AUDIT COMMITTEE

Tuesday 9 May 2006

Session 2

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CONTENTS

Tuesday 9 May 2006

AUDIT COMMITTEE
† 7th Meeting 2006, Session 2

CONVENER

*Mr Brian Monteith (Mid Scotland and Fife) (Ind)

DEPUTY CONVENER

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS

Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*Mrs Mary Mulligan (Linlithgow) (Lab)
*Eleanor Scott (Highlands and Islands) (Green)
*Margaret Smith (Edinburgh West) (LD)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)
Mr David Davidson (North East Scotland) (Con)
Marlyn Glen (North East Scotland) (Lab)
Mr John Swinney (North Tayside) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Dunthorne (Inverness College)
Martin Fairbairn (Scottish Further and Higher Education Funding Council)
Ken Mackie (Inverness College)
Niall McArthur (Inverness College)
Roger McClure (Scottish Further and Higher Education Funding Council)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Clare O'Neill

LOCATION

Highland Council Headquarters, Inverness

† 6th Meeting 2006, Session 2—held in private.

Scottish Parliament

Audit Committee

Tuesday 9 May 2006

[THE CONVENER *opened the meeting at 09:36*]

Item in Private

The Convener (Mr Brian Monteith): Good morning and welcome to the seventh meeting in 2006 of the Scottish Parliament's Audit Committee. I remind everyone to turn off pagers and mobile telephones.

I welcome to the meeting my colleagues on the committee and members of the Audit Scotland team, including Caroline Gardner, Bob Leishman, Jim Martin and Karen Chapman. We have received apologies from Susan Deacon, a member of the committee, who has business relating to another committee that she sits on and therefore has to be in Edinburgh.

I am pleased to be holding this meeting in Inverness. One of the reasons why we are holding the meeting here is to allow the public of Inverness to attend easily, and I welcome all those who have made the effort to come along. We also have with us a number of witnesses from Inverness College management and the Scottish Further and Higher Education Funding Council.

The first item is for the committee to agree to take in private the third and final item on the agenda, under which the committee will consider the evidence that we have heard. Do members agree to take item 3 in private?

Members *indicated agreement*.

"The 2004/05 Audit of Inverness College"

09:38

The Convener: I welcome the chairman of the board of management of Inverness College, Ken Mackie; Niall McArthur, director of finance and commercialisation; and John Dunthorne, chair of the finance and general purposes committee. Later, we will hear from Roger McClure, the chief executive of the Scottish funding council, and Martin Fairbairn, who is also from the SFC.

Before we begin to take evidence, it might be helpful for me to explain why one of the Scottish Parliament's committees has come to Inverness, the purpose of the Audit Committee and how we go about our business. That may not be familiar to everyone here, or to those who are listening or reading the *Official Report*, who may wish to understand how the committee operates and why we called the inquiry.

The committee holds public bodies to account by taking oral evidence from accountable officers—usually the chief executive of an institution or the head of a Government department. We then receive written evidence, following which we decide our conclusions and recommendations. We then normally publish a report, which goes to the Government minister responsible for the area concerned, or at least to the Government minister's department. The head of that department then responds to us, outlining whether he or she will be taking up any of our recommendations. We can reconsider the matter if we feel that there has been a lack of action.

The Audit Committee operates in the public domain. We are not some sort of star chamber that meets in secret—we conduct our meetings in public. We also publish the written evidence that we receive, subject to the requirements of the data protection legislation, which exists to protect people's privacy and employment rights, and subject to commercial considerations, in the circumstances in which an institution's ability to achieve financial recovery might be undermined. After all, the purpose of what we do is not just to discover what might have gone wrong, but what recovery plans are in place. The committee has no wish to undermine such plans.

We believe in being transparent, so we try to publish material where appropriate. We have to give consideration to the Freedom of Information (Scotland) Act 2002, which can be applied to the evidence that we receive. We could receive requests to provide information that we might otherwise withhold. With all those factors taken into account, the committee does its best to make information available, while being concerned about proper conduct and giving an institution the proper opportunities to go about its business.

In June 2005, the committee had before it representatives of three colleges to hear why their accounts for 2003-04—which is some time ago now—had been drawn to our attention by the Auditor General for Scotland. We wanted to hear of those colleges' plans for financial recovery. Following publication of its accounts for the subsequent year, 2004-05, it was clear that Inverness College was not achieving its recovery plan. The committee had been told that the operating deficit would fall to about £244,000. Instead, the deficit climbed to £966,000.

The accounts were again referred to us by the Auditor General. The accounts for 2005-06 have not yet closed—the financial year runs to the end of July—but we understand from current information that the planned surplus of £69,000 will come out as a deficit. It will not be as bad a deficit as was once feared, but it will be in the region of £80,000 to £90,000, after some actions have been taken. It is in those circumstances that the committee, which is charged with the parliamentary duty of holding to account those who manage public funds, wants to understand how these serious amounts of public funding are being dealt with.

As I said, the committee takes evidence from accountable officers and, under normal circumstances, we would take evidence from the chief executive of Inverness College. It was recently intimated to us that the chief executive is leaving the post, and the committee was left in the position of not knowing whether the accountable officer for the financial period 2004-05 would appear to give evidence. However, we are pleased to have before us the chairman of the board, together with his team, who can respond to our questions.

For the benefit of the staff of the college and members of the public who are concerned about the matter, I point out that the Audit Committee can compel witnesses to attend. The committee has the force of law behind it, and has resolved that it will use that power. We expect to be able to hear from the chief executive, or accountable officer, on a future date regarding the period that we are examining.

I turn now to the business in hand. Today, we will consider the financial management of Inverness College, including the development and implementation of its financial recovery plan. We will also consider the way in which the Scottish funding council supports and monitors the performance of Inverness College. We believe that to be important, because there will be lessons for other colleges that might face difficulties in the future.

We will be asking questions on three general areas: why the college financial outturn to 31 July 2005 was significantly worse than was forecast when the committee took evidence from the principal in June 2005; what the college proposes to do to resolve its financial weaknesses; and how the college and funding council have worked together. There will be a theme behind those lines of inquiry, relating to a special report—the FEDD report—which was produced for the college by the funding council's further education development directorate. That group of experts and advisers has worked with the college to come up with a number of recommendations. Members will refer to the report where appropriate.

09:45

The Audit Committee's remit is such that it considers financial, not policy, issues. That is an important distinction. It means that the committee will take evidence on the college's financial position and the steps taken to address financial weaknesses, but not on policy issues related to the college. It is not for the committee to enter into debate about which courses the college provides, as that would be a policy issue. We are interested in the structure of the college and the number of lecturers available, or, as it is referred to, the teaching SUM, or student unit of measurement. It is the task of committee members to keep ourselves right on that and we shall be advised by the clerks if we overstep the mark.

I hope that that gives the context of the committee's meeting in Inverness. We think that it is appropriate to be here, rather than bring everybody down to Edinburgh, to allow people from the Inverness area—academics, students and others with an interest—to see our deliberations. We will have further evidence sessions that will probably be held in Edinburgh, but they will be webcast; the audio of those meetings will also be available, and a written account will be produced.

I invite Andrew Welsh to ask the first question.

Mr Andrew Welsh (Angus) (SNP): Would the witnesses describe financial management and budget setting in the college as robust?

Ken Mackie (Inverness College): From the outcomes that we have, it is pretty evident that that has not been the case. However, the issues that have arisen have often been swings at the end of the year. It would be helpful for us to run through at the start of the meeting the reasons behind the deficit that was incurred in 2005.

Mr Welsh: If you would not describe those systems as robust, how would you describe them?

Ken Mackie: You will have read the FEDD report, which brought to our attention the lack of cohesion between the organisation's strategic planning and financial budgeting. The convener said that the committee wants to consider the finances but not the policy. I accept that that is the committee's role, but for the board to manage the affairs of the college we need to consider the entire business, which means considering what we are selling, if you like, what else is in the marketplace and how we should fund the levels of expenditure that we incur.

Mr Welsh: For how long has the system failed to set budgets that have actually been delivered?

Ken Mackie: When I first joined the college board about six years ago, we were faced with a deficit of some £5.5 million. I got involved because I felt that the situation was serious and that I might be able to be of some assistance. All the board members are of the same ilk, having come in for that reason. We made some progress—for three years we made surpluses and began to get some control of the organisation's finances. It is a deep disappointment to all of us that the position has slipped back. We knew that it was a tight ship—margins are tight and there is not a lot of flexibility. The organisation does not carry any reserves, so we have nothing to fall back on when we hit a problem.

We thought that we were making progress. We had identified that we were making good progress towards the ratio of weighted SUMs to full-time equivalents, but progress has slipped back, although there are explanations for that slippage.

We are working with very tight margins in an area that is growing fast and in which there are high expectations and strong requirement for development. However, there is a lack of money to enable us to undertake that development.

Mr Welsh: Has the board had the control that you talk of?

Ken Mackie: We put in place a lot of measures to ensure that we were getting meaningful financial reports. We have to rely on the reports that we are given and we improved that process quite considerably from the time that I joined the board to the more recent stages. The day-to-day reporting is still good, but perhaps there has been a failure to understand the need to look forward and project the year-end situation. On each occasion that we have been hit, things have happened late in the financial year, which has made it difficult for the board to identify action, and take it, to improve the situation.

Mr Welsh: Things are improving—we can see that in the latest results—but I will ask about the 2005 financial situation. Why was the 2005 financial outturn to July 2005 considerably worse than the forecast that the principal gave the committee in June 2005? I would have thought that, with one month to go, the forecast would have been fairly accurate, but clearly it was not.

Ken Mackie: I certainly agree that it should have been accurate. However, two major things happened. First, we were faced with an invoice from the UHI Millennium Institute for students' fees going back some three years. In no way am I blaming the UHI, but the invoice arrived and there was no provision in our accounts for it. The invoice was for £112,000, but was subsequently reduced to £52,000.

The other thing that caught us was a pension provision issue that arose during audit. It was an issue that had been accepted for a number of years and related to seven members of staff who left on early retirement grounds in 2000-01. Those individuals were in Highland Council's pension fund, and although we were paying for that out of the normal provision, that provision covered other pension funds, but not the Highland Council fund.

We were faced with that information some two to three months after the end of the financial year, when the audit was being undertaken. I do not know whether I can call it a change in audit direction, but the situation was identified and it was obviously not planned for in the accounts, hence the swing of more than £500,000, which occurred after the end of the financial year.

Mr Welsh: The pension provision adjustment that you mention was a £450,000 adjustment. Also, in relation to the UHI, the college inaccurately predicted the outturn for 2004-05 by another £390,000. We can add to that extra fixed-term staff costs of £200,000, £120,000 for travel and fuel costs in an area in which geography is important, savings that were not realised and the £112,000 of unpaid invoices that you just mentioned. Those are fundamental errors in basic financial accounting and follow year after year of failed financial forecasting. Why were those errors made?

Ken Mackie: You have identified two items that I said arose after the end of the financial year and would have been difficult to forecast. We were following a process with the pension provision, which was being dealt with—it had been dealt with since 2000-01. The £400,000 adjustment for that is backdated to that year, so we are covering a considerable backlog. I do not know whether it is possible to say that that is wrong or right. It has been identified under audit and a change has taken place.

I agree with you on some of the other matters and, as I said earlier, we do not have the flexibility to enable us to cope with some of the increases in costs, such as increased utility costs, that you have seen.

Security costs arose because we had to deal with various vandalism and harassment problems without having any budget to cover that expenditure. I suppose that one could ask why we did not save cash elsewhere to pay for those measures. Our approach was taken with good intentions, but we did not have the funding to cover it.

Mr Welsh: But what about the £120,000 of unbudgeted expenditure related to travel and fuel costs? I would have thought that, given the geography of the area, such expenditure would be a very basic element of the budget.

Ken Mackie: I will ask the finance officer to explain that.

Niall McArthur (Inverness College): The £120,000 figure is not made up wholly of travel costs; as the evidence to the Audit Committee makes clear, it is made up of £60,000 in travel costs and £60,000 in utility costs.

We set a budget for travel costs at the beginning of the year, but it was very challenging.

Mr Welsh: Was it realistic?

Niall McArthur: I do not believe that it was.

Mr Welsh: Is the budgeting likely to become more realistic?

Niall McArthur: Since I took on my new role in March 2005, I have tried to ensure that, as far as possible, the 2005-06 budget is robust and realistic. The recent monitoring reports show that, although the overall position is not as good as it should be, staffing costs and other costs related to staffing, which include travel costs, are on target for this year.

Mr Welsh: That is good to hear. However, Inverness College has a consistent record of failed financial forecasting. According to Audit Scotland, in 2002-03, the college accumulated a deficit of more than £3.3 million. In 2003-04, although additional funding was made available, the college's forecast surplus of £94,000 turned into a deficit of more than £500,000. Moreover, in 2004-05, the college's deficit rose to £3.7 million, even though it again received additional funding. What has changed to reassure us that the financial forecasting will be accurate?

Niall McArthur: The situation has been helped by my work on the 2005-06 budget, last year's efficiency consultation, the college's current consultation on staffing efficiencies and the FEDD team's assistance—which I, in particular, have found very valuable.

Mr Welsh: If those measures work—and I am sure that everyone hopes that they will—the effectiveness of budget monitoring and control should become apparent in 2005-06. Has your monitoring and control of college finances become accurate?

Niall McArthur: Yes. The past four months' projected outturn figures have been consistent. The FEDD team has assisted that process; whereas the college used to work on an actual basis, we are now producing firm projected outturn figures for each month.

Mr Welsh: What is your projected end result for this year?

Niall McArthur: At present, we are projecting a deficit of £144,000, but we are hoping to pull things back and achieve an operating surplus for the first time in a number of years. However, the projections do not include any redundancy costs that we might have to bear as a result of the current exercise.

Mr Welsh: Correct me if I am wrong, but I thought that there was a projected operating surplus of £69,000. You are now telling us that there is a projected deficit of £144,000.

Niall McArthur: That is right.

Mr Welsh: So you are continuing the past record of projected surpluses that turn out to be actual deficits.

Niall McArthur: At present, we are projecting a deficit. As I said, we are hoping that things will come back on target. At this stage, however, that is the best estimate that we can produce.

10:00

Mr Welsh: The best past estimates have simply not been right. Hope is one thing, but financial accounting should be somewhat more accurate than that. If you set a budget, you stick to it.

Niall McArthur: Yes. I am doing my utmost to ensure that the college produces a surplus for the year.

Mr Welsh: But it is a projected deficit.

Niall McArthur: That is predicted at present, but we are trying to pull back on various items of expenditure to try to ensure that we produce a surplus.

Mr Welsh: The committee was given an estimate in June that had failed by July. Now, you are giving us another one. I hope that it will work out, but why should it be any different this time, given your past record?

Niall McArthur: I became the director of finance only in March 2005. I came in close to the end of that financial year. Since I have been involved, I have tried to ensure that the monitoring that we have done for the board and for staff in the college is as robust as I could make it.

Mr Welsh: I will ask a straightforward question. Are you dealing with a systemic problem? In other words, taking into account the whole series of issues that affect how the various departments and sections of the college work in carrying out their various activities, are you facing a systemic, multifaceted problem?

Niall McArthur: There are other issues in the college that require some work. Although I have not seen a copy of the FEDD report, I believe that it mentions other issues within the college.

Mr Welsh: Who is responsible for getting the college back on financial course? As finance director, you obviously have an immediate, hands-on role, but who would you say is responsible for solving the continuing financial problems?

Niall McArthur: I do not know if I am the most appropriate person to answer that question, but I believe that it would be the principal, as the accountable officer.

Mr Welsh: Given the findings of the FEDD report, do you think that you will fulfil your ambition?

Niall McArthur: Yes. I believe that there is a lot of potential in the college and that, with the right amount of work, we can turn the college round and make it a good place, both for staff to work and for students to study.

Mr Welsh: What about the dysfunctionality and weaknesses among senior management?

Niall McArthur: I was appointed as director of finance only fairly recently. I have tried to do my best in my job.

Ken Mackie: May I pick up on a couple of points?

The Convener: Certainly. Before you do so, I should mention that I will then call Eleanor Scott, who had a supplementary question to ask, before I invite Margaret Jamieson to ask her questions.

Ken Mackie: First, Mr Welsh was asking about budgeting and the outcome for this year. The FEDD finance input has been fairly direct in that regard, and the FEDD has been party to the position that we are now in. I hope that the report has formally identified all the possible ways in which we could achieve changes in financial outturn by the end of the year. We can take into account the input of the FEDD and take its report as a fairly robust process that identifies the worst-case case scenario, which we can improve upon. That means management action.

The second question was about systemic problems in the college. I asked the Scottish funding council for assistance because I felt that the problems were of a long-term nature and went much deeper than simple financial problems. I felt that they needed to be addressed, hence the FEDD report that is before us now. The FEDD input has been on a much wider scale than just direct involvement on the financial side of the organisation. To run the organisation, we need to go much wider. There are lots of issues within the organisation that need to be addressed. I believe that the committee has had the advantage of reading the FEDD report. As you know, it has identified a lot of issues for the board to tackle.

The Convener: Had any provision been made in the 2004-05 accounts for the £112,000 invoice for UHI exam fees? Why did it turn up so unexpectedly?

Ken Mackie: No provision had been made for it, and I have not been able to ascertain why. The invoice related to exam fees that the UHI paid on the college’s behalf for UHI students—in other words, students undertaking higher education courses. Under the current system, the UHI pays the fees and then distributes the cost back to the colleges. However, that had not happened for three years, and the only explanation that I have managed to get in response to the question why we had not accounted internally for that cost is that, at the time, we had fully expended our budget. Any underspend in the budget would have alerted us to the fact that something had been missed; in the event, the situation with the invoice did not come to light. I suppose that that brings us back not only to Mr Welsh’s question about the accuracy of budgetary process but to the issue of how the college’s systems integrate. As the FEDD report has pointed out, the systems are not managing to pick up on and pull across such matters.

The Convener: Can you explain how you managed to get the invoice for £112,000 reduced to £52,000?

Ken Mackie: We negotiated on the basis that we would pay the current year’s invoice, but not the previous years’ invoices. We were looking not at the past but at the current situation, and those invoices were not in the system.

The Convener: So it was a commercial agreement between you and the UHI.

Ken Mackie: I ask the director of finance to answer that, because my response might not have been accurate.

Niall McArthur: The 2004-05 charges had been budgeted for, but the charges for 2002-03 and

2003-04—which came to £52,000—had not. As a result, the total invoice came to £112,000.

The Convener: That is helpful.

Eleanor Scott (Highlands and Islands) (Green): At a meeting on 10 February involving the college board of management, local MSPs and the local MP, we were told that the college would deliver a surplus at the end of this financial year. However, this morning, the committee has been told that it is now forecasting a deficit. When between then and now did you realise that the surplus was not going to arise and that there would be a deficit?

Niall McArthur: When the forecast you referred to was given in February, we had not produced the January figures, which were given to the finance and general purposes committee in March. As I have said, previously the college reported on an actual basis and did not make whole-year projections, but the new approach that I have introduced takes in additional costs that the college might have to bear—such as, for example, an additional £100,000 that the college has to pay the Scottish Qualifications Authority this year. I had to be prudent and include that cost—and others—in the projection, which unfortunately has led to a projected deficit of £144,000. As soon as we realised what was happening, we tried to cut discretionary spends and other budgetary items to alleviate the other overspends. We are still going through that process.

Eleanor Scott: Did the FEDD team help to identify that projected deficit?

Niall McArthur: It certainly assisted in the process, and I must thank it again for its help.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): You indicated that the board could make decisions only on information with which it was provided. I believe that you said that you had to rely on what you were given being accurate. Why did you use those words?

Ken Mackie: Because the information has proved to be not as reliable as we had hoped.

Margaret Jamieson: Who gave you the information?

Ken Mackie: It came through the college's system, principally from the finance section. Obviously, we have asked for explanations. We have to rely on what comes out of the college's system being the facts.

The director of finance has explained that we did not project to the year end—we considered matters on a month-on-month basis. With the FEDD's input, we have thought about that approach and improved on it by trying to project the year-end situation.

Margaret Jamieson: Are you saying that you have changed your process at board level only since the FEDD became involved?

Ken Mackie: The process for projecting information has changed, but the board has constantly questioned and tried to follow through anything that it has seen going out of kilter in the financial reports.

Margaret Jamieson: How long has it been questioning such things for?

Ken Mackie: The chair of the finance and general purposes committee might want to say something about that.

John Dunthorne (Inverness College): I have been involved with the college's board for the past three years or so. Vigorous questions have been asked in finance and general purposes committee meetings as a result of the financial reports that we have received. Responses to those questions have been given not only by the director of finance, but by a variety of people—other people had an input to the debates.

The principal concern throughout the year was what appeared to be a fairly consistent overspend on staffing costs. On top of that, there were the year-end adjustments, which have been referred to. Staff fairly consistently told us that the overspend was due to the enrolment of temporary staff, who had not previously been financed, to cover shortfalls of one sort or another in the college.

Towards the end of 2004-05, in one of the first exercises that the new director of finance undertook, strenuous and successful efforts were made to reconcile the costs of staff on the payroll, as reported to the board and the committee, with human resources records. Such a check had not been in place before, which was clearly a distinct failing in the system. We discovered that the human resources department had taken on a sector of employees, who were largely on short-term contracts, without notifying the finance department, so the relevant budget was not in place to meet the costs. That is why there was such an extensive shortfall in staff costs. The problem was identified in the spring of 2005 and has been corrected. A monthly reconciliation of the two sets of staffing figures is now prepared.

Margaret Jamieson: When you started to probe, were you amazed that an aspect of the college's management was so dysfunctional? Were you amazed that people who worked in an area in which there was significant spend were not reporting to the people who were responsible for ensuring that funding was appropriately used?

John Dunthorne: It would be safe to say that I was amazed. My reaction was perhaps stronger than that.

Margaret Jamieson: How can you ensure that the process is now robust? What is the finance and general purposes committee’s involvement in monitoring the checks and balances that have been put in place?

John Dunthorne: I have been through the process with the director of finance and I am satisfied with the work that he is doing in that respect. The short answer lies in the comparison of actual costs with the budget for staff costs for the current year, which are in close alignment. There has been no evidence of a deficit accumulating under that budget head over the past two years.

10:15

Margaret Jamieson: You have told us that you have a new director of finance, that HR and finance are working together and that there is a planned budget. Why did that arrangement never surface prior to the employment of your new director of finance? Did you never consider that as an option?

John Dunthorne: I can only say what I said earlier, which is that the information that was brought to the finance and general purposes committee came from a variety of sources. We were given the information over a nine-month period and the additional financial costs of employing temporary staff to cover sickness, maternity leave and so on, which seemed to be the principal contributor to the deficit problem, appeared to be credible—although that turned out not to be the case.

Margaret Jamieson: You indicate in your report that the information that you received appeared to be credible. Obviously, you say that in hindsight. However, you also say that the information came from a number of sources. Can you be more specific? The committee wants to home in on particular areas and if you do not identify them to us, it makes our job difficult.

John Dunthorne: The finance and general purposes committee is attended by the principal and the assistant principal for administration and planning. They, as well as the director of finance, would have had input to the discussions.

Margaret Jamieson: Were they all telling the same story?

John Dunthorne: I believe that to be the case.

Margaret Jamieson: Okay, can I move you on? You will be aware that the Audit Committee took evidence following the difficulties identified in the previous section 22 report on Inverness College and that we reported in June last year. What did you learn from that process and what changes in the financial management of Inverness College were effected?

John Dunthorne: The report came out a little time after the event and well into the following accounting year. At the time, the new director of finance had been put in place and we were working towards addressing the problems that the report had highlighted. Of course, sadly, it was far into the year following the financial year in question when the new director was appointed and the Audit Committee’s report was issued. Much of the damage had been done by that point.

Margaret Jamieson: Were you surprised at the Audit Committee’s comments on the financial stewardship of Inverness College? Obviously, you are the chair of the finance and general purposes committee. Did you not feel that the comments were a personal slight?

John Dunthorne: I was concerned about the position that had arisen.

Margaret Jamieson: What was the college board’s view of our report?

Ken Mackie: We were concerned about the situation that we were in. Obviously, the report came out late in the financial year following the financial year in question. To address the issue that related to the 2003-04 financial year, systems were changed and the committee began to monitor the situation. However, I also passed the matter to the college audit committee to ensure that internal audit examined the systems that were being introduced to ensure that they were robust. The audit committee reported to the board that it felt that the systems could now cope with the situation. Unfortunately, although we had put our finger in that dyke, other things have happened, so the broad spectrum was not right. That is why I started discussions to bring in outside help to examine the running of the college.

Margaret Jamieson: When Audit Scotland flagged up the areas of concern in the previous section 22 report, you could have asked for assistance from the Scottish Further Education Funding Council. Why was assistance never requested?

Ken Mackie: I had spoken to the funding council but I had not asked for assistance because I was not aware that it was available. When I became aware of the deepening situation and felt that I had to go to the funding council to ask for assistance, I did so. It was a matter of taking action to deal with the specific problem that we were dealing with in the previous year, but the issue was much wider than I thought.

Margaret Jamieson: I am absolutely astounded at your response. Your own constitution and standing orders, which I understand were revised in March 2004, resulted from a consultation by the Scottish Executive about ensuring that individuals who were members of college boards knew exactly what their terms of reference were and what the terms of reference of the funding council were, to ensure the regularisation of financial management by the accountable officer. I am concerned that you did not believe that assistance was available outwith your own management structure. If that is the case, we have a real problem in ensuring that we have the appropriate people on college boards.

Ken Mackie: I can understand your concerns, but we felt at the time that we were in a position to cope with the situation and we had taken internal action to deal with it. When I saw that the situation was not as good as we had thought, we took action to call in assistance.

Margaret Jamieson: Besides your director of finance, is there anyone else on the board who has a financial background or financial experience and/or qualifications?

Ken Mackie: Both I and the chairman of the finance committee have.

Margaret Jamieson: You both have.

Ken Mackie: Yes.

Margaret Jamieson: What are they?

John Dunthorne: I am a chartered accountant.

Ken Mackie: I am a chartered accountant and a member of the Chartered Institute of Public Finance and Accountancy.

The Convener: Are there any further questions on the financial outturn to 31 July 2005?

Eleanor Scott: At the meeting on 10 February, we were told again that there was a burden involved in becoming involved in the UHI. The notes that I made at the time say that it was a financial and human resource burden. Do you feel that the demands of being part of the UHI network constitute a burden on Inverness College?

Ken Mackie: You can see from the FEDD report that the FEDD considers that it involves complexity but is not a burden. The creation of the UHI network is a big change in the direction of FE colleges. We are trying to create a university in the Highlands and Islands from a set of colleges, so it is a change in process. That has also introduced changes in funding mechanisms, and 30 per cent of our funding now comes through the UHI and 70 per cent comes through the Scottish funding council, so we are now accounting to two different bodies. Our funding for student activity comes from two sources and we account separately for the outcomes for both. That has added complexity and, given the circumstances of the college's overall management, it is a pressure. Other colleges seem to be dealing with it, so I have to be concerned that we are unable to deal with it or see it as a burden. We should be seeing it as an opportunity, and if we are able to increase our higher education activity—as the university must—we must be part of and work up to that.

Eleanor Scott: In its report, the FEDD says:

> "it is not considered that the financial and other difficulties experienced in the college are predominantly as a result of the 'UHI dimension'".

Do you agree with that statement?

Ken Mackie: I agree that the difficulties are not predominantly due to the UHI dimension, but it adds to the complexities of managing the college. The UHI dimension creates a separate income stream and a separate management stream, which has an influence.

Eleanor Scott: What do you mean by "a separate management stream"?

Ken Mackie: Perhaps that was the wrong phrase, because the issue must be managed within the management stream. However, there are two ways of accounting. We have to negotiate an income stream from the Scottish funding council for the further education part of the organisation and we have to negotiate an income stream from the UHI for the higher education part of the organisation. It is difficult to break down expenditure between FE and HE, in that both activities use the same premises and often the same lecturers, but on different bases. There is no straightforward split down the middle that enables us to say, "This is how it is."

We are trying to create an organisation that gives students the freedom to move from an FE environment to an HE environment and we are trying to develop an HE environment in a college. All colleges provide both FE and HE facilities, but outwith the UHI area the two activities are funded by the SFC. We have to deal with a different approach. The funding that goes to the UHI is better than the funding that goes to other colleges, but there is a process whereby the UHI funding must reach the colleges.

Eleanor Scott: Are you saying that the UHI structure is interposed between Inverness College and the SFC?

Ken Mackie: Yes. The UHI is funded by the SFC for the HE part of its activity and that funding must come to the college. Colleges outwith the UHI area do not have to deal with such complexity.

Eleanor Scott: The committee has not discussed this matter, which is known about locally. In the mission statement on Inverness College's future, which you sent out for consultation, you mentioned that you hope to move to new premises. Is there a timescale for a move?

Ken Mackie: The SFC has made it clear that there is no prospect of a move until we get our finances in order. We must keep the matter in mind, because we want to create the best teaching environment and the best atmosphere for students and staff to work in. Our current accommodation is split over two sites in Inverness as well as the Scottish school of forestry, which is not the most economic or sensible way to run an organisation. Maintenance is a problem, for example. Agencies in Inverness and beyond welcome our interest in finding new premises and creating a campus not just for FE but partly for HE. There are benefits to be gained from considering a move, but we are not in a position to drive that agenda forward.

Eleanor Scott: How far down the road are you in considering the financing of a move?

Ken Mackie: We cannot consider that until our day-to-day finances are in order, which I hope we will achieve this year.

Mrs Mary Mulligan (Linlithgow) (Lab): You have answered our questions on the FEDD report. When do you intend to share the report with your director of finance?

Ken Mackie: When we received the report, we took the line that the board should consider it initially. The report came to the whole board. When the report arrived, I invited the chairs of my committees, which cover HR, finance and general purposes and audit, to consider the report and to determine how to drive it forward. We created action plans based on the report and we split the plans between the chairs, because the report raised so many issues that we thought that the only way in which we could drive it forward was to do so in bits. We are trying to do that by prioritising work and clearing that work with the chairs.

There was a mixture of reactions to the question whether the full report should be presented to the board. When the board received the report, its reaction was that the college should drive forward the action plans and keep the board informed. That was the majority view of the board on the day. I indicated to the board that I would like the report to be given to everyone, but the board felt that the way to move forward was to use the action plans as the driving force. That is how we will deal with the various staff within the organisation.

10:30

Mrs Mulligan: My next questions relate to the funding council report. Given that our next set of questions was to be about the college's future, I might be better to come back to my questions later.

The Convener: I am perfectly happy with that approach. I think that members have now covered the issues relating to the surprising outturn in the college's accounts for the period up to 31 July 2005.

We will move on to consider the college management's proposals to resolve the financial weaknesses. Again, we cannot escape the context, which is that the college management appeared before the committee in 2002 and again on 28 June 2005. On the latter occasion, the principal's written submission to the committee stated:

> "Despite a current difficult financial situation, the College and its Board of Management remain optimistic for the future."

However, there were still subsequent problems when the accounts closed just a month later.

We want to tease out what actions are being taken to assure the committee that, this time, there is a prospect of the financial recovery that we hope for. First, I will allow Mr Mackie an opportunity to explain what actions the college management has taken and to give further details of the actions that have been instituted in response to the FEDD report, which he touched on in response to Mary Mulligan's question. We will then go into more detailed questions.

Ken Mackie: About two weeks ago, we received the final version of the FEDD report, a draft of which we had received about a week or two previously. As I said in my answer to the previous question, we took the report to a committee of chairs that meets regularly to push the thing forward and that can be seen to be active in dealing with the situation. That committee will break down the recommendations so that it can drive them forward more quickly and with more vigour. That is the first step that we have taken.

We have also been in discussions with the director of the FEDD, with a view to obtaining additional assistance in the areas that we realise are currently weak in our organisation. We now have a contract with an HR specialist from another college who is currently advising us not only on the consultation but on the process of developing the HR department. The wider situation within the college is that we need to deal with the total culture and the management-staff relationships, which are in need of review. We are very grateful for his input.

We also have the input of a recently retired finance director from the FEDD. He is working with the director of finance to ensure that the projections for the end of this financial year are robust and are in good order. He is also working on the development of next year's budgets and he will help out with other aspects of the organisation, in particular some outstanding audit queries. Those are the practical ways in which we are taking forward the recommendations. We are pleased to have received that intervention.

The report indicates that we should consider the college's management structure. We need to do that and we will do so. Again, I have looked for, and have received, assistance from the FEDD to take that forward. I am still discussing with the FEDD how that will be placed and I need to address other related matters before we can push that into action. The offers of assistance have been accepted and will be used.

That is how we have operated to date. The timescale is short and the committee's meeting takes place early in the process of developing the action on the FEDD report. I have described the actions that we have taken. I am sure that we will be able to report again later, if members wish me to do so.

The Convener: I will refer to several points; members may have their own points to pick up on.

The college's performance on the ratio of SUMs to full-time equivalents has consistently been poor in comparison with that of other colleges in Scotland. The college's ratio is about 280 and is projected to be 307, but the median throughout Scotland is 350, which you want to move towards. What changes can you effect to go closer to the median?

Ken Mackie: We took action on that in the previous year when we started a debate on reducing the number of staff. That is a major issue that involves considering not only staffing levels, but the delivery mechanism, which concerns matters such as class sizes. The exercise was undertaken successfully and we had been moving on to a phased programme over a couple of years but, in the light of the FEDD's involvement, we have pulled that programme forward. That is why the director of finance thinks that we may face additional costs this year that are not predicted in the figures that are before the committee.

The consultation process to review staff levels is under way. It is based on our projected student numbers for next year rather than the figures as they are. In higher education, we have a mix of SUMs and FTEs, which is a separate issue—we must split that off and try to do a joint programme on that. We have in place a resource management system that the FEDD has reviewed. It is felt still to be reasonably raw, but it is acceptable to the FEDD. The system is identifying where we have problems.

Before the FEDD report was produced, we introduced a system of management accounts for each school, so that we could identify where each of the five schools in the organisation and the centre for rural resource management was and was not making surpluses. That is allowing us to target effectively to try to improve marketing and the student intake and to bring expenditure down to levels that meet the performance indicators.

The FEDD report says that our support staff costs are pretty well on target. Our other costs are well below average. The area for work is SUMs per full-time academic staff, so we are working on that.

The Convener: There are different aspects to income and spending. To what extent can you improve the college's pitch in order to attract students? The concern is that student numbers might not meet expectations. I notice that the position of director of marketing has been vacant for some time. Have that and other vacancies in the management structure contributed to the difficulties that you have faced in managing yourself out of financial problems?

Ken Mackie: Marketing has been an interesting subject over the years. Various marketing avenues have been followed—some have been successful and some have been less so. The director of marketing left a few months ago, having given us a fairly full report on progress. That report was reasonable and showed a way forward.

I am not convinced that the appointment of a director of marketing is necessarily the right way forward, but perhaps we should have a marketing team. We may need to consider how we liaise with the UHI on the HE side of the house and may need to work more closely in that regard.

Before the report came out, when I first had some indication of what was coming, I went round speaking to senior staff and to a number of institutions and businesses to find out their thoughts on the college and how we could interrelate with them to improve our activity. In general, I found that although there was willingness and enthusiasm to assist the college, there was not enough contact with outside organisations. I want us to establish much closer contact with outside agencies and businesses. In some parts of the college, such contact is already good, but in others it is not so good, so we need to build on that.

The FEDD report recommends that we drive that initiative down through the schools, so that we increase not only student numbers, but our commercial income. We will take advantage of that advice and try to establish closer liaison with companies and organisations. I have started that work.

The Convener: What opportunities are there to improve income? I am interested in the line of approach that you have just explained. Are there opportunities to attract more commercial work to supplement the support that you get from the Scottish funding council?

Ken Mackie: We must look in that direction. My line on that is that there is a high demand for more construction staff and other skilled staff in the Inverness area, which we must consider how we can meet. We must also think about the other side of the house. The population in the Highlands is aging—there are more elderly people around than there are young people. Traditionally, many people have left the area to go on to higher education because there has not been a suitable facility.

Unemployment in the area is only 1.9 per cent. Previously we catered for people who wanted to improve their job prospects, but now people can get jobs, so we might need to offer more part-time courses and vocational qualifications. There is a raft of measures that we can take, but that will involve refocusing.

The Convener: Can you give any specific information on that? I realise that I am asking you to respond to a report that you received only recently. I get the sense that when the report landed on your desk it acted as a catalyst, but that there were no concrete proposals before then, possibly because the board was waiting for the report. Had the college's management put together any plans for improving income?

Ken Mackie: Although quite a lot has been done in certain of the college's schools, the board has been waiting since last October, when the FEDD was asked to come in. Most proposals have been on hold because the feeling was that we should wait and see what came out of an in-depth study of the college and how it should move forward. My view is that the board needs to take an active role in the community to encourage people to come to the college for a wider range of courses. However, I do not have any specific information to provide you with.

The Convener: The FEDD report points to a general lack of a strategic approach and says that the planning cycle starts too late in the year to have the desired impact. To what extent do you feel that you will be able to change the college culture so that planning begins earlier and a more strategic approach is adopted, which will possibly involve people being given more ownership?

10:45

Ken Mackie: There is a strategic plan, but it might not have been put together from the right perspective. In the past, we have had fairly major annual meetings to determine the way forward, which have involved senior staff in the college and as many outside agencies and influencers as possible.

The FEDD report seems to suggest that not enough effort has been made to get input from the college floor—the lecturers—or to feed back to it the outcome of the report and how we see the college moving forward. If there is a feeling that we are not communicating effectively, we obviously have to improve in that regard. We have to consider communication throughout the college, from top to bottom and bottom to top.

I wish to attach a non-executive board member to each of the schools. They would work with the school, attend its meetings and gain from its staff a better understanding of what is going on, which they would feed back to the college board. That would provide some movement in communication in the college. That is one way forward, but there are many others that we will have to consider.

We need to have wider influence in the community. I know from my travels that there is interest, but we do not have the constant communication that encourages the community to get involved and explore opportunities with the college, and that encourages the college to explore opportunities with the community.

The Convener: You said that you and the chair of the college's finance committee have backgrounds in accounting. Do any of the board members have experience in human resources?

Ken Mackie: Yes. One board member is a director of HR and another has experience in HR. The vice-chairman of the board chairs the HR committee.

The Convener: Are they able to support the human resources team, together with the external support that they receive?

Ken Mackie: Yes. They have been making recommendations. The feedback from the FEDD report is very much in line with the direction that they want to take.

Margaret Jamieson: My question is about support and appraisal. When was the most recent Her Majesty's Inspectorate of Education report on Inverness College?

Ken Mackie: I cannot say off the top of my head, but I think that it was about 18 months to two years ago. We are due to have a review this year.

Margaret Jamieson: What were the action points in that report? How far along the road of implementation are you?

Ken Mackie: HMIE followed up its report and was confident and happy that we had addressed the issues it raised. It recommended that we set up a strategic planning committee. We did not set up a formal committee of the board; instead, we established a committee that acts as an annual driver from the board and meets other people. I cannot be more specific at this point.

Margaret Jamieson: Is it true to say that the HMIE report was complimentary about the academic staff?

Ken Mackie: It was complimentary about academic staff and found dramatic improvement in the college since the previous report. It was a positive report.

Margaret Jamieson: It was complimentary about academic staff, but not so complimentary about management. Does your board consider HMIE reports of other colleges to learn about good practice and best value?

Ken Mackie: No, we have not done that.

Margaret Jamieson: You think that you know it all.

Ken Mackie: I accept your recommendation; we may do so.

Margaret Jamieson: Nothing seems to be said about performance assessment of your assistant principals or directors. Your structure chart is obviously linked to HMIE, so the programme is considered every three years. Equally, the number of successful students is assessed every year.

On the planning and administration side, what performance assessment is undertaken, by the board or by the principal, of the occupants of those posts?

Ken Mackie: A performance appraisal system is in place. The principal would appraise his immediate senior staff, and the board, by committee, has set objectives and appraises the principal. The issue that has been referred to in the report is that the assistant principal of planning and administration also acts as clerk to the board. The recommendation we made there is that as chairman I should be appraising his role as clerk to the board, which I have not done.

Margaret Jamieson: You have indicated that you have concerns. That has been highlighted in the FEDD report, which says that assistance needs to be provided to a relatively new director of finance and to the human resources department. If a proper performance assessment framework had been in place, would it not have identified that to you?

Ken Mackie: As I said, an appraisal system is in place. The board has been quite vociferous. The HR people on the board have wanted to raise the standard of HR performance, but like many things in the organisation we have been restricted by resource from buying in more staff. We have been running on a very—

Margaret Jamieson: But more does not always mean better.

Ken Mackie: I did not suggest that. More is not always better, but there is a need to change the format of HR, particularly in other areas. We need to consider a higher level of input. We have been considering that for some time, and the FEDD report recommends it, but we have been restricted by our inability to set cash aside to take people on to do it. We have tried to protect the academic side of the house and to ensure that students get a fair deal.

Margaret Jamieson: Forgive me if I continue to pursue this, but does not money always require to be spent on supporting individuals? You have identified that two board members have experience in HR. The current incumbent and the director of finance have obligations to their profession to ensure that they undertake continual training. Are you satisfied that that has been undertaken and that the college is benefiting from it?

Ken Mackie: I cannot give you a categorical answer. I am not managing those people directly—

Margaret Jamieson: But you are responsible for the performance assessment framework.

Ken Mackie: Of the principal. The system in the college is run throughout the college.

Margaret Jamieson: Are you saying that that system does not work?

Ken Mackie: The system does work, but I cannot give you detailed feedback on who is meeting continuing professional development requirements. That is neither something I carry in my head, nor something I would pursue.

Margaret Jamieson: But it has been flagged up with FEDD that you have concerns about the ability of individuals to undertake the duties that they are now required to undertake.

Ken Mackie: I did not say that I had concerns about individuals; I said that we had concerns about the level of input.

Margaret Jamieson: But you are indicating that you have this performance assessment framework, which you believe you cannot implement because it would mean money—

Ken Mackie: We are getting into a mish-mash here. Yes, there is performance appraisal and yes, that is formally of individuals, but there is also a separate issue of considering how we should best deliver a service. We feel that we need some high-level input in that respect. It is a different argument from appraisal.

Margaret Jamieson: But surely the two meet and that is why FEDD will provide support to the board.

Ken Mackie: It is providing HR support in a number of ways. One is to consider where we are at the moment and another is to make recommendations on how our HR department should progress.

Margaret Jamieson: So that could involve restructuring.

Ken Mackie: Potentially, yes.

Margaret Smith (Edinburgh West) (LD): I will in due course develop the issues of industrial relations, HR and staff morale, but first I want to pick up on the fact that you have two board members who have HR experience. The FEDD report mentions that significant work needs to be done on HR; that you should consider whether a senior member of staff needs to be in post; and that you should deal with the issues immediately and get support from the FEDD. I acknowledge Mr Mackie's point that somebody from the FEDD is working at the college already.

One clear point in the report is that the HR policy and procedural framework

"is significantly out of date in many elements".

It is claimed that the framework does not meet legislative requirements and that areas of important legislation

"do not feature at all."

The issues that are mentioned are equal opportunities, race relations and staff development. The report states that the HR policy and procedural framework was

"not seen … by the Board of Management HR Committee."

There is not much point in having board members with HR experience on a sub-committee of the board if the sub-committee and the board are detached from what happens at the coal face in the college.

The report suggests that

"a full-scale review of HR policies … be undertaken".

Based on that, do you accept the FEDD report recommendations that proposed changes to HR policy should be put before the board's sub-committee for approval? Do you accept that, in effect, you could have seven or eight people on the board with HR experience, but if they do not know what is going on in the HR department, that would be worthless?

Ken Mackie: Yes, I agree. Policies and procedures must be passed through the HR committee to ensure that they are effective and acceptable.

Margaret Smith: Do you accept that, on that point, if not on others, the board and the sub-committee have been detached from the process to date?

Ken Mackie: We have not had reports on those issues and we have not updated them. I agree that the HR committee should have had those reports.

Margaret Smith: What has the board's HR sub-committee been doing, if it has not been ensuring that strategic issues such as equal opportunities, race relations and staff development are considered?

Ken Mackie: It has been receiving all the reports that one would expect it to receive on sickness and absence levels and improving the situation on those matters. It has had reports on procedures and policies, although obviously not on the issues to which you refer. I would have difficulty going through everything that the committee has done, but it regularly reviews the process with managers and considers issues on which it has requested information. It now needs to consider the policies and procedures and to understand the situation.

Margaret Smith: Thank you—for now.

Eleanor Scott: One theme that runs through the report concerns timing. On strategic plans, the report states:

"In effect, plans have been statements of intent instead of being firm programmes for committed delivery"

and that

"Plans resourced after the college prospectus has been printed must lend a speculative element to college marketing which is damaging to organisational credibility".

Do you agree? What have you done to ensure that, when the prospectus goes out in future, it reflects what the college will offer in the year to which the prospectus refers?

Ken Mackie: A detailed curriculum review has been on-going for some time. To an extent, we must go out and find out what the market is and what people want, although there is an element of offering courses and waiting to see what the return is—which, from my knowledge, happens in most colleges. However, we also need to target the subject areas that we know we need to provide and on which organisations and individuals want courses to be run.

I am not convinced that we have the marketing totally tied up. We need to think again, which is why I am saying that it must be targeted at the areas of delivery so that they work together with the marketing process to attract students.

11:00

Eleanor Scott: Is your intention that any research on demand would be done before the prospectus is printed?

Ken Mackie: Yes. Before the marketing manager left, we got a fairly extensive report from her on the work that she had done. She identifies areas of improvement in that report.

Eleanor Scott: What would be the cycle for that? When in the academic year would that market research be done and when would the prospectus be printed to be ready in time for a college course that started in the autumn?

Ken Mackie: The prospectus needs to go out before the start of term, so it needs to be published and available to the public in good time to enable them to decide whether they want to take courses. Therefore, the process must go back into about November or December of the previous year. It must start half way through one term so that we have an opportunity to review the uptake of current courses and examine the potential for new courses and put them on the market.

Eleanor Scott: When has your prospectus come out before now?

Ken Mackie: I cannot answer that at this point. It has come out just before the start of the session.

Eleanor Scott: Rather than before the summer holidays?

Ken Mackie: Yes. It is a matter of judgment but, if it went out before the start of the holidays, I am not sure that it would have the impact that it should have. It depends on whom we are targeting.

Eleanor Scott: When do students usually start applying for courses?

Ken Mackie: In January.

The Convener: I understand that there is a vacancy for the director of marketing, but you just mentioned that the marketing manager had left. Does that mean that there are two vacancies?

Ken Mackie: No, sorry, I meant the marketing director.

Eleanor Scott: I will ask about another timing issue. The report says:

> "The process for construction of the 2006/07 budget has just started and is, therefore, many months behind schedule."

When would your budget construction process normally start?

Niall McArthur: The way that it should be done is that all the key objectives of all academic departments and support departments should be highlighted in their operational plans for the following year. We should start discussing those in September of the previous year. Once the key objectives are set, we should ask the schools and the support departments to examine their budgets and note what resources they require to achieve their key objectives.

However, until now, that has not been done. For 2006-07, we have tried to start the process. We started it in March, so it is not as good as it should be, but it is an improvement on the previous year. We started the process by examining the schools' and departments' operational plans, examined their key objectives and then asked the heads of school and other budget holders what resources they require to achieve those objectives. That enables the integration of their objectives and the required resources, which has been lacking in previous years.

Eleanor Scott: Prior to the new system, what input did the schools and departments have into the budget-setting process?

Niall McArthur: The operational plans were set after the budgets had been agreed.

Eleanor Scott: So the budgets were speculative on what the college was planning to deliver?

Niall McArthur: The budgets were not linked specifically to the key objectives. There was no joined-up thinking and no cohesion between the plans and budgets, so we have tried to address that for 2006-07. We will start considering the next budget cycle and look forward to 2007-08 in September this year so that we give heads of school and department heads enough time to think about their curricula and key objectives for the next year and try to align the resources to those.

Eleanor Scott: What support is management putting in place to enable the staff who have not hitherto been involved in the budget aspect of the plans to become so involved?

Niall McArthur: I have started quarterly training sessions for budget holders to try to improve the culture of the college in that respect. I have also had a meeting about the planning and budgeting cycle, again with the help of other team members, to try to move forwards, which we should have been doing in the past.

We are trying to ensure that everyone understands the process because, as has been said, if everyone is not involved, there is no ownership and no accountability. If we can bring everyone on board, that will assist the college in achieving the best for our students.

Eleanor Scott: How many budget holders are there?

Niall McArthur: At present, there are approximately 50, which I think is too many. We should cut that number and the senior management group should be the budget holders. That is no reflection on the current budget holders at all; it is a more appropriate way to go about things. I believe that that is how it is done in other colleges.

Mr Welsh: The FEDD report is designed to be helpful by spotting weaknesses and encouraging solutions. You have had two weeks to consider it. The report's conclusions are pretty damning. It says that there are no clear strategic goals and that

"the college has fundamental weaknesses within all of the key strands critical to its operation".

It also mentions "dysfunctionality".

You have had two weeks to consider the report. What is your assessment of it?

Ken Mackie: It is probably an accurate reflection of the FEDD team's investigations and the information it found.

Mr Welsh: I think we will come back to those issues shortly.

A particular point was made about

"the lack of articulation of a clear set of strategic aims".

I have been connected with a lot of dynamic and successful further education colleges. All successful organisations know what they are doing and where they are going. They are also able to state clearly their vision and purpose. Can you do that?

Ken Mackie: Yes; we understand our vision and purpose and we have a strategic plan. However, as we have said before, it has probably not been articulated properly and we need to review it.

Mr Welsh: I have been perceiving negativity and no sense of dynamic, and I want you to prove me wrong.

Ken Mackie: We will.

Mr Welsh: You have not done so thus far.

Ken Mackie: One of my concerns over this last period of time is that we have not been driving things dynamically. We will prove you wrong, but I cannot do so at this point.

Mr Welsh: I hope that you do. However, we have heard this before and the proof of the pudding is in the eating.

Ken Mackie: I take your point. As I indicated right at the start, I thought we had made progress in the initial stages of trying to resolve the financial situation, but we patently have not. This is our last chance; we have to sort things out now, and we have to drive forward and get everyone to aim at that goal.

We have met the assistant principals and heads of school and we are trying to get things moving in a way that will enable us to drive the organisation and get some impetus in it. That is the first step.

Margaret Smith: I return to one of the very worrying aspects of the FEDD report and some of the other work to which we have had access—staff relations, morale and the college management structures.

The FEDD report is pretty damning about relations and communications with staff, about industrial relations, and about the HR function that we have already spoken about. It says that there is

"a benign executive management style which offers little leadership to the staff and which is perceived as being distant, disconnected and indecisive. Such an environment encourages a culture of mistrust and lack of respect for the executive team."

Do you recognise that description of your college?

Ken Mackie: As I said earlier, I was concerned about the culture within the college, including industrial relations and staff-management relations. That was one reason for calling in the FEDD.

Margaret Smith: The FEDD investigation offered the college board a classic opportunity to take a different line. You have now received the FEDD report. Mr McArthur and other senior management figures are mentioned in it, and their roles are fundamental to the report's action points and what it says about the past. However, to date, the board has chosen to hold on to the report and not discuss it with senior management or—I assume—with union representatives or other members of staff.

The report says that there is no corporate culture, that there is mistrust and that poor staff morale relates not only to your financial situation but to the opinion of the executive. All of that leads to uncertainty. You have had the report for two weeks and you have sat on it. Is that the way to proceed?

Ken Mackie: In your terms we have sat on the report. It is true that we have not circulated it widely to all staff or to others, but the board has needed time to consider it. The board has initiated a process that will enable us to take action to improve the situation. As I have said, we have broken the report down and we will tackle it in that way with individual managers as we go along. That is the correct way to go about it.

There could be a debate over whether we should circulate the report. My initial view was that we should circulate it widely and give it to everyone but, on balance, we now feel that it is better for us to get an action plan together. It is important that we deliver on all the issues raised in the FEDD report. We have chosen a certain way of tackling the situation. There are other ways, but I am not sure that issuing the report would give us more direction than—

Margaret Smith: I did not suggest that you should issue the report to every member of staff; I said that you have not discussed it with your director of finance and with other senior members of staff whom it mentions personally. Those people will be fundamental to any action that you take. Also fundamental will be the staff—I mentioned their union representatives. I was not suggesting for a single second that on the day you received the report you should have called a meeting of all staff before the board had even discussed it. Discussing the report first is acceptable, but what has happened probably shows the standard and style of the college's management to date.

We have talked about planning and timing. Mr McArthur spoke about perhaps changing the timetable and involving staff. However, the FEDD report states time and again that when plans were produced the timetable suggested management overlay and a lack of communication with staff. When staff were asked their opinions, it did not seem to lead to any action or change. What will you do to improve your communication and interaction with staff? How can you gain the trust of your staff?

Ken Mackie: That is why I originally said that I needed to call on outside assistance. I could see that the culture throughout the organisation was not functioning. We now have to make it work.

11:15

Margaret Smith: Industrial relations are fundamental to the FEDD report. How do you plan to improve industrial relations and your communication with staff?

Ken Mackie: We need to improve relations with staff and improve partnership working between trade unions and management. Trust does not currently exist, so it will have to be built up. Fundamental to that is having a senior member of human resources who understands the various areas and can build bridges. It is a case of building bridges that are currently broken.

Margaret Smith: You currently lack a senior member of staff in the HR department. I understand that somebody is involved. What will happen next?

Ken Mackie: A member of the FEDD team, who is an HR specialist, is involved. We charged him with producing proposals on the HR structure. I imagine that there will be a restructuring, but I will not prejudge his decisions.

Margaret Smith: One issue that is on your desk is consideration of staff numbers, potential redundancies and so on. This is a difficult time, not only for you but for the staff involved and the staff who will remain. When people lose their jobs, others want to think that that is the cut that makes the difference and delivers a sustainable situation. The FEDD report states that you need immediate assistance on that issue. Can you give us more information on the current situation?

Ken Mackie: We have help in place; it is already working for us.

Margaret Smith: Can you give us a timetable?

Ken Mackie: The consultation process is under way. The timescales are the usual ones for such processes. The input from the person who is assisting us has been significant. The next stage of the process for him will be to assist us with and give us advice on the direction of HR. The first stage is to undertake the consultation and to ensure that the figures that we are using are robust. The figures are being reviewed by both members of the FEDD team to ensure that they are accurate.

Margaret Smith: I will go back on myself, because I meant to ask about the FEDD report recommendations on the principal—when one is in place—for example meeting staff at all levels regularly and having face-to-face contact, which would operate alongside regular assessments. Is the board minded to accept those recommendations on the way forward to achieve better communication? Are they reasonable approaches?

Ken Mackie: Yes.

Margaret Smith: My final question is about the management structure, which the FEDD report recommendations also address. Colleagues have mentioned, and we have touched on, the potential detachment of the board from other parts of the jigsaw puzzle. The management structure seems to be organised on the basis that everyone reports to the principal. You obviously think that you are making some moves already on the management structure and you are considering a restructuring. How do you intend to go forward? It comes through loud and clear in the report that the FEDD does not think that you will fight your way out of this paper bag without substantial and fundamental restructuring of senior management. Where will you go with that?

Ken Mackie: I have some quite clear views on the matter but, obviously, I will not reveal them today. Whatever we do will require a restructuring, and for that to take place there needs to be consultation, as the matter must be discussed within the college. It comes back to communication, which you indicated we need to address. I also want to take advice from the FEDD members who have been involved with us on how best to go forward. One of the benefits of the FEDD is that we can get information about what is going on in other colleges and take advantage of best practice.

Margaret Smith: Will that process start straight away or will you wait until you have another principal in place?

Ken Mackie: We need some assistance to develop the process, but I will not comment further at this point. In terms of employer-employee relations, it would be wrong of me to say more than that.

Margaret Smith: I was not on the committee when it took evidence from you before, but some of my colleagues were. They received assurances from college representatives, but those assurances were not followed through. With the greatest respect, Mr Mackie, you need to give me something. I am asking you how senior management can be restructured to positive effect. I expect a general answer. I do not expect you to dot your i's and cross your t's, but I do not expect you to sit there and give me nothing at all.

Ken Mackie: Okay. I think that we need a more business-oriented structure than the one we have at present. The board needs to take a much clearer view on what we are actually trying to do, not in terms of our vision, because we know that, but in terms of what we can sell and the implications for the rest of the systems. We need to take that all the way back. I have taken on board the need for that process. We have been doing it, but not in a joined-up way.

I need to consider the same factors in relation to management, which needs to be more tied together. In some areas, things have fallen down holes because there has not been a joined-up approach. That point comes across to me clearly, and it is set out in the FEDD report. However, the report does not give us a direction. It leaves it to the college to review its structure. It recommends that we examine the structure and change it. Through the FEDD system, we are taking all the advice and help we can get to enable us to do that. I hope that that is giving me the best input that I can get from other colleges in the sector and that it will give us a positive way forward.

Margaret Smith: Will you develop your comments and explain what you consider to be business oriented? I assume that if you were a business and you were reliant on selling your product—to some extent, that is what you are—marketing would be fundamental. At the moment, you have a hole because you have no director of marketing. You said that appointing a new director of marketing might not be the way forward and that there might be different ways of dealing with marketing, but surely that is a fundamental post that should be filled if you want to attract the students whom you need to attract?

Ken Mackie: There are other ways. A marketing team is available to the college. As I said, the drive—in terms of what we offer and how we proceed—must come through the schools that supply our students. Instead of delivering a purely academic programme, the college must consider the commercial aspects. The FEDD report recommends that we try to bring together the commercial and the academic. In the past, the two areas have been on separate lines, not only at Inverness College but at other colleges, but there is good reason for bringing them together. The marketing team needs to work with the heads of school to drive that mechanism. That is the line that I am taking. Those are my general thoughts, but they are not down on paper at the moment.

Mr Welsh: What do you mean by "the marketing team"?

Ken Mackie: There are three people in the marketing team and they work to the director of marketing. There is a marketing manager within the organisation.

Mr Welsh: Who are they?

Ken Mackie: They are individuals who are involved in developing the prospectus, publishing it and so forth.

Mr Welsh: What is their role?

Ken Mackie: Their role is to assess the marketplace—

Mr Welsh: Sorry, I mean within the college.

Ken Mackie: That is within the college. There is also a marketing team within the UHI at the HE level. We need to make sure that the two teams work together more closely.

The Convener: I have a couple of questions on dealing with the college's weaknesses, then Mary Mulligan will ask a couple of short but important questions on support from the funding council.

Mr Mackie, the FEDD report says:

> "Unions have complained that requests to meet with the Chair of the Board of Management have not been responded to, and have stated that there is often little or no action in respect of issues raised through current consultative arrangements."

It continues:

> "Members of the Board expressed the view that they had no real involvement in the formulation of the strategic direction of the College."

It also says:

"There is no evidence of any formal structure to meetings between the Chairman and the Principal."

What assurances can you give that those issues will be resolved?

Ken Mackie: One trade union requested a meeting with me. I responded, saying that I did not think that a meeting would be appropriate as such matters were for the operational management rather than the board. I am happy to meet trade union representatives to discuss general issues, but it is better that the negotiation and consultation process is dealt with at an operational level. Not dealing with it at that level would be unhelpful to everyone.

In light of the report, we will meet the trade unions to discuss with them the various issues that we are considering today. That is one of the issues that the chairs group will take up.

As for meetings with the principal, I meet him regularly. As to their formality, I do not wish to keep minutes of those meetings. I am in contact with the principal by phone and e-mail probably every day and I meet him in the college probably every week, but not on a set basis—I do not say, for example, that I will be in the college every Monday morning. There is constant communication between us but, because it is not documented, it is not picked up.

I am sorry, but my mind is blowing. What was the other quotation to do with?

The Convener: The other quotation related to the fact that members of your board feel that, although there might be a strategic plan, they have no involvement in formulating the strategic direction.

Ken Mackie: The board has approved the strategic plan and its updated versions every year. I suppose the point is that board members feel that they are not involved in initiating it. That is raised in the FEDD report. I think that the plan can be initiated by members of the board. It has to be initiated in several directions at the same time. We need to consider that further. For some time, I have been concerned with finding ways of getting best information from all sources to feed into the college's direction, but I am finding it quite difficult. I would be happy to take the advice of other colleges that are involved in the FEDD. They might have had experiences that we can learn from.

The Convener: What are your plans for appointing a new principal?

Ken Mackie: We still have a principal in post.

The Convener: The press release that we saw seemed to imply that Professor Little would no longer be the principal. Can you clarify the situation?

Ken Mackie: Yes. Thank you for your letter of 3 May, which indicated that you thought that I had been less than courteous to the committee in dealing with that issue.

Discussions were on-going on possible ways forward following the receipt of the FEDD report, and I had done some work in that regard. We did not want to be seen to be sitting doing nothing; we wanted to take action to deal with the situation. Out of that came an offer from the UHI of a possible move that would create change in the organisation. I discussed that offer with the principal and he investigated it as a possible way forward. We developed that approach, carried out negotiations and developed a press release to be issued if it were successful. Unfortunately, the information was passed to the press when it was still under discussion and we had to release the press release sooner than we wanted to.

11:30

With hindsight, I do not think that I should have allowed the press release to be issued as it was; we should have said that discussions were on-going, or something to that effect. Unfortunately, the press release went out too early. Discussions are not complete and the principal is currently on sick leave, so we have not progressed the situation. No discourtesy was meant to you; I would have informed you had something positive happened.

The Convener: Thank you for that explanation. The press statement says that Ken Mackie, the chair of the board of management of Inverness College, said:

"We are grateful to Professor Little for his contribution to the development of the college over the past four years."

Because of the tense in which that is written, one cannot but think that Professor Little is leaving.

Ken Mackie: We should not have released the press release as it was, as the post had not been fully negotiated and agreed.

The Convener: So you are saying that there is an expectation of change, but that there are no final details yet.

Ken Mackie: We are looking at ways of changing. For all the reasons that everyone has given today, we need to have a format for change. How we achieve change is still open to debate.

The Convener: I am conscious of employment rights, so I will leave it at that for the moment. However, there may be calls for me to write to you for further explanation in the future, when you might be better placed to inform me of any outcome.

Ken Mackie: I would be delighted to keep you up to date.

The Convener: Thank you for that.

Let us move on to the support that you have received from the Scottish funding council.

Mrs Mulligan: In your answers this morning you have referred to the role of the funding council and the FEDD report, on which I have some specific questions. When was the decision made to ask for assistance from the funding council?

Ken Mackie: We had a meeting with the funding council in October, at which I indicated that I had problems with the financial and cultural issues in the college. I asked whether it was possible to get outside assistance at that point, and the offer of FEDD involvement was made.

Mrs Mulligan: Did that request come from you, as the chair of the management board, or from the board as a whole?

Ken Mackie: It came from me.

Mrs Mulligan: At that meeting, what was it that finally made you feel that you could no longer deal with the issues at the college and that you would find some assistance useful?

Ken Mackie: We did not have the expertise in the college, and I felt that an outside view would help. Everyone at the college was too inward looking and the situation was too claustrophobic. I felt that we needed an outside view of the situation.

Mrs Mulligan: What particular expertise were you looking for?

Ken Mackie: At that time, we were looking for expertise on the cultural position and in HR.

Mrs Mulligan: Was everybody on the board happy with that decision?

Ken Mackie: Yes. The proposal for FEDD involvement was put to a meeting of the board. The board accepted it and recommended FEDD involvement.

Mrs Mulligan: We now have the FEDD report, and you have indicated some of the measures that you intend to take. I return to the question that Margaret Smith asked: what will be different this time? What lessons have been learned? You talked about the process that you have started to roll out the measures in the report. Do you want to say a bit more about that?

Ken Mackie: I think that I have covered it as well as I can at this stage. We had gone through too many crises and had reached, I thought, a stable point. I knew that everything was going to be very tight and that if income streams were difficult under the financial recovery plan or if expenditure moved we would find it hard to cope, because there would be no flexibility or room for manoeuvre. However, I thought that we had got things on an even keel, achieved stability and reached a point where the college could become more active in the area's economic development and be seen as a good employer. It is a shame that we fell back. We felt that a single issue—support staffing—had created the problem. We put systems in place that were checked by our audit committee, to assure me that we had taken steps to improve things, only to see that the system had still not improved the following financial year.

You said that you received assurances that things would improve. The board received the same assurances. However, the improvement did not happen. I have explained the post year-end issues that arose. I felt that getting in the FEDD team was the last chance to do something that would really make a difference to the college. I assure the committee that, with the FEDD report and with all the assistance and input that we are receiving, this is the college's big chance to put itself on the map and become an effective institution.

Mrs Mulligan: Frankly, I expected your answer to be more specific. However, I realise that you are the chair of the board of management, not the principal of the college. I will move on.

Ken Mackie: I have to say that you have highlighted a particular issue. I am not the principal. The board of management sets the principles and oversees what happens, but the agenda must be driven within the management system itself.

Mrs Mulligan: You said that when you first received the FEDD report your initial reaction was to distribute it as widely as possible. What made you change your mind about doing so?

Ken Mackie: Initially, I took the report to the board, which was the right thing to do. After discussing whether to distribute it at least to all board members and others, and after receiving a full presentation from the FEDD team, the board felt that the team of committee chairs should meet more regularly and take positive action to drive forward the report's recommendations by creating action plans that would be submitted to and addressed by the board. In that way, the board would be involved in any action that was taken. That was the board's decision—it might prove to be wrong.

Mrs Mulligan: Do you accept that such an approach might be disjointed, as it separates out the board, the management and the college staff?

Ken Mackie: No. The FEDD report was given to me as chairman. The fact that it was addressed only to me has caused me some problems, but I feel that, given the situation, the board must drive the initial change and decide how things should go. Although such an approach requires consultation and discussion with the whole organisation, it does not mean that we simply throw the plan open to everyone. The board needs to control the situation. We will get a remit for the concept committee and take it to the board at the next meeting. Of course, the board might not accept that remit; we are still at a very early stage, and it might take an alternative view. However, if we go down that route, the committee will be able to meet regularly and drive the action plan. Finding the best way of dealing with the matter is difficult, but the board must take some control and get its running of the management team in order.

Mrs Mulligan: This question might be at a tangent to the FEDD report but, having seen the report's recommendations, do you feel that the college will be able to put itself back on track financially without the funding council having to make available any more resources than it has already promised?

Ken Mackie: The funding council has promised no funds other than the support of the FEDD team, which is through the system that is already in place. Funds were given to the college when the initial loss—the accumulated loss of £5.5 million—was established. The assistance was given in a number of ways that were aimed at reducing the loss, managing the cash more appropriately by way of a loan that we are repaying, and giving advances on cash grants at the beginning of the year to keep down the overdraft but to enable us to negotiate for the overdraft to continue.

At the moment, the direction that we are taking, which has the agreement of the funding council, is that we should be financially secure. That means that we should balance the books and have a surplus each year, but not necessarily repay the debt. That has been taken away from our horizon in the initial stages of the process, which helps the management and the board, but we need to be financially secure. In other words, we need to produce a surplus annually.

Mrs Mulligan: Can you do that without any further support?

Ken Mackie: I hope so. I am not going to say yes, as you will probably nail me down to that and say that that has not happened. All the indications that I have at the moment tell me that we can do it. On the basis of the information that I have, the controls that we are putting in place and the direction that we are taking following the implementation of various aspects of the FEDD report, I would have to say yes to the question. I hope that we will have a college that is well run and well directed and which contributes to the economy of the area.

Mrs Mulligan: Okay. Thank you.

The Convener: I have one final question, which I will put in a number of parts. As the chairman of the board, you took part in instituting the request for FEDD help and you have now received the FEDD report. The report was addressed to you as chairman. Did that cause you any particular difficulty? What was your experience of the FEDD process? Does it need to be reviewed? From what the committee has seen of the report, its content is highly illuminating and helpful. I imagine that it is also helpful to you, as chairman of the board, and your colleagues. You are in the privileged position of having gone through the FEDD process. What are your comments on it?

Ken Mackie: It has been an interesting process. The FEDD put together a good team; it covered all aspects. When the team members came to the college, they took great pains to say that the best way of enabling them to undertake their detailed review of the organisation would be for their work to be done in confidence. They wanted to get free-running and free-ranging feedback. The team said that it would report in confidence to the board—to the chairman and principal. In the end, the team reported to me.

The process that we went through calls into question the FEDD system. The report was presented as a confidential review of the college's running and so forth. I understand perfectly the committee's desire to have a copy and for it to be put into the public domain, but that calls for a rethink of the system.

The FEDD system is a good one. It enabled the FEDD team to look at the college in a certain space and at a certain time. However, I would have liked to see a more detailed backward view of the college's finances. As an accountant, I should not be saying this, but I cannot get to grips with why the college got into such a state and why it continues to revert backwards.

The report is a factual review of what was going on in the college at a point in time. It has identified the issues for us; its effect is positive. On the negative side, the fact that the report was given directly to me and no one else was given a copy put me in a difficult position when the committee asked for it to be published. Obviously, the funding council had a view on that, as did my principal, yet I was the only one who was holding the report. I do not need to say any more.

The Convener: No, I am sure that that is apt.

I thank Mr Mackie for his evidence. I also thank Mr Dunthorne and Mr McArthur. You have answered our questions for the moment. Under agenda item 3, we will deliberate where we go from here. There may be issues on which we would like further information. If so, we will contact you in writing to request it. As I said at the outset, we will follow up on the opportunity to take evidence from the principal.

11:46

Meeting suspended.

12:02

On resuming—

The Convener: I welcome the witnesses from the Scottish Further and Higher Education Funding Council. Roger McClure is the council's chief executive and Martin Fairbairn is its director of governance and management appraisal and policy.

Mrs Mulligan: The witnesses heard the chairman of Inverness College's board of management say when the decision was taken to ask the Scottish funding council for assistance, which led to the FEDD report. Did his answer reflect your understanding of the process?

Roger McClure (Scottish Further and Higher Education Funding Council): Mr Mackie's description was absolutely accurate. He and I attended a meeting in October last year—I think it took place on 5 October—at which we discussed the college's position and what could be done to move things forward. At that point, we agreed that we could involve the FEDD.

Mrs Mulligan: Did the council offer assistance prior to that meeting?

Roger McClure: We offered assistance, but not to the chairman. Assistance was offered to the principal in 2004.

Mrs Mulligan: I assume that that offer was declined.

Roger McClure: I do not think that it was declined; I think that the assistance was reluctantly accepted but not followed up.

Mrs Mulligan: Can you suggest why the assistance was not followed up?

Roger McClure: That would be pure speculation.

The Convener: Are there any letters or e-mails that would clarify when in 2004 that happened? Are you able to recall that?

Roger McClure: With your permission, I will ask my colleague to answer that, because he was involved in the exchanges.

Martin Fairbairn (Scottish Further and Higher Education Funding Council): I cannot remember the exact date but, I think in October 2004, I met the principal of the college in Inverness to discuss ways in which the council, through the FEDD, could provide support by tapping into the network of experience throughout the sector. My understanding from a further meeting that I had with the principal and members of the board of management in May 2005 was that the advice had been taken, to some extent.

The Convener: That would have been before we took evidence from the principal at the Scottish Parliament.

Martin Fairbairn: That is correct.

Mrs Mulligan: What monitoring of the college's financial situation had the funding council carried out before the decision to involve the FEDD was made last October?

Roger McClure: The college was subject to the normal financial monitoring that the council carries out in the whole sector in the financial forecasting process.

Mrs Mulligan: Was there additional monitoring?

Roger McClure: Yes. I was just trying to give you the full picture. There was monitoring of the annual financial statements, which are the most reliable statement. You have heard a lot today about reliability of forecasts. It is important that we monitor the statements each year, because they are audited and we can rely on them to a greater extent. Nevertheless, you heard today that statements were published in which provision had not been made for the pensions of staff who had left the college several years earlier, so even the audited financial statements are not infallible.

Given that the college was following a recovery plan, it underwent quarterly monitoring throughout the period and started undergoing quarterly monitoring at the beginning of the year.

Mrs Mulligan: What additional financial support has the funding council given the college?

Roger McClure: There has been a lot of additional support, which I will detail from the beginning. We gave the college a loan of £1.495 million to support the recovery plan in 2000. In 2001-02, Wendy Alexander, the then Minister for Enterprise and Lifelong Learning, made provision for £7 million across the sector to support colleges with the greatest difficulty, from which Inverness College got a grant of £1.08 million.

Since 2002, the funding council, in a series of tranches directed at the whole sector, has allocated money on a priority basis under the financial security campaign. The first priority was financial security and the second was preparing for the enforcement of the Disability Discrimination Act 1995. Thereafter, the money was allocated for local priorities. That money amounted to roughly £670,000 over several years.

On top of that, we have been in the habit of supporting the college with its cash flow. Each year, we have advanced its grant beyond the normal profile, to minimise the overdraft that the college would otherwise have to have. The effect of that has been to bring to almost nothing the interest charges that the college has had to bear over the years as a result of its overdraft provision. That sets out the total additional cash resources that we have put into the college. Martin Fairbairn is nodding to confirm that that is right.

Mrs Mulligan: With the benefit of hindsight, do you think that that led the college not to tackle the difficulties that it was having in a way that might have prevented us from getting into the present situation?

Roger McClure: I do not think so. That could have happened in some situations, but I do not think that that is the case here. The largest sums were advanced in the period immediately after the recovery plan was put in place and for two years the college did okay and was on track on the recovery plan.

Mrs Mulligan: I asked the chair of the management board whether, in the light of the FEDD report, there is any need for additional financial support. What is your view on that?

Roger McClure: I do not think that there is. As I have said, the rephasing of grant that we have been undertaking for some years has kept the interest charge to the college to an absolute minimum. The large long-term advance—the £1.495 million—has been steadily repaid by the college. There is one more payment to be made in the coming financial year. The extent of that payment—around £270,000, although I cannot remember the exact figure—is of the order of the annual operating surplus for which a college of this scale ought to aim. Putting those two things together, I do not think that it can be argued that the burden of the debt is somehow impacting, or will impact, on the long-term ability of the college to make its provision. It would be better if the college did not have that debt, but it is not critical.

There would have to be a very good reason for us to provide additional funds. Providing additional funds is not something that the council can do in isolation, for one institution, without considering the impact on all the other institutions in the sector.

Mrs Mulligan: That leads me nicely to my final question. We are approaching the July date on which other colleges will produce their financial outturns. Can you say whether any other colleges have experienced financial difficulties this year? Is there a common problem of which Inverness College is just a part?

Roger McClure: I am sure that you have read in the newspapers about another college—I do not need to remind you of that. However, we are cautiously optimistic that the financial security campaign will be successful.

It must be remembered that in any year something can happen to throw a college off course. We must not get too hung up on the need for every college to make an operating surplus every year, come what may. Nevertheless, we have to be certain that a college is financially secure, that it is in control of its destiny and that it is making operating surpluses year on year.

The Convener: Should the FEDD team have been called in earlier?

Roger McClure: That is a difficult question. With hindsight, one might say that we should have done that earlier. We have spent a lot of time going over this, going right back to 2003, which was the first time that the college began to deviate from its recovery plan. The deviation at that time was relatively small and there was financial mayhem in the rest of the sector—we had 30-odd colleges in financial deficit—so it did not look like an abnormally poor performance in June 2003. However, by the time that the accounts for that year were published—we received them early in 2004—we began to see a bigger deviation than we had expected and became concerned. From that point on, all the way through the 2003-04 accounts up to now, there has been a period of escalating involvement of the council.

12:15

The difficulty is that, as you have heard this morning, at each stage we get reassurances and monitor against those reassurances. If things do not go well, we ask for adjustments and adjustments are apparently made. We then wait to see the result and, in this case, the result has turned out to be worse than was promised. A difficult judgment must be made about the point at which the council should say, “Enough is enough. There must be external intervention.” In that context, I urge members to consider our basic approach to our relationship with the sector and remind them that we are talking about autonomous colleges with non-executive boards and members of the public looking after their local college’s interests. We believe that the system would be most effective if boards took full responsibility for the actions of their colleges and did not feel that somebody is looking over their shoulders who will take difficult decisions if things go wrong. Boards must face up to difficult decisions and be in no doubt about their responsibilities. Therefore, we are hesitant to leap in too fast.

We could produce a list of colleges in which, although monitoring had shown that things had gone a little bit off course, we did not intervene because we had confidence in their management, and which have satisfactorily recovered their position, learned a lot from their experience and are the stronger for it. There is probably not a satisfactory answer to your question, but I am trying to get across to members some considerations that we take into account in reaching a judgment. However, in 2005, when we last appeared before the committee, and subsequently, it was evident that further intervention was necessary.

The Convener: Are there any levers available to the funding council to encourage the take-up of assistance?

Roger McClure: I think that there are. I draw members' attention to the new financial memorandum that the council has introduced for colleges and universities in Scotland, which came into force on 1 January after a lot of consultation. The document is radically different from other financial memorandums in the United Kingdom because we were aware that the conventional documents focused too much on financial matters without covering the full breadth of governing bodies' responsibilities and that they were long-winded and obscure as a result of accretion—indeed, they were sometimes impenetrable. I dare say that the average governing body member has not got to grips with those documents. There has been a radical overhaul of what is produced, and the new memorandum has been introduced throughout Scotland in both sectors.

The new memorandum has three pages, one of which clearly sets out governing bodies' full responsibilities in around 10 points. It sets out clearly not only their financial responsibilities, but their planning responsibilities, their responsibility to ensure that they have satisfactory information and their responsibility for continuous improvement in the quality of provision—indeed, all the responsibilities that one would expect to see. The document contains the prime conditions under which we fund colleges. The funding of the institution is conditional on the board of management meeting those requirements.

The Convener: Clearly, the document was introduced after the council was approached in October.

Roger McClure: We worked on it throughout 2005 because such documents require a lot of consultation with the sectors.

The Convener: But the document did not exist as a lever for the council to use at that point.

Roger McClure: Indeed. The previous document had stuff about finance and so on, but it did not give the clarity about the governing body's role that there now is.

The Convener: Were any other levers available to you? Are there any other levers that you might introduce that could assist you in helping colleges?

Roger McClure: A balance must be struck between the powers of the council and the autonomy of the institutions. I have explained why that autonomy is important. We should remember the conditions of grant and our regular monitoring, but also the more informal processes, such as those that led to the introduction of the FEDD team following discussions in October last year. Once it became clear that, despite all the promises that had been made, things would not improve and that a change had to be made, the FEDD team was invited in. Members see the results of that.

The big point about the FEDD team is that the people in it are expert practitioners from the sector. It might be difficult to grasp just how complicated it is to manage a college. I listened to the questions earlier in the meeting and I do not seek to justify or excuse the management weaknesses in Inverness College, but we must recognise that college management is an extremely challenging task. The FEDD report is a testament to how the FEDD team operates. The individuals in the team have been there, seen it and probably been through difficult situations themselves at some stage in their careers. They are an effective force and are able to come up with an accurate portrayal of the situation and to give good recommendations as to how it can be rectified.

The Convener: I took the trouble to look at the FEDD team's CVs, which are highly impressive. What communication has there been between the funding council and the Education Department on the FEDD team's introduction into the Inverness College situation?

Roger McClure: We keep the department informed of anything significant of which it should be aware. As members will know, we have a routine quarterly meeting with the department at which we go through business, including reporting on live issues and so on. It is largely a question of keeping the department informed. The department would not expect to have a direct role in the kind of situation that we are discussing—that is very much for the funding council—but we ensure that the department knows what we are doing.

The Convener: Can you clarify for me the funding council's view of the campus situation at Inverness College and your approach to possible funding in the future when the college's finances come into balance?

Roger McClure: As members will know, the sector in general has a large capital programme in train right across Scotland—that is a positive situation. Through Scottish Executive funding and our capital stream, we have been able to mount a substantial capital programme right across the country. The difficulty that we now face is that we are coming to the end of a spending review period and the next spending review has been deferred for a year, so there is the risk of a hiatus in knowing how much we can commit as we go forward. We have virtually reached the point where we have committed the resources of which we can be sure. We now have to wait for the outcome of the spending review to be certain that we can commit further resources ahead.

We know well just how distracting and demanding the mounting of a major capital project is for a college—Ken Mackie made that clear earlier. We have strongly advised Inverness College therefore that it should not take forward in any significant way a major project until it has completely sorted out the college's core systems, its governance and so on. We agreed that certain preparatory technical matters could proceed—we had no difficulty with that. However, we encouraged the college not to engage in anything major until it had dealt with the higher priority.

The Convener: Are repayments on the loan in abeyance until the college gets into surplus? Will it begin repayments again at that point?

Roger McClure: The college has been repaying the loan. It has one more payment to make of about £270,000—we can confirm that later—that is due in April next year. The loan will then be extinguished and will no longer be an issue for the college.

The Convener: We have been in correspondence with you about the impact of freedom of information requirements on making the FEDD report available to the public. In fact, we have put the report on our website with qualifications and redactions. Given the degree of trust that is involved in producing FEDD reports, I am interested in your view on the impact of freedom of information on your reports. I want you to have the chance to put your view on the record. Certainly, in my view—I am sure that the committee would agree with me—the FEDD report on Inverness College provides a great deal of helpful information that can be used as a management tool to improve the college's fortunes. However, we are concerned about the freedom of information position because, even if the college or the funding council decided that the report was classified information, we can be approached about it separately through a freedom of information request, which we must consider separately. How might that difficulty affect the FEDD's operation in future?

Roger McClure: You put your finger on it: the world has moved on and the funding council and colleges are subject to the provisions of the Freedom of Information (Scotland) Act 2002. If one takes advice on the meaning of confidentiality, one soon discovers that it is a slippery term that does not mean much in the eyes of the law.

In the context of the future performance of the further education development directorate, I draw a distinction between two types of assignment. We are discussing one type, which was at issue when the FEDD came into being, because, when colleges faced serious financial difficulties, we needed an independent assessment of the nature and extent of the problem. In such cases, given the funding council's regulatory role, a FEDD report must be regarded as in effect an audit report that the funding council commissioned, to which the funding council will have access. Like everyone else, we are subject to FOI legislation and if a request for the report is made, we must decide in what form the report can be released. The Scottish information commissioner leans towards releasing rather than withholding information.

The second type of engagement has become the majority of the FEDD's work and is extremely positive. Such engagement is initiated not by the funding council but by colleges, for example when they are tackling a particular strategic development and think that their senior management lacks direct experience or needs further support. As a rule, we do not see reports that are produced in that context, which are entirely between the college and the FEDD and represent developmental, supportive activity. Indeed, we do not need to see such reports. The colleges are not in trouble; they are simply seeking assistance so that they can make improvements. In such circumstances, colleges want to get on with matters without the report becoming public property. However, if someone makes an FOI request in that context, the legislation must be complied with.

The Convener: Who covers the cost of the types of FEDD operation that you describe?

Roger McClure: The funding council.

The Convener: In both types of engagement?

Roger McClure: Yes. Independent consultants have reviewed the approach at least twice and the FEDD's activity is incredibly cost effective. We counted up how many days' work went into Inverness College, not including the work of the director of the FEDD, and the total came to about 108—Martin Fairbairn can confirm that. Because in effect we pay at cost—in other words, we reimburse the home college the cost of the assignee—the cost of that work has been about £40,000 so far, which represents about £370 a day for consultancy from senior, expert people in the sector. If we had tried to secure such input from a consultancy firm, the cost would have been three or four times higher and we would not have had the benefit of anything like the same level of expertise. The FEDD approach is extremely productive and we are happy to continue it.

Margaret Jamieson: The interaction between funding for UHI and funding for Inverness College was raised during questions to the previous witnesses. Mr Mackie said that the college's funding process is made more difficult by the UHI dimension. Can anything be done to alleviate those difficulties and assist the college?

Roger McClure: I think that Mr Mackie was referring to the fact that funding for higher education students comes through the UHI Millennium Institute to the college, via a resource allocation model that has been agreed by the institute. It is not for the funding council to comment on another institution's resource allocation model, but I understand that initially the model was very much based on student numbers, so an institution's resource could be reduced if other institutions were doing better on numbers. It was very much a competitive model for driving growth. I also understand that the UHI Millennium Institute has now realised that that is difficult to handle and has begun to moderate its approach. That is its business, and it must deal with the matter.

12:30

The approach to funding the further education students in the college is exactly the same as it would be for every other college. That is, we allow a margin for undershooting each year without withdrawing any funding. It is true that the higher education scheme also allows that and therefore that, if the college had been funded by the Scottish Further Education Funding Council and the Scottish Higher Education Funding Council directly, there would have been a greater margin for undershooting on student numbers. That is factually correct but, in a city with a single college, there should be no issue with attracting students.

I listened to this morning's questioning. The focus was on finances, budgeting and weaknesses in the management processes. That was appropriate and nobody can argue with that. However, there was also a lot of discussion about how the college can market itself better. I would like the message to go out from the committee that, although the college has weaknesses in its management, it is not a failing college.

I brought with me the college's academic performance indicators, so that I can give you the facts on those. On student retention, the average for the sector is 70 per cent; for Inverness College, it is 84 per cent, despite the fact that Inverness is a city with low unemployment and there is often a problem with retention if people are going out into employment all the time. For part-time students, it is 97 per cent against a sector average of 92 per cent. The percentage of students who complete their programmes is 87 per cent in the college as opposed to 84 per cent in the sector, and the percentage who achieve their credits is 82 per cent in the college as opposed to 76 per cent in the sector.

We would do the staff and students a disservice if we allowed the message to go out—using the language of failing schools—that Inverness College is somehow a failing college. It is not, but it has had persistent difficulties with certain aspects of management. On the basis of the FEDD report and the further assistance that the funding council will provide to the college at a high level, we can turn those weaknesses round.

The Convener: I thank you very much for that. In particular, I thank you for the final comment. It is perfectly acceptable for that to be on the record. I also thank you for your patience in staying through the other evidence so that you could give evidence, albeit for a shorter period. It would not have been appropriate to have heard from the college but not the funding council, so I thank you for coming north to give evidence.

That is the end of item 2. I thank everybody—not only the witnesses, but the public and press—for attending. The committee will now move into private.

12:33

Meeting suspended until 12:36 and thereafter continued in private until 12:54.

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