AUDIT COMMITTEE

Tuesday 28 September 1999
(*Afternoon*)

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AUDIT COMMITTEE
4th Meeting

CONVENER:

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS:

*Brian Adam (North-East Scotland) (SNP)
*Scott Barrie (Dunfermline West) (Lab)
Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*Miss Annabel Goldie (West of Scotland) (Con)
Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
Mr Nick Johnston (Mid Scotland and Fife) (Con)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Paul Martin (Glasgow Springburn) (Lab)
Euan Robson (Roxburgh and Berwickshire) (LD)
Andrew Wilson (Central Scotland) (SNP)

*attended

WITNESSES:

Mrs Riona Bell (Scottish Funding Councils for Further and Higher Education)
Mr Eddie Frizzell (Secretary and Head of the Enterprise and Lifelong Learning Department, Scottish Executive)
Mr Colin Reeves (Enterprise and Lifelong Department, Scottish Executive)
Mr Arwel Roberts (National Audit Office)
Professor John Sizer (Chief Executive, Scottish Further Education Funding Council)
Mr Brian Baverstock (Scottish Funding Councils for Further and Higher Education)

COMMITTEE CLERK:

Sarah Davidson

SENIOR ASSISTANT CLERK:

Shelagh McKinlay

ASSISTANT CLERK:

Alastair Macfie

Scottish Parliament

Audit Committee

Tuesday 28 September 1999

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:22*]

The Convener (Mr Andrew Welsh): If everyone is ready, I will open this meeting on the value-for-money report "Scottish Further Education Colleges: Managing Costs".

I must start with some housekeeping. Andrew Wilson and Euan Robson send their apologies, and Nick Johnston has been involved in a car accident. Thankfully, he seems to be all right, but we send him our best wishes in the hope that he is really okay and will be with us soon.

"Scottish Further Education Colleges: Managing Costs"

The Convener: I welcome Mr Frizzell, Professor Sizer and their teams. Will Mr Frizzell introduce his team?

Mr Eddie Frizzell (Secretary and Head of the Enterprise and Lifelong Learning Department, Scottish Executive): As the committee knows, I was recently appointed head of the Scottish Executive enterprise and lifelong learning department, which comprises parts of the former education and industry department of the Scottish Office. I am supported by Colin Reeves, who is head of the further education division of the department, and by Riona Bell, who was formerly a member of the further education division, with particular responsibility for funding formulas and financial monitoring. She is currently on loan to the new Scottish funding councils for further and higher education.

The Convener: Welcome. Will Professor Sizer introduce his team?

Professor John Sizer (Chief Executive, Scottish Further Education Funding Council): May I introduce my colleague Brian Baverstock, who is deputy director of financial appraisal and monitoring. We have a single integrated executive for the further education and higher education funding councils. I am chief executive of both councils.

The Convener: I bid you a joint welcome. You must be keen to start.

Do you think that this report is fair and that the information that it contains is accurate?

Mr Frizzell: As far as I can see, the report is fair and balanced. One might struggle with some points of detail, but I would not want to make anything of those. The report paints a pretty accurate picture of the situation in the further education sector. There is no great disagreement about what it contains.

Professor Sizer: I understand that it is an accurate report. I was not party to the preparation of the report, therefore I can only say that, from my reading of it, it seems a useful and valuable report that I shall build on.

The Convener: Let us consider financial health, as it is outlined in the report. To set the context for today's session, it would be helpful if you could give an outline of your view of the state of further education colleges, the financial priorities of the sector and how you envisage the sector developing in the near future.

Mr Frizzell: I will try to answer that question myself. If I get into difficulty—bearing in mind that I have been in my post for only a month—I hope that you will not mind if I refer some points to my colleagues.

My view of the financial health of the sector is that, clearly, there has been an emerging problem as a result of the funding squeeze and the significant growth in student numbers throughout the mid-1990s. Among other things, those factors have given rise to the position that is recorded in the report: there are deficits in a number of colleges. The Government has recognised some of the difficulties, and a substantial amount of additional money has been allocated to the colleges.

The report reflects not only a reduction in funding, combined with increasing student numbers, but variations in management practices in the colleges. Some managers have been better at tackling issues of cost control than others, and there is work to be done to address that. A major priority for the Scottish Further Education Funding Council is to progress work on financial management, to encourage managers to look to efficiencies and the managing of their financial positions.

The Convener: Professor Sizer, do you want to add anything to that?

Professor Sizer: You have been given the financial analysis in the report. We have provided you with the financial forecast that we received. There are indications of some improvement in the position of the income and expenditure account, but, overall, the liquidity position in the balance sheet is not strong and there are issues that must be addressed. As Mr Frizzell says, the Scottish Further Education Funding Council and my colleagues will address those issues.

The Convener: Committee members are having difficulty hearing you. Could you lift your microphone, please? That would help.

Professor Sizer: I apologise. I am not quite sure how clear the microphone is. I shall start again.

The Scottish Further Education Funding Council has analysed the financial forecast that it received from the colleges, and it has provided you with an updated analysis of that data. The report indicates that, although there is some improvement in the health of the financial sector in terms of its income and expenditure accounts, the sector clearly has not got strong balance sheets, nor does it have a healthy liquidity position. We will address those issues as the council becomes fully operational.

The Convener: The general pattern is that, after four years of incorporation, significant real-terms efficiency gains have been made. However, around half the colleges are not recovering their direct operating costs, and 40 out of 43 colleges expect overall deficits. Cost efficiency has, so far, led to deficits. What do you intend to do about that?

Mr Frizzell: Primarily, it is up to the Scottish Further Education Funding Council to consider the situation and to deal with it. In understanding how the deficits have arisen, it is important to be aware that a significant contributory factor has been the cost of restructuring. In four years during the 1990s, that cost amounted to as much as £10 million a year for the sector. Restructuring is part of the process of looking for cost efficiencies, and includes staffing changes and so on. If those costs are taken out of the equation, the deficits are not quite as large as they appear. I do not want to minimise the situation, however, as there is a need to examine the financial management of the sector to determine what further efficiencies can be achieved to enable the deficits to be reduced and eliminated.

Professor Sizer: I shall tell committee members what the council has done since 1 July, the date on which it became operationally responsible. We are taking early action on 13 colleges that we consider to have serious financial health problems. They are receiving close financial monitoring. We are working with those colleges to establish recovery plans and are rigorously monitoring the performance against agreed action plans.

There is on-going contact between the colleges and members of my financial appraisal and monitoring team. I will become directly involved with accounting officers of colleges and boards of management if I feel that appropriate action is not being taken. We have established a financial monitoring framework, which will assess not only the financial health of the institutions, by analysing their financial statements and accounts, but their financial forecasts. We want to move to a situation where the financial monitoring framework is essentially forward-looking and anticipates problems so that they can be dealt with.

14:30

The visits from my financial appraisal and monitoring team will include an examination of the adequacy and effectiveness of the financial control arrangements. We are also examining the question of the condition of the estate, and are in the process of commissioning a survey of it. Having gone through the European Union procedures, we have shortlisted consultants.

We are seeking the views of the sector on how to develop a strategy for estates and good practice guidance. In that context, I am talking to my counterparts in England and Wales about joining a benchmarking best practice group that they have established for estates management. There is also an internal capital advisory group which links the various aspects of the integrated academic-financial-physical plans. Also linked to that is the key question of the funding methodology. We are developing a new methodology that we hope will provide a sustainable and predictable framework to allow the colleges to plan ahead.

We are shifting the funding year to the academic year: funding will be from August 2000, with some interim bridging funding for four months. That will allow the colleges to know in advance what their funding will be so that they can address how they will live with their finances more systematically. As part of that, we are introducing an in-year student unit of measurement count, or SUM count, which is a measure of activity. The present system was inherited when it was in the process of being reviewed and changed by our colleagues in the Scottish Office—now the Scottish Executive. The SUM count will allow us, as I have said, to progress to a more sustainable and predictable framework than that which we have had in the past, which has been based on retrospective rather than current activity.

I could go on, but I think that that will give members something to discuss.

The Convener: I am sure that we will catch up with this.

Are the deficits endemic? We are told that there are special circumstances. Revenue deficits are, however, predicted to continue. Are you sure, Professor Sizer, that mechanisms exist that can catch those deficits early and can alleviate the problem in the long run? Are you convinced that the mechanism that exists now will not only be able to—

Professor Sizer: As for my case, I can only say that if you look at my past record on the Scottish Higher Education Funding Council and with the University Grants Committee in establishing the procedures that they developed, which are the foundation of the procedures currently used by all the higher education funding councils, I can assure you, convener, that I think that I have the professional expertise and the team of people to achieve what you have asked about.

I have a very high-quality audit committee, chaired by John Gray, the former finance director of Scottish Hydro-Electric. That audit committee is monitoring what we are doing: there is a high level of professional overviewing of the activity that I am undertaking. I think that I can say yes to your question, convener, given my personal experience and that of my team. You will probably have to ask it again in a few months' time.

We have certainly put the procedures in place, but at the moment we are dealing with a transitional situation in which a group of colleges are in serious financial difficulty. It is important that I give those a high priority.

The Convener: We wish you well in your work.

Professor Sizer: Thank you.

The Convener: You are dealing with 13 colleges. Are there more, or are they the most serious cases? How did you choose them?

Professor Sizer: Thirteen colleges account for around 69 per cent of the operating deficit. Of those 13, six to eight are particularly serious. For a number of those we have already either inherited or agreed action plans which we are monitoring carefully. For the remaining colleges, my accountants are working with theirs to develop plans. I have no money to bail out the colleges. We must sit down with them, address the way in which they will face up to their problems and give them as much help as possible.

The Convener: I presume that the two colleges mentioned in the report are among the 13?

Professor Sizer: Yes.

The Convener: In the medium to longer term, capital assets are deteriorating and the routine maintenance of buildings and other assets is being abandoned to reduce revenue costs. Are we not heading for the worst of all possible worlds—revenue deficits and deteriorating capital assets? Does your quest for revenue savings not, by definition, also mean massive future problems for capital assets? How are you addressing that situation?

Professor Sizer: I mentioned earlier that I am commissioning a condition survey to give me a thorough understanding of the state of the estate, the extent to which there is a backlog of maintenance problems and the extent to which physical assets need to be replaced. Only once that survey is complete can I assess the full implications of the problem, and my council will wish to advise ministers of the outcome of the survey. It is difficult for me to say how far the indicative funding for estates in the comprehensive spending review will match the requirements. On the surface, the balance sheet analysis suggests that the sector has serious liquidity problems. It is not generating surpluses in order to maintain its assets intact and it will have difficulty replacing assets or creating new capacity unless additional funding is available. At the moment, I cannot say to what extent the funding that has been indicated matches the requirements of the sector.

The Convener: How can you cure the problem if the new money is a one-off directed to increasing the number of students, which in many ways may accelerate the problem? How do you cure the in-built problem of revenue deficits and capital deterioration if there is no new revenue?

Professor Sizer: I assumed responsibility for the sector on 1 July. The first thing that I need to do is to analyse the situation and present our findings to ministers for consideration. I can live only within the funding that is given to the council and ensure that we provide best value for money within those circumstances.

Mr Frizzell: I would add that there is no question that what we saw through the 1990s was a squeezing of the capital funding line. That is a classic response when funds are tight. Funding for this year and the following two years is higher than it was, so there is some restoration of the position. Professor Sizer is, however, quite right. We must establish the needs of the sector, and the extent to which the funding is already there to be squeezed out to greater effect on the buildings front.

The Convener: Page 7 of the Audit Committee briefing refers to

"a similar range of coherent strategies and practices"

such as

"less expensive staffing solutions . . . lower cost teaching support staff to deliver relevant parts of the education and training provision; less staff intensive curriculum delivery strategies"

and

"more flexible contracts with teaching staff".

If I read that aright, it means pay teachers less, replace lecturers with machines and produce a system that relies on part-time teachers on short-term contracts. Is that not a recipe for overstretched, insecure and tired staff who have no time for research, training or updating their subject skills, as well as for dissatisfied students?

How are you going to guarantee quality of education in that situation?

Mr Frizzell: The list that you have read out is a classic list of things that a public sector manager must do to reduce costs in an organisation where staffing accounts for a significant proportion of costs. That is where the options for saving lie, and the great challenge for public sector managers is how you reduce costs that have an impact on staff, and at the same time maintain quality and staff motivation. If I have any criticism of the report it is that what is missing is any recognition of the fact that that kind of change process is stressful for the staff involved, and that without their engagement one will not be very successful in achieving one's management objectives.

There is no easy answer to how one does that. However, it is clear from the best practice colleges that there are ways in which one can make staff more effective. Those colleges have shown that their staff are more effective: there has been a significant increase in productivity, as measured in the report, which states that productivity per member of teaching staff has increased by just less than a third over the period. There are things that can be done that do not necessarily have serious effects on staff but, undoubtedly, staffing is an area that must be examined if substantial inroads are to be made into making efficiencies in the public sector.

The Convener: Do you wish to add to that, professor?

Professor Sizer: You asked how we would ensure that quality was maintained. The report says that there is a question of how far we can continue to achieve efficiency gains and maintain quality, but it does not provide any information about how quality changed during the period of the study. My understanding is that the inspectorate's previous examination of the sector suggested that while there was evidence of staff resources being stretched as the changes were implemented, quality had not suffered.

My council now has a service level agreement with the inspectorate and will be receiving regular reports from it on the quality of teaching and learning. Clearly, we will need to take those into account as we make funding decisions, but we have already indicated to the sector that we think that the maximum overall growth that the sector can achieve in 2000-01 is 5 per cent with a 1 per cent efficiency gain, and that for many colleges growth will be significantly less than 5 per cent.

We need a period of stability. We need to build on the best practices that are mentioned in the report, but we also must recognise that in the end, as Mr Frizzell said, change can only be managed if people buy into that change, and that takes one back to the quality of management. Clearly, there is evidence of variable management in the sector, and that is why we have been asked to undertake a management review. One key aspect of that will be what best practice is in human resource management and how to promulgate it to the sector. I fully identify with what you said when you asked the question.

The Convener: Lewis Macdonald wishes to ask questions on the financial health of the colleges.

Lewis Macdonald (Aberdeen Central) (Lab): I will follow the convener's line of questioning laterally. You talked about the effect of the financial squeeze during the past few years. Why did so many colleges go into deficit so soon after coming under central Government control? Is it simply a matter of financial squeeze, a combination of that with, as perhaps you are suggesting, a lack of financial management priorities, or are there more structural reasons that would be worth addressing?

Mr Frizzell: To some extent the answer has to be speculative, and perhaps Professor Sizer will have a different take on it than I do, since he is closer to it and has the responsibility for the higher education institutions. I recognise a sector that is going through the stress of change. There has been a huge cultural change following coming out of local authority control and a local authority environment. For example, the college principal would not have the same accountabilities in the local authority structure as the college principal is expected to have as manager of the institution as a free-standing corporate body. All of that is something of a shock to the whole sector.

There is the stress from student numbers being driven up for various reasons, the financial squeeze and people having to take responsibility for efficiencies. That is not easy, and it is not surprising that we have seen some stresses and strains emerge. That would be true of any organisation in that position.

Given the major change, the sector has achieved quite a lot in a short time. I would not underestimate the size of the change faced by colleges as they have moved from local authority control to the position of having to fend for themselves. The department would face the historical cost structure of the colleges and funding would initially be based on the amount that colleges used to receive. However, a developing formula would put pressure on the colleges that were not ready for such a disciplined environment.

We are slightly alarmed, because we do not want deficits to continue and to accumulate. However, some good things have been done. That is not entirely surprising with the major cultural change that has taken place in the sector.

14:45

Professor Sizer: It is difficult for me to comment on events before 1 July, except to say that we should not underestimate what the sector has achieved. I suspect that, in other areas, there would have been much greater resistance to change. Some managers were appointed to perform a different job in a different set of circumstances. Suddenly, they found that they were running incorporated colleges, inheriting a high-cost situation and being asked to manage significant downsizing. Perhaps some managers did not have the skills that are necessary for that task.

Furthermore, it is not easy to tell long-time colleagues that there must be significant retrenchment. Such retrenchment has not just happened at teaching staff level. There has been delayering of management and devolved budgeting has been introduced. Some examples of best practice have also been introduced. Although credit should be given for what has been achieved, there is still, as you rightly point out, an overall financial problem, because savings have not strengthened the colleges' balance sheets to enable the colleges to reinvest in the future. That is the big challenge. This sector is crucial to all the political parties if they want to deliver a vision for Scotland.

The Convener: Professor Sizer, I think some of the committee members want you to shout at them. Could you please pull your microphone towards you?

Lewis Macdonald, do you have another question?

Lewis Macdonald: The report mentions the funding mechanism that, by tying increased funding so much to increase in student numbers, put great pressure on individual colleges to increase such numbers, regardless of other considerations. Is the increase in student numbers a separate issue from the squeeze on funds? Are colleges squaring the circle by trying to increase student numbers while at the same time seeking efficiency savings and savings on staff? Perhaps you can guide me if I am drawing a false distinction.

Mr Frizzell: If Mr Macdonald wants to discuss the intricacies of formula funding, I can pass him to one of my colleagues. However, I will make a general observation. To some extent, the funding mechanism encouraged colleges both to compete with one another, which helped to increase any natural growth in access to further education, and to market courses to get students in.

Since 1997, the Government has stated that it wants to increase access and has underpinned that policy with additional money through the comprehensive spending review. However, the increase in student numbers would probably have happened anyway and was perhaps encouraged by the funding mechanism. If committee members want to go into that subject in more detail, I can hand over to one of my colleagues.

The Convener: Which colleague is it to be—Mr Reeves or Mrs Bell? It is Mrs Bell.

Mrs Riona Bell (Scottish Funding Councils for Further and Higher Education): We have to go back to the inherited position at incorporation. Colleges were funded by individual local authorities on the basis of budgeted expenditure and levels of funding varied considerably between colleges. One of the early objectives of the funding methodology was to converge the levels of funding.

The other factor that contributed to the significant growth of the sector was the retrospective basis of funding. The formula uses the most recent available audited student activity figures, but those are almost two years old by the time that they are usable. That was necessary early on because there was no record—and certainly no forward projections—of student activity.

The early formula was designed with those objectives in mind and had to be phased in over three years because of the wide range of inherited levels. The sector would have been totally destabilised if an activity-based funding system had been introduced straightaway. By the end of the three years, funds were no longer increasing. The fact that total funds were not increasing at the same time as the funding method had begun to make colleges aware that they needed to keep up with sector growth to increase their funding was a coincidence, but it fuelled growth.

The department recognised that. In 1997, there was a formal review of the funding methodology. One of the main recommendations was to incorporate a system of managed growth into the funding method. The department started the process of introducing the sort of forward-looking methodology that Professor Sizer has described and the funding council is taking that forward.

The Convener: Are you content with that, Mr Reeves, or do you want to add something?

Mr Colin Reeves (Enterprise and Lifelong Learning Department, Scottish Executive): I have nothing to add.

Lewis Macdonald: Does Professor Sizer have anything further to say about how he envisages the application of the new funding methodology?

Professor Sizer: In a recent presentation at the Scottish Further Education Funding Council, we recognised that significant progress on convergence had been made since 1993. The sector has, measured in terms of unit cost, become more efficient.

However, rapid growth has been achieved with static total funds and a reduced real level of funding. It is always easier to cope with change when growth is combined with extra funding, but the formula was complex, retrospective, volatile and unpredictable. The department had recognised those four criticisms and begun to address them. We are taking that forward.

The aim is that colleges should be able to anticipate more clearly what their funding will be: they should be told well in advance and understand what is fundable and they should have a clear indication of what we intend to fund overall. That will produce a much more predictable and sustainable situation. We are making progress towards that and have set up a funding steering group that reports to the council. At each council meeting we make decisions about the next stages. We are also consulting with the sector and keeping it informed. I understand that colleges are happy with the way in which we are addressing this matter.

New funding methodologies cannot be introduced overnight. That is why we propose a four-month interim period to align funding with the academic year. We hope to announce the new funding methodology in April next year and to implement it in August. That should place further education on broadly the same basis as higher education.

Lewis Macdonald: I have one final point, Professor Sizer. May I draw your attention to paragraph 1.14 on page 14 of the report? It relates to the funding system that has applied until now and indicates that the department has had to assist two colleges in particular financial difficulties by employing external consultants, who have drawn up recovery plans. Those are extreme cases. However, you mentioned that you are monitoring 13 colleges closely. Could you tell us which colleges are experiencing serious difficulties and what steps you are taking to help them? Are you looking to the new funding system to assist their recovery?

Professor Sizer: I have to be careful about what I say in public about individual colleges. I do not want to break confidences. Are you content for me to name the colleges, convener?

The Convener: You could put the names in a written memorandum if you wish, so that you do not breach confidentiality. We are anxious to find out the truth.

Professor Sizer: I realise that. That is why I am asking for your guidance.

The Convener: I will allow you to make your judgment. If you feel that it would be a breach of confidentiality to list the names now, we would be happy as long as you make the names available to the committee in writing.

Professor Sizer: I would be happy to do that. As I said, there are six to eight cases among the 13 colleges. We already have in place recovery plans for a number of them. The rest have either been visited or will be visited in October. I am happy to provide a report on that; I am a little nervous about talking about individual colleges in public—unless colleagues in the National Audit Office think that it would be appropriate for me to do so.

Mr Arwel Roberts (National Audit Office): We would be content to get that information as written evidence, if the committee is happy with that.

The Convener: We would be content with written evidence.

Mr Roberts: Thank you, convener.

Lewis Macdonald: I understand Professor Sizer’s nervousness. It is clear that a number of colleges in particular areas have struggled harder than others with financial constraints. For some communities, those colleges are important parts of the educational infrastructure. When, in certain localities, there are rumours of a college being in deep trouble, as there have been over the past couple of weeks, that can have a widespread impact. I am sure that the witnesses are well aware of that. There is purpose in seeking to identify to what extent the problems can be contained in the national structures.

Professor Sizer: I am aware that we cannot always believe everything that we read in the press.

The Convener: In digging for the truth, we are also here to help.

Scott Barrie (Dunfermline West) (Lab): On financial health, paragraph 1.21 on page 18 indicates a number of areas that the funding council will examine as a priority. Although not comprehensive, those areas give some indication of what may or may not be examined. I know that you have alluded to college funding and funding methodology, Professor Sizer, but could you expand on some of the other work that is being done on management structure?

Professor Sizer: A steering group is handling the management review and we are close to interviewing and appointing consultants. An interim financial memorandum was issued based on the previous financial memorandum of the Scottish Office education and industry department. By the end of October, we will be consulting the sector on a new financial memorandum, which will be in place by April 2000.

We have established an audit committee, which met on 13 September. Its members have a wide range of skills; they have been fully apprised of the information that has been made available to members of the Scottish Parliament Audit Committee and the information on the 13 colleges to which I have referred. We have established a series of committees of the council as well as working groups.

A teaching and learning group is advising the council on quality improvement, standards, flexible learning, teaching delivery, communications, information technology and widening access. The funding steering group will be giving detailed consideration to the review of funding methodologies and will be making recommendations to the council.

A strategic development committee will examine strategic and structural change and development within the sector. Afterwards, it will consider strategy, policy and mechanisms for the improvement and development of the sector, as well as institutional planning, sector analysis, provision review, collaboration, rationalisation and mergers. It will commission a survey about the adequacy of provision and, in particular, supply and demand across Scotland. We do not have a clear understanding at the moment of how far demand matches regional provision.

15:00

One of the early actions of our audit committee will be to introduce a code of audit practice based on the revised code that was recently issued by the Scottish Higher Education Funding Council. The draft code will be issued to all the colleges and to interested parties for consultation, which will be considered by the audit committee. The final code will be issued no later than April 2000, although I am conscious that I will have to link up with the Auditor General for Scotland to consider the Public Finance and Accountability (Scotland) Bill, which is currently before Parliament. You may know that I was a member of the financial issues advisory group, and I will build on that experience.

Work has been undertaken on best practice in procurement in higher education across the United Kingdom and we want to build on that and carry it into further education. I mentioned the role of Her Majesty's inspectorate and the memorandum of understanding that we have with it, as well as the outline service agreements. We will review all the existing quality control mechanisms with the large number of bodies involved so that we can move to coherent and integrated quality assurance mechanisms. We will also investigate the development of the integrated academic-financial-physical plans—which have not previously existed—that will allow us to get to grips with those issues. Those are some of the things that we have done in the first few months, but I will go on if you wish.

The Convener: No, we get the impression that you have not been unbusy.

Scott Barrie: I am not sure that I expected such a comprehensive list, but you have clearly been addressing the issues that were set for you. I heard you talk about strategic and structural change. Am I right in thinking that part of that would be a reappraisal of what individual colleges offer? There appears to be no rhyme or reason to the geographical location of colleges—that is an historical accident. Colleges that I thought were offering relatively specialist courses—some of the Glasgow colleges, for example—appear also to offer very general courses, which are duplicated at other institutions. Are we looking, in the near future, at a merger of a number of further education institutions? Would that help the financial plight in which a number of them have found themselves?

Professor Sizer: I think that I differentiate between, on the one hand, the detailed provision of individual courses and their duplication and, on the other, the overall shape and size of the sector—the number of colleges, the balance of provision, geographical distribution and the requirements of the regions. We have just agreed to put extra funding into Argyll, Benbecula and the Haddington area to address the current lack of provision in those areas.

One of the questions about this report is the extent to which these savings can be delivered while the present number of institutions is maintained. Mr Wilson and then Mrs Liddell, when they were ministers before devolution, both directed the sector to move towards greater collaboration. We must move—you may have heard me say this on many occasions—from competition within Scotland to collaboration for Scotland. We are stimulating collaboration but, as we begin to understand the financial health problems of some of the colleges, we may come to the view that they have problems of long-term viability as stand-alone institutions. We may have to address mergers and rationalisation through that route.

We have also been asked to look at geographical provision. As you know, the different provision in different parts of the country arises because of historical circumstances. In Glasgow there is a large number of colleges, whereas in Edinburgh there are three. Aberdeen and Dundee each have one very large college. The council will want to look particularly at distribution in the west. My experience in higher education has shown that the best way in which to achieve the benefits of a merger is to get everyone to buy into it. There is enormous resistance to imposed change. We must work with the colleges to understand the issues and to help them reach rational decisions to merge. We will, I hope, be able to help to fund the journey and achieve value for money at the end of the road.

The Convener: Do you want to add to that, Mr Frizzell?

Mr Frizzell: I do not think that there is anything to add to that. Clearly, collaboration is the main issue at the moment. We await any proposals for mergers that may arise, but there is all to play for.

Scott Barrie: I want to clarify one point. In your introductions, you indicated that things have moved on since the period that was covered by this report. The additional funding that has been identified seems to be aimed at growth. Is it realistic, given the financial state that the FE sector seems to be in—I appreciate that a kind of stock-taking exercise is being carried out to explain that—to expect colleges to continue to make efficiency savings?

Mr Frizzell: Not all the new money will be targeted at growth: some of it is predicated on the extra students and the widening access agenda; some of it is to deal with the financial situation; some of it is for infrastructure; and some of it is for capital investment in information and communications technology. It is not all directed at growing student numbers and maintaining the existing financial situation.

It is often argued that efficiency gains in the public service sector cannot be achieved continually—it is not as though ball bearings are being produced and there is new technology that makes their production cheaper every year. We must be careful not to assume that, because progress has been made, we have come to the end of the process.

The report points out that there are variations in the ways in which colleges go about managing their costs. There are clearly variations in the management information that is available to college management. Not all colleges have well-developed systems of costing, for example. Given that scenario, it would be unwise to conclude that we have come to the end of the line in terms of efficiency savings. Some colleges may have come close, but others will not have done. In the interests of value for money and of the taxpayer, it is right that the funding council and the Government should take the view that there is room for greater efficiency.

Professor Sizer: We are predicating only a 1 per cent efficiency gain, which, in the context of previous efficiency gains, is marginal. It does not seem unreasonable to have a philosophy of continuous cost improvement, provided that it is recognised that a college can be inefficiently effective but not efficiently ineffective. We must recognise that this is a matter of effectiveness and quality. If the Scottish Further Education Funding Council was of the view that the efficiency gains that were sought by the sector were impinging on the quality of the provision, we would have to advise ministers accordingly. However, the council's view is that a 1 per cent efficiency gain is not unreasonable in the context of further growth.

The Convener: I am trying to cope with the Professor's soundbites. That never happened when I was a student.

Brian Adam: Looking at figures 9 and 10, which are to be found on pages 15 and 16 of the report, will the witnesses comment on the fact that we appear to have had deficits year on year, from £7.8 million five years ago to a projected £22 million in the coming year, and that, in each of those years, more than half the colleges were in deficit? I know that both the witnesses are relatively new to their posts, but the matter relates to a period when central Government had responsibility. To allow the situation to drift for this long may be a measure of irresponsibility.

We have talked about the 1 per cent efficiency savings. Each year, there have been deficits—into millions of pounds—that must be financed. That means that money is being spent not on education, but on bank loans. Can we have some measure of the proportion of income that is being spent on servicing debt, as opposed to on providing education? Why has such a drift been allowed to happen? There are five years of deficits. Several more years of deficit are projected, with the net asset value dropping over the five-year period by 18 per cent. We cannot keep losing assets in such a way.

Professor Sizer: It would not be appropriate for me to comment on the historical trends, as I have had responsibility only since 1 July. I believe that a table on overdrafts and interest was made available to committee officials. We identified six colleges that had high levels of overdraft in relation to total borrowing: some were in the process of converting overdrafts and short-term loans into long-term loans; some had debt relating to particular building developments; and some I have asked my colleagues to find out more about. We have only just started the process of analysing the overall financial data, so it is difficult for me to go too far at this point.

Brian Adam: Forgive me, Professor Sizer, but you are addressing a slightly different question from the one that I asked.

Professor Sizer: I am conscious of that.

Brian Adam: I accept that you are not responsible for the series of years of deficit, but I asked about the cost of the deficit, not the cost of capital loans for developments or buildings. In each year in the period, across the sector, the majority of colleges has had a deficit, which must be financed. It is a question not only of capital works, but of the revenue deficit. You are saying that it is easy to squeeze out another 1 per cent, but if there is a revenue deficit and the money is coming from the bank, will that be an additional 1 per cent that has to be found?

Professor Sizer: I do not have information about interest payments, either historically or in the financial forecasts that I receive. I will be revising the request for financial forecasts to ensure that that information is identified. I emphasised early on that I thought that the sector was, in effect, overtrading—it has had weak balance sheets and has not been generating surpluses to sustain assets or to fund growth. You are saying in a slightly different way something that I said earlier. It is therefore difficult for me to go much further.

The Convener: Can you help us, Mr Frizzell?

Mr Frizzell: I believe that Mrs Bell may be able to help a little.

Mrs Bell: Mr Frizzell said earlier that the deficits in some of the earlier years included significant exceptional costs attributed to restructuring. That included staff downsizing, much of which was achieved through early retirement schemes, which required enhancements to former employees' pensions. The college deficits include charges for setting up that future pension provision, which amounts to about £10 million a year for three years.

The colleges received funding of about £2 million, which paid the immediate lump-sum cost of the pension enhancement, but they have to make provision for the fact that they have to pay pensions to former employees into the future. That is included in the headline deficit, but it is not an immediate cash drain, as it is being paid out over the remaining lifetimes of the retired employees.

When the exceptional costs are taken account of and taken out of the picture, historical cost deficits do not start to arise until 1998-99; I do not think that members have those figures. That means that the sector is not in overdraft to the tune of servicing the deficits of the level that appears in tables 9 and 10.

15:15

Brian Adam (North-East Scotland) (SNP): The situation, surely, is that even allowing for your three years to remove those exceptional items, the last two years have shown a deficit and there are continued projected deficits. In fact, the overall deficit position is not improving—it is worsening. I asked a fairly specific question about servicing that debt. What is it costing? What proportion of the budget is going on servicing debt rather than providing education? I am not talking about servicing capital debt—I refer to revenue debt.

The Convener: Can we get an answer to that question, Mr Frizzell?

Mr Frizzell: We could not tell you that unless we went back through all the college accounts to separate out what the loan or overdraft payments are for. We could make a very rough calculation. When the restructuring costs are removed from the £22 million, if the real deficit is something like £13 million or £14 million, one could work out what sort of interest rates might be paid. If the colleges have to borrow to fund that, one would get a figure of possibly £1 million or so. Against the overall funding of £300 million, that is quite a small figure.

Brian Adam: It is 0.3 per cent.

Mr Frizzell: I am not offering that as an authoritative figure—I would be unwise to do so. However, one could make the calculation. If members want it done exactly, we would be required to go back through the college accounts. Your point, Mr Adam, is well made and has been taken on board. If colleges have to fund accumulating deficits, that money could be spent on something else, such as provision, and therefore it is important that recovery plans are put in place and that the deficits are wiped out. There is no question but that the funding council takes that on board.

Brian Adam: Excluding the three years during which you had the opportunity to get rid of the exceptional costs, why is the situation worse now? We have nothing before us to suggest that the picture is about to improve significantly.

Mr Frizzell: The forecasts that we have suggest that the figures should improve in the current year—1999-2000. We are forecasting a reduction in the deficit.

Brian Adam: But given that the original forecast for 1998-99 was £15.5 million and the latest outturn for the deficit is £22.6 million, what confidence can we have that the initial forecast of £11.8 million for the current year is not going to be considerably higher?

Mr Frizzell: The principal explanation for the change between the original 1998-99 forecast and the latest forecast has to do with nearly £10 million-worth of restructuring expenditure that had not been anticipated when the original forecast was made. Remember that we are going back a little, to when the table was published in the report.

About £6 million of the difference is accounted for by a particular restructuring cost incurred in 1998-99. It is not expected to remain at that level in the current year—1999-2000.

Brian Adam: So are you saying that the deficit greatly increased this year because there has been a further shake-out of staff in order to meet the deficit?

Mr Frizzell: There has been further restructuring, yes.

Brian Adam: Given that you are projecting further deficits in future years, are we likely to see further shake-outs of staff?

Mr Frizzell: That will depend on the efficiency measures that are put in place by the colleges in response to the work being done by the funding council.

The Convener: We will now move on to look at potential financial savings.

Paul Martin (Glasgow Springburn) (Lab): Mr Frizzell, can I refer you to paragraph 2.13 of the report? It suggests that by improving below average efficiency in individual colleges, some £13 million could be saved. How have you sought to achieve those substantial benefits?

Mr Frizzell: Professor Sizer might have something to say about this. That £13 million is an arithmetical calculation that is based on the difference between high cost colleges and the median. The report recognises that it is not necessarily possible to save all of that £13 million through benchmarking or other management tools that might be put in place to improve efficiency.

There is a raft of efficiency measures that one hopes will be implemented in colleges and begin to drive down the average cost and release savings of that kind. I urge caution—that £13 million is a matter of arithmetic using the recorded difference between the median unit cost and the higher unit cost and is based on a drift towards the median.

The report recognises that managing colleges is complex and that, for a variety of reasons, not all colleges can necessarily achieve year-on-year decreases in unit costs towards the median level.

Paul Martin: I appreciate that he has been in post only since 1 July, but will Mr Frizzell be more specific about what has been set in place to deal with that possible saving of £13 million?

Mr Frizzell: There is the management review that Professor Sizer mentioned and there will be mechanisms that the funding council can use to encourage management at colleges to shake out the savings. It is down to the management of an individual college to manage down the unit cost of that college.

The £13 million—or another figure—of savings can be achieved only if the colleges that have unit costs above the median can get their unit costs down to the median. That is set out in the report and that is how that £13 million has been calculated.

Professor Sizer: It is important that the committee recognises—I am sure it does—that there is a wide diversity of colleges. The range includes small island and agricultural colleges, specialist colleges such as those in Glasgow which were referred to and very large colleges. Inevitably there is a range and diversity of provision and size.

The report acknowledges that if all the colleges could move to the median that would save £13 million, but it recognises equally that that might not be wholly achievable because some of the small, specialist colleges will be more expensive to operate if they are to provide adequate provision in the Orkneys, Shetland or the outer Hebrides, for example.

Achievement of those savings will require people who are capable of managing that process. I will give you another soundbite. We must get from data to information: data become information only if people act on them. That is why we feel that that is an important part of the management review.

There is already significant sharing of the best practice that has been identified in this very good report. The Association of Scottish Colleges shares that view. There are other groupings within the sector that use one another as benchmarks.

Although it is an important piece of the jigsaw, I am not sure that such change can be achieved overnight. As we said, other people have been asking about what the impacts on delivery of teaching and staff morale will be. We must fit all that into the management review and from that identify best practice and how the funding council can help.

I must also ensure that boards of management understand their responsibilities in holding their executives to account. Executives must demonstrate to boards that there are good reasons why their colleges are more expensive than others. If a college is more expensive than others, the executive must also say what action it is taking to address that fact. If it believes that it cannot take action, the board must be satisfied that that is the case.

The boards are the first line of public accountability—they must ensure that the executive of a college delivers value for money.

The Convener: I am anxious to get as complete an answer as possible, but we have to press on.

Paul Martin: Can Mr Frizzell and Professor Sizer tell us how they might overcome the key barriers? Will they focus on the barriers that prevent savings being achieved?

Professor Sizer: We will build into the management review the first three stages of the process that is recommended in the report. The consultants who undertake the management review will not only identify best practice, they will identify the barriers to change and the ways in which they ought to be addressed. It is difficult at the moment to say what the specific barriers are, but we know that there are some examples of good practice.

Some colleges are not well managed and we must identify them. We may have to change the management rather than the practices. We cannot assume that because we can identify best practice, all managers are capable of delivering it. Another key aspect will be management development in the sector, including best practice in human resource management, management succession and management development. We will address all those things in the review. If I could tell you today what the barriers are and what needs to be done about them, there would be no need to undertake the management review that ministers have asked for.

Paul Martin: To what extent is quality being maintained in the face of cost pressures and the growth in student numbers?

Mr Frizzell: From the auditing that has been done—for example, by Her Majesty's inspectors—there is no suggestion that quality has suffered. The Government is committed to widening access and maintaining quality so that we have world-class colleges. The department and the council will take a close interest in that as well as in efficiency savings. At this stage, however, there is no suggestion that there has been a reduction in quality.

Paul Martin: What other plans exist for further reviews of college staffing to cut costs?

Professor Sizer: We have to be clear where the responsibility lies. We are a funding council, not a planning body or one that has responsibility for the management of individual colleges. Colleges are incorporated and have their own boards of management, and it is important that employee-employer relationships are managed by the colleges.

Our role is to ensure that colleges understand what best practice is and demonstrate that they can address the issues involved in delivering it. If a funding council were to determine the optimum level of staffing in different types of colleges, it would require significant extra resources. I also suspect that central planning and central bureaucracies would get things wrong. We must ensure that college managements understand what best practice is and can demonstrate that they are employing it. In that process, they can demonstrate to boards of management and to auditors that they have optimal staffing levels to deliver what they are required to deliver now, and plan for the future. This is a period of rapid change and we must think not just about today's courses, but about the delivery of tomorrow's courses.

Mr Frizzell: I have little to add to that. The key issue is undoubtedly the engagement of management in driving through change. The boards of colleges are broadly constituted and comprise a wide range of people from the sector, as well as businessmen and others. They ought to be capable of looking to good management practice and working out solutions. They must be encouraged and helped as far as possible to embrace the management practices that are needed to deliver efficiencies.

The Convener: We will move on to the section on benchmarking.

15:30

Miss Annabel Goldie (West of Scotland) (Con): Gentlemen, we seem to have done a lot of knitting this afternoon, but I am still unclear about the shape of the jumper, so I will go back to some general areas. I have a simple question: what criteria do you apply to determine whether a further education college is a success or a failure?

Mr Frizzell: There are a number of performance indicators, and there is no doubt scope to develop more. Some time ago, the department required colleges to have particular performance indicators—they are in the report—to do with student retention and performance, and so on. Those must be considered alongside the financial criteria.

It is for the funding council to develop performance indicators further and to decide what the appropriate measures are. Another term that is used in the report is critical success factors—I am not sure whether they are exactly the same as performance indicators. Critical success factors being met, units costs being kept under control and greater convergence of unit costs are all indicators of success in the sector, alongside, of course, output measures such as of whether students are completing their courses and getting jobs or moving on to higher education—a whole raft of things. It is important to have a balanced scoreboard—to use modern management jargon—on this, and not to assume that the criteria are only to do with costs, important though costs are.

Miss Goldie: Do you accept that it is desirable for colleges to be clear about what they are expected to achieve and how they are expected to perform?

Mr Frizzell: It is vital that colleges know what is expected of them. That was provided for in the past by advice from the department. It is provided for in the guidance that is given to the funding council by the department, and I am confident that it will be provided for in the funding council's work.

Miss Goldie: In the report, some consideration is given to the necessity for the new division of areas of responsibility—the establishment of the Scottish Executive department and the Scottish Further Education Funding Council. Are you both satisfied with the division of responsibilities?

Mr Frizzell: That is a difficult question, as I have had my responsibility for only four and a quarter weeks.

The Convener: Early satisfaction.

Mr Frizzell: The division looks okay to me at this stage. I am sure that we will talk if the division begins to look wrong. I think that the division of responsibility is right: it broadly mirrors the difference between the department and the Scottish Higher Education Funding Council. It is reasonable that the people who are closer to colleges should have day-to-day responsibility for funding.

Professor Sizer: On the basis of my experience of the Higher Education Funding Council, I can say that the way in which things are unfolding in the Further Education Funding Council does not suggest that there will be any problems. It is early days, and I am learning about further education every day—including today.

Miss Goldie: I have a supplementary question: do you see any anomalies in the division?

Professor Sizer: In both cases I have been conscious of the fact that there are Executive officials between the funding council and ministers. One of the key roles of the funding councils is to advise ministers on the funding requirements of the sector, but the funding councils do not—

Miss Goldie: I am sorry, convener; when Professor Sizer thinks deeply, he mutters, and I find it difficult to hear him.

The Convener: This committee longs for you to shout at it.

Professor Sizer: I am sorry—I have a cold.

One thing that has fascinated me is the fact that, in effect, although funding councils advise ministers on the funding requirements of the sector, they do not have direct discussions with ministers and are not party to discussions within the department. Each case has to be handled by officials in terms of the division of the Scottish block.

I think that under the procedures that you are about to implement, the process will be much more transparent. The present system has slightly frustrated me. I would have preferred to sit around the table and argue the case for further and higher education against other departments, rather than have other people do it for me—although I am not complaining about the way in which officials have represented the council's views.

Did you have something particular in mind when you asked the question?

Miss Goldie: I think that you have described the area between yourself and the people who are pulling the strings where there might be a lacuna. Your response has been helpful.

The Convener: Do you want to respond, Mr Frizzell?

Mr Frizzell: If I had a pound for every chief executive of a non-departmental public body who said that, I would be sunning myself in the Bahamas today instead of answering your questions.

The Convener: Nice thought.

Miss Goldie: In one of his early answers, Professor Sizer mentioned that the boards of management have a primary responsibility for what happens in individual colleges. Should boards of management exercise a collective responsibility?

Professor Sizer: Yes.

The Convener: That is what we like: short, sharp answers to short, sharp questions.

Miss Goldie: Given that the funding council is new, how will it determine the allocation of funds? If that sounds like a very broad question, let me help. Will parallels be drawn with the Scottish Higher Education Funding Council, for example?

Professor Sizer: Our experience in education has given us key skills that we have brought to bear on our work in the council. As I explained, the FE funding council has established a funding steering group to advise it on the development of the new funding methodology. The council makes decisions and consultation takes place with the sector. Inevitably, a large proportion of the funds that the council allocates will be driven by a funding formula. However, there will be other funds. Three funds of £1 million are being allocated for specific strategic purposes. My council has already indicated that, if we are going to address strategic changes in the sector, we might have to create a larger strategic fund to oil the wheels for the journey.

The FE sector is a different animal from the HE sector: there is a more diverse range of provision and more variability; courses are much shorter; and there is not the same underpinning of four-year and three-year undergraduate programmes as there is in higher education. FE institutions would quickly let me know if they felt that we were developing a funding model based simply on the experience of the Scottish Higher Education Funding Council.

Miss Goldie: That was helpful.

A benchmarking framework model has been suggested in paragraph 3.13 on page 41 of the report. Have either of the witnesses any comments about that framework?

Professor Sizer: As I was not the accounting officer when the report was published, I was not party to its generation. I have had much experience in these areas. I would have wanted to discuss the recommendations in the framework with colleagues at the National Audit Office. I am particularly concerned about the recommendations that a performance management unit should be established within the funding council and that the council should undertake independent verification and validation visits. That would create an inspection regime.

My extensive experience—not just in Britain, but across Europe—of performance indicators has shown me that, if institutions do not have ownership, data are produced rather than information. The key role of funding councils is to facilitate and support the development of benchmarking processes. The issue is not just about producing cost data, but about identifying critical success factors and key processes. Implementing best practice for processes results in greater efficiency, which is then reflected in cost data. It is important that there is ownership and that the sector buys into it.

Benchmarking underpins everything in many private sector companies. Scottish Power, for example, benchmarks itself against all sorts of companies around the world—they all work together and do not use some unit from outside. I have discussed this issue with colleagues in the National Audit Office, with which I have good relations, and they can see my point.

I certainly see the first three recommendations as important parts of our work. It is too early to say how the report will be reflected in the management review, but I am sure that a large part of it will be reflected. I may have to come back to explain how we have taken the report on board and acted on it.

The Convener: That could well happen.

Miss Goldie: You may already have answered my final question, Professor Sizer: would you, subject to the qualifications that you have just expressed, plan to encourage colleges to implement the benchmarking framework?

Professor Sizer: As I say, I want to consider that as part of the overall management review, but clearly that review will identify best practice and the funding council will want to develop an action plan to support the sector in implementing that best practice. That is clear from the brief that we had from ministers and the overall view of the council. There is some good best practice out there, and there have been some outstanding performances. We have to ensure that everybody acts on best practice, although that is part of the overall management of the colleges.

Mr Frizzell: The only thing that I would add is that I would be wary of the assumption that benchmarking is the answer to everything. It is one of a range of tools and I hope that, in the management review, managers will think that other tools are of value.

Brian Adam: Paragraph 3.6, on page 38, suggests that the colleges' costing processes are largely underdeveloped. Almost half the colleges have no costing processes at all. Has that situation changed? Given the importance to decision making of sound management information systems and costing data, what assurances do we have that management in the colleges is sound?

Professor Sizer: I have read what the report says on that. The development of costing practice is one of the issues that I will have to address. However, because of the complexity and diversity of activity and because of the short-term nature of some of the activities, costing is not going to be straightforward. On the other hand, an institution cannot be managed effectively if there is no information for planning, decision making and control. At the moment, I have rather more urgent things on my agenda, but we will build on our experience with the Scottish Higher Education Funding Council, which led the way in the development of new costing practices in higher education.

Brian Adam: Can you assure us that the teams that are working with the 13 colleges that are in trouble are working on the kind of arrangement that we are discussing? If the data are not available, the work cannot be done.

Professor Sizer: The colleges receive cost data that were produced by the Scottish Executive and which we will continue to produce. We provide financial indicators.

I do not have teams working full time in the colleges in the way in which you suggest. I have a small group of accountants that is monitoring further and higher education. I can help the colleges to develop a recovery plan but I do not have people sitting with the college managers doing that.

If I had a budget specifically to recruit people and send people into institutions, that would be a way of addressing some of the problems. However, I can only make use of the resources that I have, which is nine accountants for the further and higher education sector. That covers not only financial monitoring but auditing and internal audit.

15:45

Brian Adam: Not being desperately familiar with the detail of your staffing, I wondered whether you would encourage the colleges that are in the most serious difficulty to use mechanisms not just to sort out their short-term problems, but to put themselves on a firmer footing.

Professor Sizer: Yes, we will do that. The first stage is to get colleges on to a recovery plan, with proper short-term financial monitoring in place. Building on that, we will ensure that they develop those practices.

Scott Barrie commented on how much we had achieved, but there is a limit to how much we can achieve. I have had to recruit 40 staff in the past few months and put everything in place. I have a new council that has had to be educated in all these matters, so I am having to prioritise, but I assure you that the questions that you are asking are the ones that are on my mind. As my financial management teams begin to visit institutions routinely, we will be giving advice on all the issues. I am sorry if I sound negative, but I can only do so much.

Brian Adam: That is right: you can only achieve so much in a few months.

We have heard both you and Mr Frizzell talk about the competition that existed between the colleges and how it is to be replaced by collaboration. I know that once a competitive culture is in place, it is not easy to encourage collaboration, so when will we start to see the benefits? If we have ingrained problems, how can we arrive at mechanisms to change the culture?

Professor Sizer: The council had a £1 million fund to encourage collaboration. My chairman and I use the word collaboration whenever we get the opportunity, as does Mr McLeish. The message from the colleges that I have visited is clear—they understand that they are expected to collaborate and to move on from the previous funding regime, which encouraged them to compete and resulted in their rushing lemming-like towards the cliffs.

The £1 million fund was significantly over-subscribed in terms of funding bids. We have provided a fixed sum to each college to fund discussions on collaboration with other colleges—the message is there. I do not have sufficient grasp of the content of all the bids, but my suspicion is that we have yet to move to considerations of rationalising across colleges. Certainly, I am not aware of any colleges that are discussing mergers.

There is already significant collaboration in the Glasgow area and through the colleges learning education group information system and the sharing of teaching material through the Scottish Qualifications Authority. There is an underlying culture of collaboration, but that does not extend to senior management of colleges sitting down with one another to talk about how they can work together across the sector. You would have to ask the college principals, but my perception is that the pendulum is moving in a positive direction towards a recognition of the importance of collaboration. We will continue to stimulate that.

Brian Adam: Mr Frizzell has said that benchmarking is not necessarily the only way in which to tackle the situation. I must admit that I share that view.

Performance indicators have been mentioned. How well are the existing performance indicators doing? The figures that I have on post-course success ratios for all programmes show that the maximum number of students who gain employment is 97.7 per cent. If we could all attain that kind of success, no matter in what aspect of education, we would be doing very well. The median is 86 per cent, which is not that bad, but the minimum is 14 per cent, which suggests that someone has a real problem.

A number of the other indicators have fairly low minimum values. What do you feel about the performance indicators and how they might be improved to give proper measures of the outcomes within the sector? Do you have any suggestions about where the weaknesses may be or how the area could be developed?

Mr Frizzell: Those are highly technical and difficult questions. I am not yet sure whether the performance indicators that we have are right, although they are obviously relevant. The one that you mentioned—which shows what students do once they complete their course and the percentage that go into jobs or higher education—is probably as good a measure as we can get of what is being put out of the door at the end of the day. However, there are areas of high unemployment where it is to be expected that even people who get qualifications will have difficulty getting a job.

The question that has to be asked is whether that is the college's fault. I can give only a general answer. We must be cautious about the extent to which we judge a college's effectiveness and efficiency on the performance indicators. There must be a balance. The one that was mentioned is not unreasonable—a member of the public would expect us to measure whether a college's output is moving into jobs or into higher education.

Brian Adam: Do you agree that, if only one in seven students who start a course is successful in terms of this measure, that does not substantiate the idea that the course is worth while or useful? That case may be unusual—it may be that the data were not gathered properly—but with a success rate as low as one in seven, all we are doing is postponing the unemployment statistics for a short time.

Mr Frizzell: I cannot argue with that, but the important thing is to ask why the success rate is as low as that. It is difficult to draw conclusions in a forum such as this, where we are examining raw figures, but any management worth its salt would ask why. On benchmarking, for example, they would ask how another college with a similar course had a 90 per cent achievement rate.

Performance indicators are important in ensuring that management raise questions, investigate and try to find explanations. If there is no good explanation, action must be taken. That is the real value of having a range of performance indicators.

I do not regard the performance indicators that have been promulgated as necessarily the end of the story. The funding council will be expected to consider a reasonable range of measures for the sector. The public expect output to be measured. What people do when they finish a course is an important measure for an educational establishment.

The retention rate—the extent to which students stick with a course—is another important measure. If students drop out after a short time, questions must be asked about the quality of the provision, about whether the wrong people were recruited and so on. There is scope to develop such indicators to enable management to ask the correct questions.

The Convener: Market day is wearing late. I have two final questions for both witnesses. Do you accept the five recommendations on page 5 of the report? Within what time scale will they be implemented?

Professor Sizer: As I indicated, the report is valuable. If I had had the opportunity, I might have included a discussion of the role of the funding council—I have had such a discussion since. The report will be taken on board in the management review. We have had to go through the European Union process for contracting, so we have asked ministers whether we can now report to them in May next year, which will be the first stage. We will report to them on the findings of the review and on the action that we intend to take. The report will feed into that and will be reflected in the recommendations. The implementation process will be continuous, because we are in the business of ensuring continuous improvements in quality and in all aspects of management. We can never stand still.

Mr Frizzell: I have said my piece about benchmarking. We should not get too hooked on it and see it as the sole process. The recommendations certainly point in the right direction. If they are taken on board in principle and as far as is reasonably possible, given the funding council's relationship with the colleges, they will certainly help to improve the sector. The key thing, however, is for local management to take the messages on board and to take responsibility for managing efficiently and effectively.

The Convener: We have had a long meeting—nearly two hours. As a former senior lecturer in further education, I have found it fascinating. The results of your deliberations will be crucial to the future of communities and individuals throughout Scotland. The committee wishes you wisdom. I thank Mr Frizzell, Professor Sizer and their team for their contribution. The meeting is now formally closed.

Meeting closed at 15:56.

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