some were doing it wrong—and consistent assumptions are not being used, you are comparing apples to oranges. A lot of the discussion today has been about finance and what goes where, but if we do not know the base information we will struggle a bit.

You say that you have addressed the recommendations. I hope that that means more than a stern memo to the colleges asking them to do something. Perhaps, to use your phrase, now is the time for a little bit of micromanaging. How are you making sure that that is done?

**Dr Kemp:** Actually, it might be fair to describe what we are doing as

“a little bit of micromanaging.”

The financial forecast guidance that went out in July after the Auditor General's report was published was very detailed in respect of how colleges should work out their forecasts and the assumptions that they should use. Previously, there was a range of things that they could look at that they would interpret in different ways.

In defence of the sector, I say that the year when the Auditor General was looking at it was quite a difficult year in which to make assumptions. Depending on whether they were optimistic or pessimistic about national bargaining being funded, colleges could end up in quite different places with financial forecasts. It was a very difficult year. This year in our guidance we have been far more specific about the assumptions that they should use and how they should treat things in their accounts, and we have given them a set of far more detailed spreadsheets to fill in.

The guidance is up on our website for all to see. We are anticipating that it will lead to a far more robust and comparable set of financial forecasts from colleges. The deadline for them was last week; they came in on 28 September, so we are now working through them. I expect that the colleges will have been far more consistent in how they have treated what is likely to happen over the next few years.

**Bill Bowman:** My concern is with the term “guidance”, as opposed to “instruction”. Is it closer to instruction? How will you know that they are doing it?

**Dr Kemp:** College boards have responsibilities to manage their own finances for their own financial sustainability. I do not want to go too far down the line of instruction from us. We have given very specific guidance that says how they should treat particular things; if they do not treat them that way, they will need to explain to us why. Colleges are part of the public sector and are subject to the Scottish public finance manual and so on, but they are independent bodies. We want colleges to manage themselves and to be entrepreneurial. We need to strike the correct balance, but we need to understand their financial forecasts, so we have been very specific.

**Bill Bowman:** Are you supportive of that, Mr Johnston?

**Paul Johnston:** I absolutely agree that consistency is important when it comes to forecasting, so that we can get a clear picture of the sector as a whole. I welcome the work that has just been described; my expectation is that it will

deliver improvements. I am sure that that is something that Audit Scotland will continue to comment on.

**Liam Kerr:** I looked at what Audit Scotland said about the gender balance on boards: all but three fall short of the statutory requirements of the Gender Representation on Public Boards (Scotland) Act 2018. What is the timeframe within in which colleges must change the composition of their boards to comply with the legislation, and what will happen if they fail to do that?

**Aileen McKechnie:** I will say a few words about what we are doing to seek to improve that position because we, as the committee does, recognise that that situation is not good.

We are working closely with Colleges Scotland, the College Development Network and the funding council, alongside the board chairs, to encourage greater diversity in boards. We offer advice from our public appointments team and from the Commissioner for Ethical Standards in Public Life in Scotland. We invite board members to our on-board conferences and we make clear our expectation of a shift in diversity on boards in our annual ministerial letters of guidance.

We will hold our second annual event for college chairs and vice-chairs in November. One of the key items on the agenda is the gender legislation and the gender balance on boards, which we discussed the last time we met. We work closely together in order to encourage shift and change. We use such events to share good practice and learning; one of the case studies on the day will be from Dundee and Angus College, outlining its success in taking forward diversity. It shifted its approach to how it advertises and recruits and has changed the balance on its board quite substantially.

The College Development Network is responsible for offering training and development to all board members and is working hard to encourage boards to be more thoughtful and creative about how they advertise, because part of the issue has been the number of applications: they can select only from the pool that is before them. There is a lot of work being done on how adverts look, what they say and where they are placed. How they reach out matters.

The other thing that we are working hard on is talent management succession planning—how they identify individuals. Gender balance matters, of course, but diversity in the wider sense matters equally on boards, so we are thoughtful about that in terms of how we encourage people to apply to boards.

11:00

**Andy Witty:** I will give some context. The number of women on college boards has increased by 9 percentage points since 2014; over the past four years there has been an increase from 35 per cent to 44 per cent. That is a strong direction of travel, although clearly there is still work to do. Aileen McKechnie outlined elements that will help to continue to drive that. There is good progress being made towards the 50/50 split on college boards.

**Liam Kerr:** I hear that. Could you clarify—there will be colleges watching the meeting—by when colleges must comply with the objective, and what will happen if they fail to do so?

**Dr Kemp:** My understanding is that boards must be 50 per cent women by 2022.

**Aileen McKechnie:** That is my understanding, too, although we have previously articulated our ambition for 50:50 by 2020. We are not comfortable with being slow in delivery. The long list of activities that I outlined earlier are part of a hard drive across the sector to ramp up action on diversity and balance on boards. We are not happy to wait until 2022. The actions that we have in train demonstrate that we think that the matter is hugely important, and that we want to drive change. As Mr Witty said, we are seeing change and improvement, but there is more to do.

**Willie Coffey:** I will return to financial matters and the Ayrshire College's private finance initiative contract. It is perhaps the last millstone around the neck of the college from a bygone era, but it is, nevertheless, having a major impact. It is mentioned by the Auditor General in her report and it is a significant challenge for the college.

The question is for either Paul Johnston or John Kemp. Are you aware of the letter that was sent by Ayrshire College and which was signed by the students, the union and the management, warning of the dangers that could happen in Ayrshire College if the situation is not addressed? It talks about a significant potential reduction in its workforce, which could damage the services that the college offers its students, and so on. What is being done to address the problem?

**Paul Johnston:** I am aware of that matter; it will be considered carefully. I know that Dr Kemp is looking into the issues, so perhaps he can say a bit more about what he is doing.

**Dr Kemp:** I wrote yesterday to Heather Dunk, the principal of Ayrshire College, in response to the letter to the First Minister and to one that she had sent me on a similar issue the day before that.

We have been working very closely with Ayrshire College. We recognise that there is an additional burden on the college that is caused by



the PFI contract. That contract has existed for some time and has been being dealt with by Ayrshire College and its predecessor colleges for well over a decade. That said, given the very tight financial circumstances that all colleges are in, we are working with Ayrshire College on potential solutions. For 2018-19 there is a solution in place in which receipts from one of the buildings that was surplus because of the new campus is funding the contract.

We are in discussion on ways of helping Ayrshire College in the future. As I have said in my letter to the principal, it is very premature to be talking about reductions in staffing on the scale that is mentioned in the letter, given that we are currently in discussion with the college about potential solutions.

**Willie Coffey:** The funding support so far is a one-off payment of receipts from the old Kilmarnock College building. It does not address the problem, as John Kemp knows well. I know that you guys were not in post at the time of the contract.

**Dr Kemp:** I acknowledge that the payment addresses the problem for 2018-19.

**Willie Coffey:** We managed to buy out the West Lothian College PFI a number of years ago—to the tune of £27.7 million—because, as you say in your letter, it was unaffordable for the college. Surely the PFI contract is unaffordable for Ayrshire College.

**Dr Kemp:** I accept that the contract is a burden on Ayrshire College. The scale of the burden was quite different for West Lothian College. As the Auditor General says in her report, the burden is about 4 per cent of Ayrshire College's income. The burden for West Lothian College was about 20 per cent of its income, so it was a heavier millstone.

That said, we recognise the burden on Ayrshire College and are looking to come up with a solution that might not be buying out the PFI contract, because it is far more advanced, so that might not be cost effective. However, we need to consider ways of supporting the college.

**Willie Coffey:** The payment that Ayrshire College has to make is about £2.2 million. West Lothian College was paying £2.7 million, so Ayrshire's payment is less than West Lothian's was. However, we managed to buy that one out—curiously, in March 2007, just before the election.

**Dr Kemp:** I was not involved with the West Lothian College contract, but West Lothian College is far smaller than Ayrshire College, and the payment was 20 per cent of its income. The burden on Ayrshire College is smaller. I accept, however, that it is a burden, so we are discussing with the college ways to mitigate it.

**Willie Coffey:** Finally, do you accept that it is a bit of a double whammy that Ayrshire College is having to face in relation to the harmonisation that we have discussed and the PFI millstone that is still hanging around its neck?

**Dr Kemp:** I do not want to be trapped into saying “double whammy”, but I accept that Ayrshire College has particular financial challenges, as do other colleges. We will work with Ayrshire College to address them.

**The Convener:** I thank our witnesses very much for their evidence.

11:07

*Meeting continued in private until 11:25.*



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