



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 12 November 2025

Session 6



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PUBLIC AUDIT COMMITTEE

30th Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Joe FitzPatrick (Dundee City West) (SNP)

*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Ray Buist (Audit Scotland)

Miriam Craven (Scottish Government)

Helen Fogarty (Social Security Scotland)

Derek Hoy (Audit Scotland)

Stephen Kerr (Scottish Government)

Kevin Stevens (Scottish Government)

David Wallace (Social Security Scotland)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 12 November 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning, and welcome, everyone, to the 30th meeting in 2025 of the Public Audit Committee.

Under agenda item 1, members of the committee are to consider whether to take agenda items 4 to 8 in private. Do members agree to take those items in private?

Members *indicated agreement.*

“Adult Disability Payment”

09:30

The Convener: Agenda item 2 is further consideration of the Auditor General for Scotland’s report on adult disability payment. I am very pleased to welcome, from the Scottish Government, Miriam Craven, the director general for communities; Stephen Kerr, the director for social security; and Kevin Stevens, the head of strategic and programme finance for social security. I am also very pleased to welcome, from Social Security Scotland, David Wallace, the chief executive, and Helen Fogarty, the head of performance, analysis and strategy.

We have some questions to put to you, but, before we get to those questions, I ask Miriam Craven to make a short opening statement.

Miriam Craven (Scottish Government): Thank you for the opportunity to give evidence today. This is my first time appearing in front of the committee as the director general for communities and the accountable officer for social security, although I have worked in and around social security for the past number of years.

I would like to introduce—as you have already done, convener—my colleagues who are here with me today. From the Scottish Government, I am joined by Stephen Kerr, the social security director and senior responsible officer for the social security programme, and Kevin Stevens, the head of strategic finance in the social security directorate. From Social Security Scotland, I am joined by David Wallace, the chief executive and accountable officer, and Helen Fogarty, the head of performance, analysis and strategy. Thank you for allowing us to appear together in one session—we think that that will allow you to consider the evidence from officials in the round.

Let me start by saying how proud I am of our achievements on adult disability payment as a result of the hard work by civil service colleagues across the Scottish and United Kingdom Governments, our suppliers and our partners. I am pleased that Audit Scotland has recognised those achievements and our commitment to continuously improve our system.

As you know, adult disability payment is the largest benefit in terms of expenditure that we have delivered so far under the social security programme. We have now established 17 different benefits since the passing of the Social Security (Scotland) Bill in 2018. Adult disability payment, which is now supporting more than half a million people in Scotland, covers the cost of basic, everyday living tasks for people, such as cleaning, washing, cooking, preparing food, getting around,

planning journeys and normal social interactions at work, at home and in communities—tasks that many of us take for granted. Adult disability payment is provided to help disabled people to live independent lives, in accordance with the legislation that the Parliament has approved.

Our approach is deliberately designed to ensure that as many disabled people as possible get the help to which they are entitled. With that in mind, I was pleased to hear the Auditor General's positive endorsement when he was in front of the committee last month, when he said:

"We assess that this has been a successful project. The adult disability payment has been implemented in Scotland, half a million people are now in receipt of the benefit and people are largely satisfied."—[*Official Report, Public Audit Committee*, 1 October 2025; c 4.]

I also note that his report recognises that "good early progress" has been made in implementing the delivery of adult disability payment and that the governance arrangements in place are well developed.

As I am sure we will discuss today, in many ways, adult disability payment is still a relatively new benefit. It was launched only three years ago, with the transfer of cases being completed only this year. In that regard, it is worth remembering that nothing of this scale and complexity—ensuring that clients are moved off the Department for Work and Pensions' systems and on to those operated by Social Security Scotland—has ever been attempted before. I welcome Audit Scotland's highlighting of the considerable work that has been done to ensure a seamless transition from personal independence payment to adult disability payment for more than 300,000 Scots.

The Auditor General's report comes at a good point, as we begin the next phase of our work on social security. If the first 10 years were all about the safe and secure transfer of powers, I suspect that the next 10 years will be about the development of Scotland's devolved benefits system. The next 10 years will also be about the outcomes that are achieved by the investment that the Parliament has voted for and the role that adult disability payment plays in supporting disabled people as part of the overall approach to meeting their needs.

The successful roll-out of adult disability payment—a benefit that was intentionally co-designed with the disabled people it supports—demonstrates that the Scottish approach to disability benefits is working well and is in line with ministers' commitments to the principles of dignity, fairness and respect. Nine out of 10 people who responded to our surveys said that they recognise those principles.

We welcome your questions today, and we thank you again for the opportunity to discuss the Auditor General's report.

The Convener: Thank you very much. At the outset, do you accept the findings and recommendations of Audit Scotland's report?

Miriam Craven: Thank you for the question. We recognise the report—

The Convener: We all recognise it. Do you accept the recommendations and findings?

Miriam Craven: A number of reports are going on at the moment. We also have—

The Convener: I am sorry, but I am asking about the report that we are discussing this morning. Do you accept the recommendations and findings of this report?

Miriam Craven: We are working through the report, looking at the recommendations and impact assessing them in line with the other reports that we have received. We will then decide what the priorities are for the next phase of social security, in line with those recommendations and others.

The Convener: You mentioned in your opening statement that you are pleased with the key messages in the report.

Miriam Craven: Yes.

The Convener: The report talks in very positive terms about "good early progress" and about the transfer from PIP to adult disability payment being on track. Generally, it is quite positive, but it also says—other members of the committee will ask questions about this—that there is not yet a "detailed strategy" for how the Government will manage the overall budget, given that there is a growing gap between the DWP's bill and Social Security Scotland's bill. The report also says that performance information is "limited". Do you accept those criticisms as well as the praise?

Miriam Craven: As I said, we welcome the report. As the Auditor General has said, the project has been a huge success in terms of how we have delivered the social security system in Scotland, with Social Security Scotland being developed as part of that.

The social security system is fully funded in the Scottish Government's budget. In the report, the Auditor General says, when talking about funding, that he has taken into account the statement that the UK Government made earlier this year when it reversed its plans for changes to disability payments and announced the Timms review. As I said, the social security system in Scotland is fully funded, in line with ministerial priorities, in the Scottish Government's budget every year.

We can get into issues relating to performance, and my colleagues are very happy to talk about our work relating to the forecasting of that spend.

The Convener: Other members of the committee will ask questions about performance and the finances of the adult disability payment system.

Last week, we took evidence from Edel Harris, who chaired the independent review of adult disability payment. Do you have any initial reaction to the report that she produced earlier this year?

Miriam Craven: We worked very closely with Edel Harris as that report was developed. She produced a very comprehensive report and spoke with a lot of stakeholders and people in receipt of adult disability payment. She also spent some time with Social Security Scotland staff to learn about how they process applications. We welcome how comprehensive her report was. As you know, it contained an extensive number of recommendations. The Cabinet Secretary for Social Justice and other ministers are reviewing the report and taking the time that is needed to impact assess the recommendations in order to understand the priorities for change and the financial impacts.

The Convener: We were told that it is expected that the Government will provide a formal response by February, six months on from the report's publication date. Is it your expectation that that is when we will get the Government's response, or will we possibly get it before then?

Miriam Craven: The expectation is that Scottish ministers will provide a response by 1 February 2026. As I said, that is to allow time for due diligence to be done and to consider the report and respond to it correctly.

The Convener: When you publish the Government's response to the report, do you expect there to be some kind of evaluation of the recommendations, the costs associated with them and so on?

Miriam Craven: In her report, Edel Harris thought about how her recommendations could be implemented. We will look at that response, and the cabinet secretary will decide how she wants to respond to the report. She will detail her response to the recommendations and the plans.

The Convener: I have a final question for now. Exhibit 1 in the Auditor General's report sets out the eight principles, which I do not need to rehearse at this point. Principle 8 is:

"The Scottish social security system is to be efficient and deliver value for money."

Do all these principles have equal weighting or is that one a prevailing principle?

Miriam Craven: The principles in the 2018 act were developed as part of the process of looking at the delivery of social security in Scotland. As you will remember, that process involved working with experience panels that were made up of people with lived experience from across Scotland who set out what they expected from the Scottish Government. Those principles were enshrined in legislation and secured cross-party agreement with regard to their implementation. The eight principles were not prioritised; they are all key principles that must be delivered as part of our social security system.

The Convener: What do you understand "value for money" to mean?

Miriam Craven: Our approach is about how we make sure that we deliver in line with the act and those principles. It is important that we make sure that people who are eligible for social security funding—including adult disability payment—get what they are entitled to. For us, that is about making proper, efficient and correct decisions for our clients. It is also—David Wallace is welcome to cover this, too—about running an efficient organisation to deliver that social security benefits system in Scotland.

The Convener: Last week, Edel Harris said her understanding of "value for money" was that it was to be achieved

"not just through running a very efficient system, but also through the value that something brings to society".— [Official Report, Public Audit Committee, 5 November; c 39.]

Is that your perspective as well?

Miriam Craven: Yes. For us, adult disability payment is about enabling disabled people to get the money that they are entitled to and will help them live their lives. Stephen Kerr can add to that.

Stephen Kerr (Scottish Government): I draw your attention to the work of our distinguished chief social policy adviser, Linda Bauld, who published an interesting report last year that talked about the achievements of adult disability payment, noting the wider outcomes, such as reducing child poverty, creating positive impacts on material deprivation and improving health and wellbeing. The key point is that investment in social security can lead to reduced demand for other public services such as healthcare and to improved productivity by allowing people who have disabilities to enter sustainable, well-paid jobs.

Helen Fogarty (Social Security Scotland): You asked about how value for money is created, and you are right to identify Edel Harris's point in that regard.

If you look at the evidence of the public value that has been created through the devolved social security system, you will see that we do a lot of work with our clients, and one of our starting points involves asking them about the value that they experience from the delivery of the service by Social Security Scotland. We have a number of indicators that suggest that we are creating public value in that way. For example, when adult disability payment clients who responded to the client satisfaction survey that we ran in 2023-24 were asked about what the impacts of the benefit payments from Social Security Scotland had been on their lives and finances, the average weighting that was given by those who received adult disability payment was eight out of 10 for the statement "It helped me make a difference to my life"; 7.9 out of 10 for the statement "It helped me to control my finances"; and 8.1 out of 10 for the statement "It helped me to pay for what I need". We also have lots of other indicators about the value that is created by being treated with dignity, fairness and respect.

09:45

On the cost of the service that we deliver, you will see that Audit Scotland referenced in the report that operational costs have been lower than the percentage target that was set and lower than the DWP benchmark, which is demonstrated in exhibit 6. Last year's annual audit report highlights that the 2023-24 operational costs were £4.8 million under budget. We will continue to monitor both the public value that we create and our operating costs.

More broadly, we work with Scottish Government community analysis division colleagues as part of the evaluation strategy. That is a significant part of our work with regard to considering the contribution to the wider outcomes. We are still in relatively early days when it comes to the implementation of adult disability payment, as case transfer has only completed this summer, which means that we are in only the early stages of gathering evidence relating to the much wider outcomes and contributions that may be more apparent in the medium to long term. However, that is certainly something that we are conscious of when we are looking at our evaluation and evidence gathering in relation to our performance and value for money.

Colin Beattie (Midlothian North and Musselburgh) (SNP): There has been a big increase in the take-up of these benefits. ADP take-up in Scotland is much higher than PIP take-up in England and Wales. As of January 2025, 13.6 per cent of Scotland's working-age population was receiving ADP, which is a huge proportion

compared with 5.3 per cent receiving PIP elsewhere in the UK. It is also much higher than the 8.5 per cent of working-age Scots who were receiving PIP in December 2021, prior to the introduction of ADP.

Obviously, that is partly due to there being a more accessible and supportive application process. However, it has also been suggested that it reflects demographic trends and rising rates of long-term illness and disability in Scotland. Those are not small increases; they are quite significant. How is Social Security Scotland working to ensure that those decisions are accurate the first time?

Miriam Craven: I will bring in David Wallace from Social Security Scotland to answer that. First, however, on that benefit uptake, we expected the number of applications to increase. ADP was introduced three years ago, and we immediately started to see that steady increment of applications coming in, and we have also had the case transfers of people coming over from the UK system to the Scottish system.

Also, in accordance with the principles in the 2018 act, which we have mentioned, we have been ensuring that clients who are eligible for funding know that they can apply for adult disability payment. That is as big a part of our benefit uptake approach as we can make it.

Before I invite David Wallace to talk about those statistics and the difference in uptake, I note that, when Edel Harris was here last week, she talked about seeing that increase in disability applications at the UK level as well as in Scotland.

David Wallace can also address your question about the accuracy of decision making.

David Wallace (Social Security Scotland): I put on record that we welcome Audit Scotland's report. We have had a good, constructive relationship with Audit Scotland since our agency was formed back in 2018. As you would anticipate, as well as this report and the previous reports that have been done on performance, we also have a regular cycle of financial auditing with Audit Scotland. Like Miriam Craven, we recognise both the positive messages that are in the report and the areas where we would want to improve.

I think that the heart of your question, Mr Beattie, concerns the quality of decision making. Within the organisation, we have a quality control strategy around decisions, so all of those decisions will be checked. There will be sampling of decisions to detect patterns or improvements that we could make. There is a continual learning loop to feed back anything that is found in that decision-making process as benefits launch and are taken up.

I draw out the point that was made by the Auditor General, Edel Harris and, indeed, Miriam Craven: this is still a relatively new benefit. We have only been doing ADP in its entirety for a three-year period. You see different trends and lots of data as you launch a benefit and it comes into a steadier state, and we would describe this benefit as still coming into that state.

The short answer to your question is that those decisions will be made, they will be checked and then, after the event, there will be a cycle of dip sampling and rechecking to ensure that those decisions are valid.

Colin Beattie: I am interested to know what analysis has been done to understand the real drivers behind the increased uptake. It is okay to say that there is a rising rate of long-term illness and disability, but why is that happening? What is the detail on that?

David Wallace: Again, I think that there is a steadying of some of those numbers, which Helen Fogarty can describe as we go through this. I emphasise the point that Miriam Craven made. When we launched adult disability payment, we expected uptake to increase. Indeed, it would have been odd for us to have launched it as we did, given what is set out in the artefacts of Audit Scotland's report, and not to have seen the uptake increase.

Colin Beattie: On that point, did you project an increase of a certain percentage when you launched ADP? You say that you anticipated an increase. What is behind your calculation?

David Wallace: Colleagues from the Scottish Government may want to talk about the preparations in that regard. If you are asking about the operational perspective, I can talk about the staffing of the organisation and our preparations for the launch of the benefit, but I suspect that you are talking about preparations more widely.

Colin Beattie: I just want someone to explain this. You have said to me that it was expected that there would be an increase, without specifying that. I would like to know the specification of that increase and what its basis was.

Stephen Kerr: I think that what we are talking about here, Mr Beattie, is the legislation that established the social security system, in which there are statutory provisions on benefit uptake. We have produced two benefit uptake strategies. Even as far back as 2017, we indicated in the financial memorandum accompanying that legislation that a system that was designed to support and encourage people to apply for disability payments would likely have a higher case load than the comparable system in England and Wales. Therefore, when we talk about an

expectation that the take-up of benefits would be higher, that is what we are referring to.

Colin Beattie: Did you project how much higher?

Stephen Kerr: The Scottish Fiscal Commission has responsibility for producing forecasts for benefit expenditure. We have been working with it over a number of years now to inform its forecast with the work that we do, the data that we have and the trends that we see.

Colin Beattie: Where is that forecast?

Stephen Kerr: The Fiscal Commission publishes its forecasts every year to support the Scottish Government's budget.

Colin Beattie: You do not know what the forecast was.

Stephen Kerr: I can tell you that the forecast for this year is £3.6 billion for adult disability payment.

Colin Beattie: That is not really giving me the answer that I want. David Wallace said that when you were launching ADP, there was a calculation that there would be an increase. That must have been budgeted for somewhere. There must be a figure somewhere that started this off. What is that figure?

Stephen Kerr: The figure would have been the initial expenditure on personal independence payment, plus an assessment made by the Fiscal Commission of the policy changes that the Scottish Government introduced to produce the first rounded forecast for adult disability payment. I think that—

Colin Beattie: What was that forecast?

Stephen Kerr: I do not have the figures for the first year of benefit expenditure with me, Mr Beattie—I am sorry.

Colin Beattie: We were projecting an increase once ADP was introduced, but we do not know what that increase was.

Stephen Kerr: We were not projecting an increase. We were anticipating, through the framework that the Scottish Government established for benefit take-up, that more people would be attracted into the system. It is the Scottish Fiscal Commission that then produces the forecasts to account for a rate of increase.

I can be a bit more helpful about some of the other aspects that the Fiscal Commission takes account of. For example, in a situation where the cost of living is rising, the Fiscal Commission in its work talks about the eligible population being more likely to apply for a disability benefit. That is an example of a factor that drives an increase in the benefit bill.

Colin Beattie: I recognise that, but there must have been a budget from which Social Security Scotland was working, and that budget must have taken into account any estimates or forward projections of increases in uptake of the benefit. What was that figure?

Stephen Kerr: I might bring Kevin Stevens in here. The way that the budget for social security works is that there is a series of block grant adjustments that are based on the underlying benefit at the England and Wales level, which, for ADP, is PIP. That is the budget. Then the Scottish Government decides, in making budget decisions, how much extra investment in social security it wishes to make and allocates those resources from the budget to give the expenditure on adult disability payment.

The forecasts for how the benefit changes over time and the factors that might change the trajectory of benefit expenditure are the work of the Fiscal Commission.

Colin Beattie: As at December 2021, 8.5 per cent of working-age Scots were receiving PIP, so that would be your baseline. Any projection would be based on that figure, as a percentage above it. Therefore, some calculation must have been made. If you do not have that figure, that is fine—we will move on and we will find the figure.

Miriam Craven: We can bring Helen Fogarty in. We will not have that precise figure, but let me remind you of the journey that happened when we launched adult disability payment. When you launch a benefit, you start off in just a number of areas and then you start to increase the roll-out across the country. Therefore, you are only receiving applications from particular portions of the country as you do that roll-out. You then move to your national roll-out. That national roll-out happened in the August, so you also think about where that would be in the financial year. When you start the journey, you do not start with the full case load on the first day; it is about how the case load builds incrementally.

Helen Fogarty: Thank you for your question, Mr Beattie. I think that you were essentially asking about two different aspects: one was about benefit take-up and your reading of Audit Scotland's analysis of the proportion of the working-age population in that regard; and the second was about how we ensure that decisions are correct. If you are content, I can give you more information on both of those.

In terms of benefit take-up, we do not have a reliable measure. The Audit Scotland analysis generally gives us helpful context, but, on benefit take-up, we need something that would be able to tell us definitely the proportion of people who are eligible for ADP—so, people with disabilities;

disabled people. At the moment, Audit Scotland's analysis looks at the working-age population rather than just disabled people, but it does give us helpful information. We are looking at providing that further analysis. Social Security Scotland is working towards providing that type of contextual information to make the analysis more robust so that you can see and compare it.

However, you are right: we have seen a recent growth in the case load in Scotland, which grew at a higher rate than the rate for PIP in England and Wales. In that context, it is important to acknowledge that, from July 2024 to July of this year, the percentage increase in the case load for PIP in England and Wales and the combined case load for adult disability payment in Scotland, which includes the remaining legacy disability benefits, converged at a similar growth rate of 10 per cent. What we saw early on was quite significant, rapid growth in the ADP case load. In the past year, that has steadied and is growing at the same rate as PIP.

I mention that in particular—this goes back to David Wallace's point—because we have gone back and looked at the PIP statistics for what happened in the growth of the case load and the award rates around that. When it comes to the award rates, which I think you were addressing in your question about decision making—whether we are making decisions that look right and are robust, and how the situation compares to PIP in England and Wales—we saw quite significant changes when we launched the first two quarters of published data. There was a 51 per cent approval rate between April 2013 and July 2014, but even just in the quarter before that it was 59 per cent. Therefore, the rate was quite unstable as well. That goes back to the benefit being still relatively new and, particularly with the influence of case transfers, it is taking a while to stabilise.

There is another point about the award rates. From the launch of adult disability payment in March 2022 to July—so this is our most recent published data—a similar authorisation rate is seen when we compare ADP to PIP over the same period. Forty-six per cent of adult disability payments were authorised; the figure for PIP in England and Wales was 45 per cent. Since the end of December 2023, the adult disability payment award rate has been consistently lower than that for PIP. We are seeing a higher rate of applications in Scotland and an award rate that is now slightly lower than that for PIP, and the case load is starting to settle. In the past year, we see a growth in case load in Scotland that is similar to what we see in England and Wales.

Although we do not necessarily have all the information that you might want, we do have good

indicators about how this is working in relation to the quality of decision making.

10:00

Colin Beattie: But what analysis do you have of the drivers that are increasing the uptake of ADP? We are talking about various things, but, at the end of the day, there is no data.

Helen Fogarty: I would not say that there is no data. Stephen Kerr and David Wallace were right to highlight that we work incredibly closely with the Scottish Fiscal Commission. Kevin Stevens may want to come in on this, too, but it is an on-going conversation—just yesterday, we were preparing for discussions with it. We give it access to our management information—that is, what we see in our operational delivery, such as what is happening in the award levels, our communications and marketing campaigns and any analytical developments that are taking place. We regularly share that information with the Scottish Fiscal Commission to ensure that its forecasting can be as correct as possible. The role of the Scottish Fiscal Commission is then to take that information and do the analysis that gives us forward-looking forecasts.

It is important to acknowledge the language around forecasts. They are not definitive. There is no absolute certainty. They are based on the analysis and the information that we have. We share with the Scottish Fiscal Commission a lot of our analysis of our award rates, our award levels, our case load management and any comparisons with personal independence payment. Its role is to do the analysis and come up with the forecasts.

Colin Beattie: This is perhaps more a question for the Scottish Government. How is the Government responding to the rising demand with the worsening health trend?

Miriam Craven: I will bring in my colleagues on the question, too. What we are doing in the adult disability space is ensuring that we have a fully funded scheme, which, like our wider disabilities work, is fully funded in the Scottish Government budget in line with ministers' priorities. As Helen Fogarty said, we work with the Scottish Fiscal Commission on what the forecast rates will be.

Our work is also about looking more broadly. We gather the evidence for clients to help to ensure that they give the correct evidence to get their application forms, but we also look at public health data when we are looking at what is going on across the Scottish population. The key priority is about ensuring that people who are entitled to adult disability payment are aware of it and have the application form; they can apply online, in person or on paper.

Kevin Stevens (Scottish Government): It is important to note that we—Scottish Government analysts and colleagues in the agency—work very closely with the Scottish Fiscal Commission. There is a continual process during the year whereby information is shared, discussions are had and understanding is developed and built. With any forecast, the further out you look, the wider the cone of uncertainty. The more closely you look at the future, there is a much larger number of variables that will affect the position.

The Scottish Fiscal Commission has a good track record in forecasting benefits. Each year, in August, it publishes its forecast evaluation report for the year that has just ended. The percentage forecast error is low. The absolute values that it presents in its evaluation report are relatively low, as well. However, again, the further we look out, the more uncertainty there is. Therefore, it is key that we work together with the SFC on understanding what the longer-term factors are.

It is also important to note that the funding position for the Scottish Government around benefits is complex. We have three different organisations forecasting different things at different times of the year. The Office for Budget Responsibility forecasts PIP, and that forecast drives the block grant adjustment that we receive for PIP. The Scottish Fiscal Commission, independent from the Scottish Government, forecasts all the benefits that it forecasts for us. Therefore, we have different organisations forecasting different things at different times. The operational and in-year information that Social Security Scotland generates and discusses with us and the Scottish Fiscal Commission is factored into that, as well. The further ahead into the future that we look, the wider the cone of uncertainty is—it is important to bear that in mind.

Small changes in the direction of the forecasts for the expenditure and funding sides of the equation can have a considerable effect on the net funding position. I will use some round numbers by means of example. A £50 million increase in expenditure combined with a £50 million decrease in funding is a £100 million difference to the position. We saw that happen in 2024-25; it is set out in the medium-term financial strategy. The 2024-25 forecast for ADP that the SFC set in December 2023 was £3.226 billion. The block grant adjustment was £2.927 billion, which is a difference of £299 million—call it £300 million. That was the position when the 2024-25 budget was set in December 2023.

Eighteen months later, when the Scottish Government published the medium-term financial strategy in June 2025, the expenditure side of the equation from the SFC for ADP was £3.120 billion, which was a reduction, whereas the block grant

adjustment had gone up to £2.980 billion. That is a net funding position of £140 million, which meant that the Scottish Government would be investing £140 million more in ADP than it received through the block grant adjustment for PIP. The difference between the £300 million and the £140 million was a £160 million improvement in the net funding position in the space of 18 months.

Again, relatively small changes in the forecasts for both ADP, forecast by the SFC, and PIP, forecast by the OBR, can have a considerable impact on the funding position in a relatively short period of time—and that was just for 2024-25. The further out we look, the wider the cone of uncertainty, as I have referred to.

Colin Beattie: You are talking about the statistics and funding and so on, which is fine, but I am looking at the upward trend of people who have disabilities and long-term illnesses. We should surely link ADP with a preventative health programme, project or whatever. It is all right putting people on to the system, but how do you reduce that to the benefit of their health?

Miriam Craven: I will come in on that, Mr Beattie; colleagues can come in, as well. When you go back to the principles of the 2018 act, and we talk about the fact that the social security system is designed with the people of Scotland on the basis on evidence, you see that it looks at what people are living with and what health conditions they have. ADP is not an income-assessed benefit. People might be working as well as receiving their adult disability payment. Under the system, we look at the application criteria to make decisions.

Another principle in the system is that social security is a human right. It is an essential part of our human rights, and social design was involved in how we built the system. Wider within the Scottish Government, there is a “Disability Equality Plan”, which was published this summer. It looks at how Government-wide commitments can centre around disabled people’s voices in policy making.

There is an acknowledgement of the fact that our disabilities are broad and varied, and we need to ensure that we look to take those into account when someone applies for their adult disability payment, and in wider circumstances. Our colleagues across public health and the Government, and our health colleagues, as well, are looking at the different conditions that people have, and we try to address that.

What we see with adult disability payment is a reflection of people who are entitled to apply because they meet the criteria: if they meet the criteria, they will be successful in getting an award; if they do not meet the criteria, we will not make an award to them.

The Convener: We are short of time, so, instead of going back around the table, I will move things on.

Graham Simpson (Central Scotland) (Reform): Can somebody help me out here? Does the application process for this benefit ever involve a face-to-face interview?

David Wallace: Exhibit 2 in the report talks about some of the fundamental changes that have been made. I hesitate over the word “interview”. In the UK system, there was generally a face-to-face medical assessment. That has been removed from the process in Scotland. I can say a bit about how we get that medical input to decision making, if that is helpful. However, it would not be seen as an interview; we see it as a consultation.

To go back to what Mr Beattie asked about as well, the role of the organisation is to help people get what they are entitled to. That consultation is therefore designed as the best way to get evidence from individuals, which may or may not then result in a decision. Yes, such meetings happen, but I hesitate over the language of “interview”. We term it a consultation because the language that is used in the social security world really matters, and the purpose of that consultation would be to seek evidence from an individual.

Graham Simpson: Whether you call it an “interview” or a “consultation”, it is a conversation. What are the criteria for asking someone to come in?

David Wallace: It could also be asked for by the client. There may be circumstances where the client feels that they want that consultation. Again, as has been reflected in the Auditor General’s report, Covid has changed lots of behaviours, one of them being face-to-face meetings, so the conversation could equally be through a video or telephone consultation. From a client’s perspective, they might see that as the best way of getting their evidence across to the organisation, or it could be that we have been trying to look at evidence and we might be unsure about something. We might feel that we do not have sufficient evidence to make a conclusive decision.

It then comes back to an important point that is borne out here about the changes that we have made to the system. Members will be aware that the medical assessment was outsourced under the PIP system. One of the fundamental changes that we have made to the system is not to outsource that medical assessment. Instead, we have brought that expertise in-house. My organisation has around about 300 medical, health and social care practitioners. It comes back to Mr Beattie’s point about how to get those decisions right first time. That is a resource that sits in the organisation. If a decision maker is unsure and

wants further information or more understanding about how a condition may be affecting somebody's lifestyle, they can go to their colleagues and have those consultations as well.

In short, yes, we will do that when either the client feels or we feel that it is what we need to do.

10:15

Graham Simpson: Correct me if I am wrong but, Ms Fogarty, I think that you gave a figure earlier that just under half of the people who apply for the adult disability payment get it. Is that correct?

Helen Fogarty: I can double-check that for you—it was 46 per cent.

David Wallace: Helen Fogarty also made the important point that that figure has changed significantly as the benefit has stabilised.

Graham Simpson: Over half of the people who apply do not get it. Why are they not getting it? Have you done any analysis of that?

David Wallace: An important point about that stabilising—sorry to come back to it—is that if you had been speaking to us two years ago, I suspect that you would have been asking us, “Why are you making far more positive decisions than at a UK level?”. Over the past 18 months or so, our percentage or ratio of decision making has been broadly in line with the UK system. Therefore, that question about why half are not getting it applies equally to the existing UK system.

Graham Simpson: I am not asking about the UK system; I am asking why more than half of the people who apply for ADP do not get it. Is it because they have applied in good faith and have just got things wrong or are there some who have not applied in good faith and are chancing their arm, if I can put it that way?

David Wallace: There will be a combination of all those things. There is a process within the organisation: if a client is unhappy with that first decision, they can ask us to make a new decision. That percentage is for that first decision-making stage. Frequently, further information might then be provided by the client that helps us to make a different decision at the redetermination stage.

Helen Fogarty: It is an important question. We need to try to understand what is going on with those figures. A proportion of the applications will not be followed up with a part 2 application. Part 1 is your identification and verification application. Part 2 is when you give us information about your disability or your health condition. Sometimes, a part 2 will not be submitted within the timescale.

The next assessment could be around your eligibility—for example, “Do you live in Scotland?”.

Sometimes there is confusion. We sometimes get applications from outwith the jurisdiction, so another proportion of applications will fall out of the application case load.

If part 2 has been assessed, you live in Scotland, you have passed your identification and your verification steps and so on, we then start going into that process of decision making. As David Wallace was saying, that is about asking, “Have you provided evidence? Have we been able to gather evidence on your behalf from a range of different sources?” The decision is then made on the back of that.

It is also important to acknowledge that we are still at the stage of developing quite a bit of our data infrastructure and our analysis. We would love to have more information around the reasons for denial specifically, rather than the ones that fall out of the case load. What is happening, and why, with denials? For example, is there an equalities aspect or a language aspect to a denial?

In the part of Social Security Scotland that I work in, which is about the analysis and understanding of our performance, we would really like to understand that. Therefore, one of our priorities for our further development is getting access to that data.

Graham Simpson: I shall move on. Miriam, the convener always asks the same question at the start of such meetings, so you should have known that he was going to ask at the start of this meeting whether you accept the recommendations. Your answer appeared to be, “We have not considered them yet. We will get around to it”. However, the report was published in September, you knew that you were coming here and I would have thought that you would have had an answer to that very simple question. Why did you not?

Miriam Craven: I think that what I said, Mr Simpson, is that we have gone through the report. We recognise what the Auditor General has said in the report. We also have a number of other reports that we are looking at, such as the “Independent Review of Adult Disability Payment: Final Report”. We will look at all these reports together. We are already working on some of the work that the Auditor General referenced in his report. We will look at all of these things to decide what the priorities are and give advice to ministers for their decision making in relation to the priorities for the next phase of social security.

Graham Simpson: I have to say that I do not think that that is good enough if you are coming before the Public Audit Committee and you know that you are going to be asked that question. The Auditor General tends not to produce—and he has not produced—a long list of recommendations.

They are pretty straightforward, and you have come here without an answer to that basic question.

Miriam Craven: I do not think that it is about an answer. For us, it is about how we look to implement and phase in the changes that we need to make. I have said that I recognise everything that the Auditor General has said in the report, including his recommendations. We now need to look at the implementation plan, and work with ministers and their priorities and with Social Security Scotland on how we implement the recommendations.

For me, that involves all the recommendations that we are looking at, not just the Auditor General's. However, we recognise all the recommendations that the Auditor General has made.

Graham Simpson: Okay—you recognise them.

I am going to ask you about one of the key messages in the report that leads to a recommendation. Then I am going to put the recommendation to you to see whether you agree with it. It is about the funding gap, which we have already mentioned. The report highlights the funding gap, with spending exceeding what we get in block grant by £141 million in 2023-24—Mr Stevens confirmed that. It is forecast to reach £770 million by 2029-30. Implementation costs have so far exceeded initial estimates. Despite that, the Government has not set out a clear strategy to manage the gap or ensure long-term sustainability. How are you going to manage that gap? You said earlier—repeatedly—that ADP is fully funded.

Miriam Craven: You are correct. I did say that Scottish benefit expenditure is fully funded in the Scottish budget as a result of clear choices by Scottish ministers. You will note in the report that the Auditor General also says that the forecasts are based on the spring statement that was made at the UK level. We covered forecasts earlier, but I will bring my colleagues from the Scottish Government back in on how we are looking at that spend and what will happen on the back of the UK Government's decision not to go ahead with its current reforms.

It is also very important that we recognise that, in all the budgeting publications, we see that social security is a priority within the Scottish budget spend. As I said, it is fully funded. Just like any other aspects of devolved expenditure, it is fully funded and aligned with the Scottish Government's priorities. When you look at the overall funding that the Scottish Government gets through the block grant, you see that it looks at what it will deliver within Scotland. I will bring in Stephen Kerr.

Stephen Kerr: I will try to be helpful, Mr Simpson. I think that there is a difference in emphasis between the Scottish Government and Audit Scotland. The Scottish Government publishes its medium-term financial strategy. The document that it published earlier this year set out that the Scottish spending review, which ministers have committed to publishing alongside the budget in January, will set out its strategic approach to public spending over the next few years and the contribution that is expected from portfolios to achieve that fiscal balance.

The Government always looks at these things in the round, rather than narrowly looking at how a particular benefit will be funded. It is looking at Scotland's public services, and within that it is looking at the contribution of social security, and within that it is looking at the extra investment that ministers have set out.

This year, the Government has chosen to publish "The Scottish Government's Fiscal Sustainability Delivery Plan 2025". As well as the medium-term financial strategy, the Government sets out its plans to strengthen the public finances and it will be reporting on that year on year.

If I may, I will go back to your earlier question around recommendations. Again, I will try to be helpful. The Audit Scotland report talks about how the Scottish Government should be reporting annually the plans to manage the differences in benefit expenditure as outlined in the fiscal sustainability delivery plan. We have said in that plan that we will come back every year and talk about those things.

Again with a view to being helpful, on the recommendation about reporting annually the reasons for the differences in cost compared to the forecasts, as we know and the Auditor General knows, it is the Scottish Fiscal Commission—which is becoming slightly famous in this evidence session, as we are mentioning it so often—that has the statutory responsibility for producing that very information. For the Scottish Government to accept a recommendation such as that, it has to consider whether it is going to risk analyse the Fiscal Commission's analysis or whether it has anything more to add. That is the reason why, when looking at the recommendations, we see that the Scottish Government puts a slightly different emphasis on these issues from time to time.

Kevin Stevens: I have, I hope, a useful point to make with respect to the actual numbers.

Where does the £770 million difference come from? Earlier, I was describing three different bodies forecasting different things at different times, and that is relevant to this issue. The £770 million difference comes from the fact that, on the

expenditure side of the equation, the SFC forecast in May 2025 for ADP in 2029-30 was £5,040 million. The block grant adjustment for PIP that was produced by the OBR for the spring statement was £4,270 million. That difference is, indeed, £770 million in 2029-30.

However, we know that the block grant adjustment figure of £4,270 million includes the projection of the UK welfare reforms that were subsequently withdrawn by the UK Government over the summer. It is, therefore, reasonable to expect that the cut to the BGA will be reversed. The value of that cut is £440 million for 2029-30. Therefore, it will be reasonable to add the £440 million cut back on to the block grant adjustment. If you do that, you get a difference of £330 million, not £770 million.

It is important to say that I am not a forecaster. I am merely doing the maths of the figures that are available in the public domain.

I would like to make reference to what the Scottish Fiscal Commission—the famous Scottish Fiscal Commission—said in its fiscal update report that was published on 26 August. Paragraph 2.17 says:

“Therefore, the savings the OBR had forecast in March 2025 from PIP reforms will be reduced, as will the fall in the associated BGAs. We expect the OBR to produce a costing of the updated policy alongside the next UK budget in the autumn.”

Therefore, I think that the £770 million figure was the difference between two figures at a point in time. As I have referenced, what the SFC said in the report in August adds a bit of colour.

10:30

I could add more colour to that. It is worth noting that in the SFC’s December 2024 report, the block grant adjustment for PIP was £4,659 million and the SFC expenditure forecast for 2029-30 was £5,030 million, and the difference between those was £381 million.

If we assume that the block grant adjustment will be added back—we will find that out at the end of the month, of course—the £330 million difference that I mentioned will still be less than the £381 million that was the position in December 2024. There are lots of numbers here, because different organisations are producing different numbers at different times and we have to take a view on that difference at a point in time.

I am sorry if I have thrown about a lot of numbers. However, it is important to demonstrate that there is a lot going on. It is complicated, but we can be clear on what the position is. We will find out for sure at the end of this month when we get the updated block grant adjustments from the OBR.

Graham Simpson: Thank you; you made a very good go of that. However, the upshot is that things can change but there is still a funding gap. Even you seem to accept that, with your plethora of figures. I am not asking you to come back in at this point.

There is still a funding gap and the Auditor General is very clear that the Scottish Government does not have a detailed strategy for how it will manage that funding gap, whatever the figure is. Do you accept that?

Miriam Craven: As I said, we fully fund the Scottish benefits system within the Scottish budget. We set out the medium-term financial strategy and there will also be a spending review that will be published alongside the budget this year, which talks about how we manage the social security spend and what we look at. Included in that is a learning system, through which we think about delivery. At Social Security Scotland, we are thinking about not only decision making, but reviews of cases and having a review to ensure that the system is working as efficiently and correctly as it should be. We are looking at spending across adult disability payment.

Graham Simpson: We know that the number of people receiving the benefit will go up. Edel Harris tells us that, and the Scottish Fiscal Commission also predicts that costs will rise quite significantly over the years.

I will go back to one of the recommendations in the report, which is that the Government should

“set out how the ... financial gap”—

because there is one—

“will be managed over the medium term, including analysis of how this will impact on wider outcomes for disabled people.”

Do you accept that recommendation?

Miriam Craven: As I said, the medium-term financial strategy does that.

Graham Simpson: Do you accept that recommendation?

Miriam Craven: Yes. We cover the social security spend. On the funding for the payment in the budget, Scottish ministers decide how they allocate the budget that they receive, and the benefits are fully funded.

Graham Simpson: There we are. We have got somewhere. You have accepted a recommendation. Mr Kerr accepted the recommendation that there should be annual reports. That is progress.

The Convener: We still have two committee members who have questions to ask, so I will move straight along.

Joe FitzPatrick (Dundee City West) (SNP): I will go back to the start. Dundee was one of the areas where ADP was rolled out first. The perception of my constituents who were in the PIP system was that the purpose of the folk who were doing the assessments was to stop them getting benefit, whether they were entitled to it or not. Whether that is true or not, they felt that those folk had quotas and that it was a success for those who were doing the assessments if they stopped someone getting a benefit. Contrary to that, when Social Security Scotland was set up, the aim of this Parliament was for 100 per cent of the people who are entitled to these benefits to get them. That was the decision of the Parliament, which I think was unanimous; I do not remember anybody saying, “No, we need to try to drive take-up down. We need to prevent people who are entitled to adult disability benefit from getting it.” The aim was that everyone who is entitled to ADP should be able to receive it.

Helen Fogarty said that we do not yet know what percentage of people who should be getting the benefit are actually getting it. That concerns me, because it means that a percentage of people who have disabilities—people who we, as a Parliament, decided should be receiving it—are not receiving it. What is your understanding of that?

Helen Fogarty: I return to the benefit take-up measure, which I do not think that I explained particularly well earlier.

At the moment, we have a general understanding of the Scottish population and the prevalence of self-reported disability, ill health and long-term health conditions. We look at information that is generated by Scotland’s census and by the Scottish health survey, which give us genuinely helpful context. However, they do not give us the benefit take-up percentage or rate—“rate” is probably the more accurate term—because people are self-reporting, which is not the same as actual assessments of eligibility for adult disability payment. Somebody might regard themselves as being disabled, but that might not necessarily match with our criteria, and vice versa. We do not have that definitive take-up rate.

David Wallace and Stephen Kerr may want to come in on this, but, as you are aware, a huge amount of broader work is done in Social Security Scotland on the actual design of the services that we deliver that seek to support benefit take-up. More broadly, the Scottish Government has a benefit take-up strategy, and Social Security Scotland plays a role in implementing that strategy. We do a huge amount of work on that.

We also do a lot of analysis of our equalities data, and we have just published some additional statistics on equalities. When we are looking at the

award rates, for example, we monitor that area very closely because we want to make sure we are doing as best we can on that benefit take-up ambition.

David Wallace: To come back to Joe FitzPatrick’s question, that is absolutely the role that we see for the organisation, which feeds back into the take-up point. I am enormously proud that the organisation has that culture, which sets off from the position that we are here to help people get what they are entitled to.

I will not comment on the UK system, but I will say that we spoke to clients who helped to form our system. Stephen Kerr’s programme did a lot of the early work to understand the position, and there were degrees of stigma, with people feeling that they were unable to go forward on to the system and some not wanting to try. I take your point on that.

The general sense of where we are, which I hope that you are getting, is that adult disability payment in particular is a relatively new benefit for us. We want to improve both the data that we collect on it and how we use that data not only to drive some of the elements that are drawn out in Audit Scotland’s report but so that we can start to share at a big data level. I think that a point was made earlier about sharing with health, for example. We want to make those big data linkages with services and local authorities and to use that to drive improvement.

We are also keen to make sure that we get that data so we can share it at a citizen level to help people get other things that they are entitled to. The free school meals entitlement is a very real, recent example of that. Data—not from adult disability payment—that was created as a result of the social security system in Scotland is now helping people to get additional resources that they might not have been able to get otherwise.

Joe FitzPatrick: That is what I want to move on to. This is probably more for Miriam Craven. The people who are accessing ADP—and those who are not but who should be—are also accessing a number of other benefits and interventions. The Auditor General suggests that maybe the system is fragmented and that we have not managed to embed ADP within the wider system. There is no connection to housing, health and employment. It is good to hear how we are doing that.

Miriam mentioned the “Disability Equality Plan”, but I do not think that that includes ADP. I might be wrong about that, but if it does not, when will we bring those things together? We cannot look at all these things in isolation, because people do not access just one part of the system; they have lives that are more rounded. How are we pulling all that together?

Miriam Craven: Thank you for the question and for the acknowledgement of the culture shift that has been happening within the benefit system and its delivery in Scotland. I recognise that difference in relation to how Social Security Scotland is delivering. That is reflected in surveys that show what clients say about what they are receiving. As I said in my opening statement, nine out of 10 people recognised the principles of dignity, fairness and respect.

Your broader question is about how ADP fits in. For us, the past number of years have been about establishing a social security system in Scotland and being able to roll out the benefits one by one. Now we are in a phase that is about looking at how that system contributes to wider society in Scotland. Adult disability payment is a part of that journey. The “Disability Equality Plan” was published this year, and an on-going evidence review of it will be published within the next couple of months. The Audit Scotland report is part of the evidence review to see how we are utilising adult disability payment.

Some of the funding that was associated with the plan focuses on advice and on how we ensure that we are getting take-up. Social Security Scotland has a role in that regard, but so do wider advice services. There is also funding support for health and social care, for example, and broader funding to get support out to the clients to make sure that they get what they are entitled to.

Part of the vision in the “Disability Equality Plan” relates to an important broader point. When the Scottish Government is making policy, it needs to put disabled people at the centre of policy decision making. Having that long-term vision allows disability to be treated equally in relation to equalities in Scotland.

Joe FitzPatrick: Thank you. I will leave it there, convener.

The Convener: I invite the deputy convener to put a final set of questions to our witnesses.

Jamie Greene (West Scotland) (LD): Good morning. I have listened with interest to the evidence, and I have questions that cover some areas that have already been covered and some new areas. In the interests of time, perhaps the person who is best suited to answer the question could do so, which will allow me to get through more questions. That will be helpful.

My first question is a wider one about ADP in general and the role that it plays in the health of the nation. As we know, Scotland unfortunately has the lowest life expectancy, and the lowest healthy life expectancy, of all UK nations—it is some two years below the UK average. That has been the case for many years. In what way will ADP fix that?

Miriam Craven: On the broader outcomes, the way in which we deliver adult disability payment is about enabling people to live the lives that they need to live and giving them additional financial support to be able to do that. That might be support with work, with the social side of their lives or with how they live their daily lives and thinking about the basics of how they do that.

The next phase for Social Security Scotland is to look at the outcomes that are being achieved by having the adult disability benefit system in Scotland. As I said, it has been about setting up the system, but the next phase needs to link with the outcomes for people who receive that money.

Jamie Greene: I will come on to outcomes later—it is an interesting area that we have not covered. I want to go over some ground that has already been covered around sustainability and finances, which are important issues—we are the Public Audit Committee, after all.

The bottom line is that we have heard a lot of numbers and it is very difficult to forecast how much the benefits will cost, how much the block grant adjustment will cover—whether it will cover all or some of that cost—and, indeed, what take-up levels you will get in real time as time progresses and things stabilise. There are a lot of known unknowns there.

However, the bottom line that I think that we all agree on is that the Scottish Government is spending more on social security than it receives. I think that that is a given, and it is forecast only to increase. No matter who you ask, they will tell you that that number is going up. I think that there is a valid question in here. I am not criticising the nature of the devolution of the benefits system but, at the end of the day, ADP is a so-called “fully funded” expenditure in the Scottish budget, so the money has to come from somewhere. I have a question for the Scottish Government. How on earth is the Scottish Government supposed to make ends meet and balance the budget, given that, according to all the forecasts and as Mr Beattie pointed out, the cost of the benefits will increase exponentially over the next five years?

10:45

Miriam Craven: I will give a very quick response and then I will ask Stephen Kerr whether he wants to add anything. I will avoid figures.

As you have just said, what is key is that Scottish ministers decide their funding priorities, and they are funding in full the social security system and the delivery of our social security benefits. As part of any budget decisions, they will look at prioritising those decisions. We will offer independent advice on decisions that can be taken within the system, but they will also look across

their whole Government spend, and they have committed to saying that the priority is to fund the social security system.

I reinforce the point that some of the figures that have been talked about today may never actually transpire because they were forecasts that were looking at a very different system and at things changing, which is now not happening.

We have also talked about the Edel Harris report. We will make changes in Scotland that ministers will have made decisions on, just like they will make decisions based on the Audit Scotland report. The financial impact of those decisions, their implementation costs and what they will mean for spend in budgets will have to be understood. Ministers will also need to make decisions about how much that will cost operationally. I hope that that helps.

Jamie Greene: That is very helpful. Someone said earlier that there is a school of thought that if you spend more on social security and stop seeing it solely through the prism of its being a cost, there may be savings to be had down the line in other areas of public policy. That is an interesting philosophy and I hope that it is true. However, if it is true, we would also expect to see costs reduce in the primary care budget, for example, because people are getting healthier; we might also expect to see the system get more people back into work, tax intake go up and so on. However, we are not seeing those things. We are seeing a system in which the cost of delivering devolved social security is going up, the cost of delivering primary health care is going up and the cost of other social care policies is going up. They are all rising. I was under the impression that if we make difficult decisions to spend more on benefits compared with spend in other parts of the UK, we get better outcomes, but we are seeing neither better outcomes nor reduced costs in other areas of public policy.

Miriam Craven: I think that it is too early yet to say what the outcomes are because, as we have said, we have had full responsibility in Scotland for ADP for too short a period of time to be able to understand the outcomes and impacts completely. When Edel Harris was at the committee, she also aired a note of caution: we cannot ask people, “What do you spend your money on?”.

There is also a balance to strike in looking at the outcomes. For us, it is about how we work across government to increase the number of people from a disabled background who are in employment, and that work has been helped by the adult disability payment and the “Disability Equality Plan”.

Jamie Greene: I will ask about that, as outcomes are important. I am really interested in

the idea of long-term sustainability, which is valid and which the committee will look at for years to come, I suspect. However, if you are saying that ADP makes people’s lives better and healthier, in what way does it do that? I am looking for an evidence-based answer; we have to be driven by evidence.

Miriam Craven: I will bring in Helen Fogarty because, as the analyst, she is better with statistics.

I ask you to remember the intention behind adult disability payment and what it is meant to deliver. I refer to the part of it that is about helping disabled people to live life to the full and, in doing so, to be able to do the tasks that lots of us take for granted. In my opening statement, I mentioned that, for some people, it is about being able to make their meals in their home, get out to work and do things. Adult disability payment is supplementing the cost of doing those things and it is helping people to be able to do them.

Helen Fogarty: Thank you. Deputy convener, you might recall that the Audit Scotland report makes reference to the family resources survey, which the DWP utilises to get into some of the outcomes that you referred to, particularly in relation to things such as employability. It might be helpful to give you an update on that.

Social Security Scotland already shares its data with the DWP through our customer information service, and we have given permission to the DWP to feed that information into its statistical products, including the registration and population interaction database, or RAPID. That database does the data linkage into the family resource survey.

Social Security Scotland does not yet have access to that database to undertake our own analysis, but the DWP is planning to include the Social Security Scotland devolved benefits in data linkage into the family resource survey next year. That should start to give us more insight into the outcomes whose contribution we are genuinely interested to understand.

I know that you want only one person to speak, but Stephen Kerr might want to speak about evaluation. The Scottish Government has an evaluation strategy on the devolution of social security benefits. We are looking at refreshing and updating that strategy—that is exactly what we are looking to gather information on. We recognise that it is early days and that evaluations to date have typically been much more process orientated—for example, they asked whether the benefit was working as anticipated and whether clients’ experience was what we anticipated. However, we recognise the desire to have that much broader information about what the broader

outcomes are for our clients, for society and for Scotland.

Jamie Greene: Let us look at that, then. Before you answer, I am asking about this because it makes complete sense that if you give someone more money, their day-to-day living becomes easier because they have more money in the bank to spend on things such as bills or on food and all the other things that people need. However, I think that the link is unclear. If you create a specific benefit that is designed to help disabled people, in what way does that help the recipient? At the minute, as you say, you—rightly—are not asking what people do with that money; it simply lands in their bank account every month. How do you then do the difficult task of working out whether that big chunk of cash—and it is a huge chunk of money—is actually improving outcomes for people in the real world?

Stephen Kerr: As Helen Fogarty said, we are right in the middle of having those conversations. In the second evaluation strategy that we published, what we are trying to do is understand whether the policy that we have established is actually being implemented on the ground and happening. We have published evaluation work on the transition from child disability payment to adult disability payment, on case transfer and on child winter heating allowance, and we have reports coming soon on decision-making policy and the special rules for terminal illness. When we have that bedrock of understanding, we can use it as a platform to start asking about and looking at the issues that you have been talking about. That is about the more longitudinal impact, if you like, of the amount of benefit expenditure and the broader outcomes that it is achieving. We will need a framework to decide how we are going to do that work and how we present the information to the Parliament in successive years to come.

Jamie Greene: Okay. Is there a risk, though, that you have created a benefit that simply can never be reduced or taken away because it is politically impossible to do so, as many Governments of many colours have learned over the years? There are difficult decisions to make to try to reduce the benefits bill, which in our case is growing year on year and is projected to rise probably for the next five to 10 years. No one can ever do anything about that, because once you have put that money in someone's pocket, it is very difficult to take it away from them.

Indeed, off the back of the independent review of ADP, which suggests an expansion of the eligibility criteria, even more people will be coming into the system. We have created this huge beast that will just grow and grow. I am not saying that that is a bad thing, but it has to be paid for.

Miriam Craven: The Edell Harris review was commissioned as part of looking at how adult disability payment is working in Scotland. Although I hear everything that you are saying, as officials, we provide advice and look at how we can make improvements to our policies and to each benefit, including adult disability payment. We make recommendations to our ministers. As you know, regulatory changes that we make come before a parliamentary committee to look at and decide on.

When we go through that process of change, there are opportunities to make changes to eligibility criteria and to look at different elements of the application form or the information that we gather. It is then about getting our recommendations through and into regulations.

Jamie Greene: Okay. I will quickly cover off two final areas, one of which is fraud. Obviously, the DWP has been around for a very long time, so there is a substantial amount of fraud in the system—we all know that, and I am sure that it tries its best to deal with it. However, Social Security Scotland is a new entity and it is fully funded by the Scottish taxpayer; therefore, there is an expectation that Social Security Scotland will take the issue seriously. I appreciate that it is at an early stage, but what evidence do we have of any fraudulent activity within devolved benefits? What has been done to tackle it and to prevent it?

Miriam Craven: In the interests of time, I will let David Wallace come in.

David Wallace: I recognise and agree with the recommendations about fraud in Audit Scotland's report. To be clear, where the Audit Scotland report talks about fraud and not yet having the tools to deal with that, that is exactly as you say, Mr Greene, in terms of the estimation of it. Since the advent of the agency, we have been putting those counter-fraud measures in place. We have a sophisticated counter-fraud team, and we have the ability to report directly to the Crown Office and Procurator Fiscal Service when we see fraud. The checks that we spoke about earlier are one of the mechanisms by which we can identify applications that we suspect of fraud. So, we have the mechanisms in place to detect, to report and to counter, and we have had successful prosecutions for fraud in relation to our benefits.

I should also say—because I know that there has been some debate about what may feel like a relatively low number of such prosecutions—that we, as an organisation, do not deliberately, under legislation that comes from the Parliament, decide whether or not somebody is a fraudster, to use that language. What we do is report through the system, and it is only when a conviction has come through the criminal justice system that we say that there has been a fraudulent application.

However, we will always identify where we feel that there may have been an overpayment. We can take a new decision on such applications, and we will always seek to recover when we feel that there has been an overpayment. We have full surveillance powers, which have come through the Parliament, in order to ensure both that we have those powers and that we are using them correctly. We have also drawn in expertise from other areas, as you would anticipate, including from the DWP, His Majesty's Revenue and Customs, Police Scotland and various bodies that have an expertise around this. We would robustly look at any applications that we felt were fraudulent, using the intelligence that we have.

I want to make sure that a distinction is drawn between what is correctly highlighted in the report, which says that we do not have the tools to estimate the level of fraud, which was the basis of your point, and the idea that we are not doing anything about it. The priority is to try to ensure that we do have the tools to estimate the level of fraud. That is really important, because, as you said in making your opening point, there will be fraud in the system—there will always be fraud in the system.

Jamie Greene: Yes, there will be, but let us be honest: Social Security Scotland was hugely expensive to set up. I would have thought that the tools required to identify fraudulent activity would have been at the core of the start-up costs of the operation. It is disappointing that an Audit Scotland report has identified that those tools are not there.

My final question is about operational costs. What are you doing to keep them down? The cost of delivering the system, before you even put a penny into someone's bank account, is hundreds of millions of pounds per year. That is obviously of concern to the Public Audit Committee.

David Wallace: I would say that the tools that are being referred to are the tools to estimate, not the tools to identify and prosecute. As I say, we would do that robustly now, and we have been doing it since the advent of the agency. I would draw that distinction between the tools to estimate fraud, which are—in the interests of time, I will not bring Helen Fogarty in—effectively a statistical methodology to estimate fraud in a case load, and the tools to detect, counter and prosecute. As I say, we have been through the entire life cycle of a benefits case, and we have had successful prosecutions as a result of that activity.

Very briefly, if time allows, I will speak about operational costs, which were touched on at the very start with Helen Fogarty. Way back, in the financial memorandum that accompanied the Social Security (Scotland) Bill, a lot of work was done by the Scottish Government to estimate the

cost of delivering the benefits that were already in the UK system, and we alighted on the figure of 6.3 per cent for the cost of administering existing benefits. As the report highlights, we would like to do much more to break down the individual costs within the organisation—we absolutely want to do that. However, we have always monitored against that figure of 6.3 per cent.

11:00

The latest published figures say that our admin costs are just under 5 per cent of our operational costs. Therefore, the admin costs of delivering the social security system are now lower than the 6.3 per cent that was set out in the financial memorandum. It is important to note that it was not a target or a competition; it was simply an attempt to say what a reasonable and proportionate administration system looks like. However, we are now operating at a level that is below what we set out for a reasonable and proportionate system of delivering social security.

Jamie Greene: Okay. Thank you.

The Convener: I have two very quick final questions. My first one is for Mr Wallace, and it relates to the answer that you have just given. It is a hallmark of Social Security Scotland that the private sector is not involved in the assessment process, which distinguishes it from the path that the DWP has gone down. Is the private sector involved at all in the surveillance strategy that you just spoke of?

David Wallace: I am going to say no in the sense that I think you are getting at whether we—

The Convener: Well, you mentioned Police Scotland, HMRC and so on, which are public sector agencies of good standing. However, there has been an issue with HMRC using private companies to debt collect and things like that. I am just wondering whether you have gone down—

David Wallace: Sorry—I was being too specific and thought you might be asking whether we use a piece of software that was developed in the private sector. In terms of what you are describing, the answer is absolutely not. Those counter-fraud teams are employees in the organisation. They may use some tools, potentially, but they are ours. None of the surveillance that we conduct is outsourced in that sense.

The Convener: Thank you. My final question is for the director general. Sir Stephen Timms's review has been mentioned a few times. Are you informally or formally a part of that review?

Miriam Craven: I will bring in Stephen Kerr as director for social security. We are aware of the review and we have had some conversations at official level to understand the scope of that

review. We are aware that he has also spoken with Edel Harris, and there has been a conversation at the ministerial level as well. Is there anything you want to add to that, Stephen?

Stephen Kerr: Not really. We will keep an informal link with the team and the DWP as the review progresses over the course of this year.

Miriam Craven: Yes, it will be informal rather than formal.

The Convener: Fine. That is helpful. As Edel Harris pointed out to us last week, there is quite a high level of interdependency between the two systems in terms of passporting to benefits, the fiscal framework and how that works, and the Barnett formula. Earlier, Kevin Stevens was able to give us chapter and verse on why the figure may be less because the planned reductions in PIP eligibility were paused. I think that he said they were reversed, but they were paused or halted, anyway. These things are quite important in allowing us to understand that there is at least an attempt at ministerial and possibly at official level to have some influence on that review.

Stephen Kerr: The connection that you have just mentioned, convener, in relation to passporting into universal credit and how the assessment process that we have for adult disability payment and the work capability assessment works at the moment, is important, although it may change in the future or be removed. It is informal in the sense that there is not a definite link between the work of the review and the work of the Scottish Government, but the implications of that work could be really important for our benefits system. That is why it is important that we keep across it.

The Convener: Absolutely.

On that note, I will draw this session to a close. I thank Helen Fogarty and David Wallace, from Social Security Scotland, and Stephen Kerr, Kevin Stevens and the director general for communities, from the Scottish Government. Thank you for giving us the full answers that we were looking for on a range of questions. We will consider what next steps we might want to take as a committee, and we will inform you of those in due course.

Because we are going to change over witnesses, I will suspend the meeting for five minutes.

11:04

Meeting suspended.

11:09

On resuming—

“Scotland’s colleges 2025”

The Convener: Welcome back, everyone. Agenda item 3 is consideration of the Auditor General’s briefing, “Scotland’s colleges 2025”. I am very pleased that we are joined this morning by the Auditor General, Stephen Boyle. Good morning, Auditor General. Mr Boyle is accompanied by Derek Hoy, who is a senior manager at Audit Scotland, and Ray Buist, who is an audit manager at Audit Scotland, who both worked on the briefing.

Before we put some questions to you, Auditor General, I invite you to make an opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener, and good morning to the committee. I am very pleased to present my briefing paper on Scotland’s colleges.

As the committee knows, Scotland’s colleges play a vital role, delivering academic and vocational courses that provide pathways to employment, further studies and apprenticeships. Colleges can be an important stepping stone to university, support the widening access agenda and play an important role in sustaining the country’s economic growth. In recent years our reporting on the college sector has highlighted risks to its financial sustainability and this briefing highlights deepening financial challenges across the sector, which reflect sustained funding pressures together with escalating operational costs. This is due to a 20 per cent real-terms reduction in funding over the past five years, inflationary pressures, rising staff costs and the increasing costs of maintaining the college estate.

In 2023-24, colleges collectively reported a small surplus of £400,000. That is an improvement on the £14.5 million deficit that colleges reported in the previous year. Colleges are primarily achieving savings through voluntary severance schemes to reduce their staff costs. This resulted in a reduction of the college workforce in 2023-24 of around 8 per cent. Seven of Scotland’s colleges reported a deficit in 2023-24 and further deficits are anticipated in 2024-25.

The Scottish Funding Council’s September 2025 report “Financial sustainability of colleges in Scotland 2022-23 to 2027-28” projects a £10.7 million deficit in 2024-25 across the sector. Colleges delivered less teaching to fewer students in 2023-24. The number of credits delivered by colleges was almost 10 per cent lower than in the previous year, with more than 30,000 fewer students attending college during the year.

Despite those challenges, however, colleges continue to perform well with their students. Satisfaction rates remain high at 92 per cent, and the proportion of college learners entering a positive destination rose to 86.7 per cent in 2022-23, which is the last year for which data is available.

Colleges also have strong links with employers in their communities that enable them to align their curricula to local skills needs. However, the current level of modern apprenticeship funding does not meet current demand. Colleges will need to continue to adapt to meet the changing needs of employers and students, and they must tailor how they operate in line with the Scottish Government's public service reform strategy, so that they can remain financially sustainable and continue to play their role in the post-school skills and education environment.

Our report contains recommendations to the Scottish Government, the Scottish Funding Council and to Scotland's colleges. As ever, convener, between Ray Buist, Derek Hoy and myself, we will do our utmost to answer the committee's questions this morning.

The Convener: Thank you very much indeed for that introduction. I turn straight away to the deputy convener, Jamie Greene, who has some questions to put to you.

Jamie Greene: Good morning, Auditor General. I have to say that that is one of the grimmest opening statements I have heard from you since I joined this committee. The perilous state of Scotland's college sector is of grave concern. The statistics that you have just reeled off are a testament to that. Thank you for the important work that Audit Scotland is doing in this space in identifying some of the sector's issues and bringing them publicly to the fore.

My overarching question is: in your view, what is the current state of the college sector in Scotland and what does its future look like?

Stephen Boyle: There are a number of facets to that. First, I will primarily focus on the financial position, which is really challenging. I am happy to start on some of the pointers to that before I bring in colleagues to give a bit more detail.

In paragraphs 16 and 17 we refer to some of the specifics of the challenges that individual colleges are facing. In 2023-24, two colleges received what is known as liquidity support—loans or funding support—from the Scottish Funding Council to support their financial balance. Paragraph 14 refers to some of the analysis that the Scottish Funding Council has done—as I referred to in my opening statement—that shows that eight in 10 of Scotland's colleges will be forecasting deficits by 2027-28. That is on top of sustained financial

settlements, which have allowed us to arrive at the figure we report, with the detail behind that in exhibit 2 in the briefing, of a 20 per cent real-terms reduction in their funding environments.

11:15

There is undoubted pressure within the sector and through the audit work that has been undertaken across the sector we have seen examples of the ways in which Scotland's colleges are responding to that. They are taking the difficult decisions that they are required to take in order to sustain financial balance and to continue to deliver learning and teaching to their students and provide support for businesses in their communities. How much longer they can continue to do so is perhaps an unknown because, as ever, any sustained period of financial pressure makes it harder to make the savings year in, year out. There is a real challenge.

Just to pause for a moment, we seek to make recommendations in today's briefing about the position that Scotland's colleges will be in as part of wider public service reform. There are aspects around that in respect of the use of the estate. Some colleges are already having to make difficult considerations at present about their estate, but where do those decisions fit into the wider scheme of supporting learning and teaching, the various pathways, employment and economic development? It is a moment of decision on the sustainability of the sector and what its role is.

Lastly, I emphasise that they are making those decisions. You can see that where there is evidence of the pathways that they are achieving, together with some of the satisfaction rates—and that is commendable, given the challenges that they are facing. The question is whether that can be sustained if the financial pressures that the colleges are facing continue into the medium term.

Jamie Greene: Thank you for that. You talked there about a 20 per cent real-terms reduction in funding over the past five years and the effect that that is having on what colleges do. You mentioned some statistics—30,000 fewer students and staff numbers down 8 per cent—as well as voluntary redundancies, which some warned could become compulsory redundancies, and the reduction of the physical estate. The phrase that struck me most was: "less teaching to fewer students".

Fundamentally, how on earth can the college sector help the Scottish Government to meet its main objectives of governance, improving the economy, improving the health and wellbeing of society, getting people into the workplace and skilling up young people? How can the college sector do that while teaching fewer people fewer subjects? The two do not add up, in my view, and I

get the impression from your briefing that you agree.

Stephen Boyle: What we are setting out is the current challenge. Ultimately, the Scottish Funding Council, Government and colleges will set out a decision on how they want the vital role that Scotland's colleges play to be discharged in the medium term.

I mentioned in my opening statement that the role set out for colleges is part of that longer-term strategy. Where do they fit into public service reform? This committee has considered many times the sustainability of public services. I have commented in recent reports on some of the developments that have taken place in respect of public service reform strategy and medium-term financial planning. We have a spending review coming up, together with the budget. Those will be the opportunities for Parliament and ministers to set out their intentions.

In today's briefing, we sought to illustrate the scale of the challenge that the sector is grappling with to continue to deliver the vital services that it provides.

Jamie Greene: Let us look at the reality of the college sector's finances. You said that eight out of 10 colleges are forecast to report a deficit. When might that take place, and what happens when a college reports a deficit? How would they be able to sign off accounts and what governance issues would they face? If a business was in that position, it would be unsustainable—it would close down. Is there a risk that some colleges could close?

Stephen Boyle: There is a range of factors to cover. I will bring in colleagues to say a bit more about the specifics of how all that operates. The eight in 10 figure is from the Scottish Funding Council's report "Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28". It is a forecast based on evidence that the SFC has drawn together in its role in the funding and oversight of Scotland's colleges. The report was published in September of this year, so it is up to date and draws on relevant sources. Eight in 10 colleges are forecast to be in financial deficit by 2027-28.

You asked what happens if a college enters financial deficit. We say more about some of the specifics in paragraphs 16 and 17 of the briefing. The Funding Council now operates what is known as an outcomes framework and assurance model that sets out the support, interventions, oversight and expectations when a college is experiencing financial challenge.

Responsibility ultimately still resides with the individual college's board of management to deliver financial balance and to deliver on the

objectives that they have agreed in the outcomes agreement with the Funding Council. However, sometimes that engagement is not sufficient in and of itself to support sustainability, and some colleges now need liquidity support to continue to deliver their operations.

In the briefing, we give the examples of the University of the Highlands and Islands Moray, New College Lanarkshire and UHI North, West and Hebrides—which the committee has recently become familiar with—receiving financial support. For completeness, I should say that the details of UHI North, West and Hebrides are not summarised in the briefing because of the timing of the completion of the audit, given the circumstances that the committee is familiar with.

There are now live examples of liquidity support being provided. However, we have not yet seen the SFC set out what happens next in terms of repayment arrangements, as takes place in other parts of the public sector when loans are provided to public bodies. Sometimes, public bodies are required to repay those when their financial position improves. Therefore, colleges are entering into somewhat new territory in terms of the support with which they are being provided.

I will bring in Ray Buist to set out briefly a bit more detail on the role of the Funding Council.

Ray Buist (Audit Scotland): Thank you. We say in paragraph 27 that the SFC requires colleges to set a balanced budget, which stems from the governance arrangements. The SFC's financial memorandum with the college sector has a governance section that requires college boards to ensure that the colleges plan and manage activities to remain sustainable and financially viable. Clearly, being able to achieve a balanced budget is a core, fundamental part of demonstrating the ability to remain sustainable and financially viable.

As the Auditor General said, the outcomes framework and assurance model is a new model that the SFC implemented from 2024-25, so it is early days—this has been its first year of implementation. It sets out a number of tools that the SFC has at its disposal to intervene where colleges are struggling to achieve financial balance. Those cover both funding powers and regulatory interventions that it can make.

The SFC has powers to recover funds from colleges if they are not achieving their outcomes in terms of credit delivery, but it can also provide cash advances and liquidity support, which the Auditor General talked about. In addition, it can implement additional restrictions or conditions of grant funding to a college.

On the regulatory side, what we have seen with the colleges that we refer to in the briefing—UHI

Moray and New College Lanarkshire—is that where liquidity support is required, the SFC requests that an action plan or a recovery plan be presented. That happened in both those cases.

The SFC also has other options open to it. Those include it just having an increased level of engagement with the college; it can undertake investigations; it can be more heavily involved in asking for additional information or data from the college; and it can be more present at college board meetings and committee meetings, in order to have closer sight of the challenge.

Jamie Greene: That is all really helpful and a useful backdrop to what might happen if a college is in that situation. I guess I am looking at it from a more fundamental, bigger-picture point of view, in that not just Audit Scotland but other forecasters are looking at the finances of specific colleges. There is extreme concern that some of them will be financially unsustainable without either more drastic cuts to expenditure, which presumably means job losses, fewer students or courses cut, or financial intervention from the Government through liquidity from grants, loans or other mechanisms—in other words, an injection of cash just to balance the books year by year. That does not sound to me like a long-term sustainable plan for the college sector; it sounds as if, year on year, colleges are fighting to balance the books, and eight in 10 will not be able to do so.

According to some of the unions that we have received communications from, and Colleges Scotland itself, in one of the models that they have presented to us, there is a serious risk of closure of some colleges—a “Shut the doors; we are done” scenario. Is that a risk?

Stephen Boyle: All the discussion that we have had so far, together with the evidence that you referenced, suggests that there are significant risks to the sector collectively, together with more acute risks.

The analysis that you have from us this morning is something of a snapshot, and it predates some of the more acute circumstances in which some colleges currently find themselves. Audit is typically a retrospective function, so it will not necessarily include the up-to-date cash-flow pressures that I think you are alluding to, but I have no reason to doubt that there is acute pressure in the sector.

This is probably more of a role for the Scottish Funding Council as part of its funding and regulatory approach, but I do not think there is a divergence between ourselves, the Funding Council and, indeed, the narrative that is coming from individual colleges and their representatives about the scale of the challenge that is apparent.

Jamie Greene: You made a number of recommendations. What is your principal or most important recommendation on how we get the sector back on its feet?

This is not a new problem. I sat on the Education and Skills Committee five years ago and the college sector then was crying out for cash and warning of job cuts, course cuts and fewer students, with the negative outcomes that that would have for society and the Scottish economy. Here we are today and I am afraid that the proof is in the pudding in your briefing today. Something has to give. Colleges Scotland calls it a “fork in the road”. Of the recommendations that you have made, what do you consider that the Scottish Government should focus on first?

Stephen Boyle: They all matter, if I can put it in those terms. Our recommendations are designed to support the sector in the challenges that it is facing right now.

I do not mean to oversimplify it. It is all well and good to say that you should come up with a long-term funding and public service reform strategy—so, that is there—but we would also say that some of the immediate challenges around staffing and the estates matter. Those will be more of a help in delivering the path to resolving some of the longer-term sustainability issues that are set out in the briefing.

As ever, I am sure that, should the committee decide to take evidence on our briefing, you can choose to explore that directly with the organisations that we make recommendations to. However, we think that all the recommendations matter.

Jamie Greene: Okay, thank you for that.

11:30

The Convener: I now bring in Joe FitzPatrick.

Joe FitzPatrick: You mentioned in your opening remarks, and it is also mentioned on page 9 of the briefing, that there was a shift from a deficit in colleges’ funding of £14.5 million in 2022-23 to a surplus of £0.4 million in 2023-24. That represented a 2 per cent shift. The briefing goes on to mention that much of that was achieved through voluntary severance.

One argument that was made as to why colleges had to go through that painful process was that it was required in order to make their institutions sustainable for the longer term. However, it does not feel as though that has happened. Obviously, with voluntary redundancy, the biggest cost is the cost of the package, but on-going savings should be made.

I am trying to understand why a process that was predicted to help the college sector to become more sustainable, which will have caused a lot of pain to be felt by staff who were at the sharp end of it, does not appear to have resulted in a more sustainable system.

Stephen Boyle: Yes, you are right. I will mention some relevant numbers. There has been an 8 per cent reduction in the college workforce. The analysis of audit reports that the team has looked at shows that, from a numbers perspective, that has been broadly shared between teaching and non-teaching staff. You are also right to point out that staffing is the most significant component of colleges' expenditure—about 65 per cent of their total expenditure goes on staffing costs. The head count has gone down.

I also agree that going through a voluntary severance or retirement process—or a compulsory programme, which some people have gone through—can be very difficult. Feedback from individual colleges and representatives has shown that that can be a traumatic experience that can cause uncertainty for people who work in the sector. In spite of the challenges and the pain that some colleges have gone through, that process, in and of itself, has not delivered the financial balance that will be required in the longer term, according to the Scottish Fiscal Commission's analysis.

It is perhaps worth sharing with the committee some of the on-going financial risks that the voluntary severance programme has not helped to entirely resolve. Inflationary pressures remain. The college estate is a significant factor that needs to be addressed. There are the on-going financial pay settlement requirements of those who work in the sector. The sector has received a real-terms reduction in funding, which people who work in the sector did not anticipate, and they themselves are dealing with inflationary pressures. There is also the on-going job evaluation process, which has been going on for a number of years in the sector and has still to be resolved.

Derek Hoy or Ray Buist might want to say more about the detail of the voluntary severance arrangements. Despite the challenges that colleges have faced in going through that process, it has not, in and of itself, resolved the financial pressures in the sector.

Derek Hoy (Audit Scotland): I might pass over to Ray Buist to talk about the specifics of the job evaluation process, but one factor that is in play in relation to financial sustainability not being achieved through the severance process is, as the Auditor General alluded to, the pay deals that have come through as a result of national bargaining, which the colleges do not have much control over. An element of the savings that would

have been delivered through the severance packages has been eaten up by the additional costs of the new pay deals that have come through. I think that that has been quite a big factor.

Ray Buist might be able to say a bit more about the job evaluation process.

Ray Buist: The job evaluation process presents a significant financial sustainability risk to colleges in the future. A number of colleges highlight that specific aspect in their accounts, and it also features in the annual audit reports for those colleges. It is fair to say that colleges are a little nervous.

Under the current accounts direction, colleges must account for provision to meet the liability that will fall as a result of the job evaluation process. In their accounts, they no longer present an asset in terms of the money that has been set aside to meet that liability. That now sits with the Scottish Government; I think that it took on that responsibility in March 2023. In relation to complying with accounting requirements, the Scottish Government does not currently, in its accounts, set out a liability or set money aside to account for that.

Therefore, there is an element of nervousness among colleges in that respect, which relates not only to meeting the back-pay element of the job evaluation process but to what that will mean for their staff costs, which make up about 65 to 70 per cent of colleges' expenses, in the future.

Joe FitzPatrick: There has been an 8 per cent reduction in staff, and I think that it has been suggested that that figure might have to be higher if some of the other pressures continue. You mentioned at the start that the experience of students is still positive. Will that continue, or will the staff reductions have other, longer-term implications? All staff reductions, whether on the teaching or the non-teaching side, have an impact on the student experience and course availability. You have said that teaching time has already gone down. What will the long-term implications be if colleges continue to go down this route?

Stephen Boyle: The first thing to say is that it is noteworthy that satisfaction levels have held up. That is an important factor in the context of the volatility that the sector is facing, but I do not know whether it is a good indicator of future satisfaction levels.

It has been suggested that colleges will have to make choices about the type of courses that they provide. In the briefing, we refer to analysis on the optimal size of classes and whether that will drive particular course offerings with a view to informing satisfaction levels. In addition, changes might be coming through in the estate and in the availability

of support. We can come on to say more about the additional support that colleges provide, which includes the provision of mental health support for students.

Those are all variables that we would identify. Whether those things can be addressed in a way that does not impact on student satisfaction and the attractiveness of the sector in the round is unknown at the moment. However, without speculating on specifics, they probably represent genuine risk factors that will influence satisfaction levels in the future.

Joe FitzPatrick: The briefing suggests that some areas are already being squeezed. One area that you flag is English for speakers of other languages. There is a big push for people to be able to speak English if they decide to live here, and there is high demand for that. People who, for whatever reason, have come here want to learn English as a second language so that they can contribute more fully to our society.

How severe is the situation in that regard? There is high demand for ESOL courses, which clearly help people to contribute to our economy, but some people are not able to access those courses.

Stephen Boyle: In the briefing, we cite an example of an oversubscribed course and one of the Glasgow colleges having to make a difficult decision about its ability to provide that service. That is indicative of the wider difficult choices that colleges will have to make about their course provision, which will sometimes not necessarily be based on the demand that exists for a particular course among students.

I will ask Derek Hoy to say a bit more about that.

Derek Hoy: I think it would be useful to draw your attention to the recommendation that we made to the Scottish Funding Council that it should identify how it will measure unmet demand for college courses.

At this point, we do not have a clear understanding of where the unmet demand is. We have some examples, such as the ESOL example that you mentioned, but it is really important that, across the sector, analysis is carried out to understand where there are gaps, especially in relation to the Scottish Government's economic objectives. Consideration needs to be given to whether the courses that are being cut are ones that would deliver against those objectives.

There is a lack of understanding of exactly where we are with that just now, so it is important that such analysis is undertaken to give us a better idea of what is going on. One would hope that that would help to inform decisions on what courses might go in the future.

Joe FitzPatrick: Do we need to consider a different way of funding those courses, or do you think that the Scottish Funding Council can wrestle with that?

Stephen Boyle: Whether it is those courses or wider commercial offerings, that point is relevant, and we touch on it in the briefing. Some of our recent reporting to the committee on individual colleges has been about where they have sought to diversify into income-generation approaches. Some of the examples have not been successful—I will not repeat them. We recognise that colleges will have to continue with that approach as part of a wider strategy of financial sustainability. We are perhaps learning from some of the examples in which that approach has not been successful, in order to give colleges more security and certainty when they deploy more commercial approaches, whether around ESOL, trading or activities with third parties. That will inevitably become a greater part of the model than it is already, but doing it with the right underpinnings really matters.

Joe FitzPatrick: Thank you.

The Convener: Thank you very much. I will move straight along and invite Graham Simpson to put some questions to you.

Graham Simpson: Following on from what Joe FitzPatrick asked about courses, do we have any analysis of which courses have been cut so far? Colleges are vital for providing the skills that Scotland needs. Are we at risk of reducing the impact that colleges can make?

Stephen Boyle: I will ask colleagues to give more detail that might help the committee. With this briefing, we tried to provide a higher-level summation of the sector's financial position and performance from one year to the next. I think that it is helpful to repeat some of the change in the scale of engagement with the sector. In 2023-24, 30,000 fewer students were taught than in 2022-23. The position varies, to some extent, from college to college—some numbers will have increased and some will have decreased. However, I agree with your point about the vital role that colleges play in economic contribution and social mobility.

There are some indications around course completion rates, which it might be helpful to get more detail about, so I will pass to colleagues to say a bit more about that.

Ray Buist: I will give you more of an overview. The colleges that we spoke to were quite clear that they have worked hard to protect the courses that they are offering. We have seen that, rather than courses being completely withdrawn, colleges might reduce the number of cohorts that they offer the course to, or a course that they have

previously delivered at two or three different campuses might now be offered only at a single campus. That has impacts on students.

Therefore, it is less a case of getting a clear picture of specific courses or subjects that are being withdrawn and more a case of colleges looking to deliver those courses in a more efficient manner. As we mentioned in the briefing, colleges are taking measures such as having increased class sizes and reduced class times, and moving more to online delivery, to make it more efficient for them to deliver the same courses.

Rather than seeing specific courses being withdrawn, it is more about the unmet demand. On pure delivery, West Lothian College, for example, currently delivers around about 44,000 credits per year. That is its threshold that is agreed with the SFC. The college estimates that it has demand in its area for in excess of 50,000 credits, and it would deliver them if it had the funding. The college expects that demand to increase as the population in its catchment area increases.

Ayrshire College—I think in an evidence session with the Education, Children and Young People Committee—talked about turning away more than 700 students after interview, so that figure does not include those who were not offered an interview. The college highlighted that many of those students were seeking courses in science, technology, engineering and mathematics subjects.

Similarly, Glasgow Kelvin College told us that it has unmet demand in its area for STEM courses, as well as the ESOL course that we highlight in the briefing.

11:45

Graham Simpson: Okay. Basically, there is a demand and there are not places to meet it, so I suppose that my point stands and things could just get worse.

Stephen Boyle: It is an illustrative example of where colleges are having to make difficult choices about funding and the associated income that they receive, and about the funding arrangements through the credit system, which has eased, as we set out in the briefing, with more flexibility around learning credit targets. However, as with the steps that they have taken around voluntary redundancy, colleges are having to make challenging choices around course provision and managing access where courses are oversubscribed. Again, it is just one of the many challenges that are in front of colleges.

Graham Simpson: In the submission from Colleges Scotland on the budget, which I am sure you have seen and which Jamie Greene

mentioned earlier, there was a paragraph at the start about the reduction in funding. It says:

“The Scottish Funding Council ... has also recently set out the stark reality of the impact of this continued reduction in funding in a report which concluded ‘most colleges are not sustainable’ under current funding assumptions, and there is ‘an imminent risk of some colleges becoming insolvent by the end of 2025-26’.”

Do you agree with that?

Stephen Boyle: I am not party to the very specific detail on which Colleges Scotland made that assertion. In order to make an informed decision, I will need to base it on the up-to-date analysis that the external auditors will carry out of individual colleges.

As I mentioned to the deputy convener, that statement is based on 2023-24 audited accounts. In the period up to the date that you just mentioned, Mr Simpson, a further two sets of audits will take place. One of the key criteria that auditors will look at in their analysis is financial sustainability. Overall, I do not have any reason to doubt the continuation of some of the financial challenges that the sector faces. I have not yet been able to triangulate what that means for individual colleges, but as we mentioned this morning, some of the numbers are really stark—eight out of 10 colleges are forecasting a deficit—and then there are the financial interventions that colleges are asking the Funding Council for to stay afloat.

I do not think that there is any real disagreement in overall terms, but I do not have the precise data on the who and the where when it comes to the colleges that are forecasting severe financial issues in 2026.

Graham Simpson: Colleges Scotland sets out a range of scenarios for the budget, one of which is flat cash, which it calls a “Decline” scenario. It then goes on to set out “Diminished”, “Survivable” and “Sustainable” scenarios.

If you look at the “Decline” scenario, which is flat cash, according to Colleges Scotland, 11 colleges would be at risk of running out of money and would not be able to cover operational costs. Those 11 colleges employ around 6,500 staff. There is a fear that some colleges could close in that scenario.

In your briefing, you mentioned that two colleges were bailed out—they were given extra money by the Government and will presumably have to pay it back. In previous evidence sessions, we were made aware of the Scottish Funding Council risk register, which highlighted that some colleges were at risk. Can you see a scenario in which colleges could close?

Stephen Boyle: I do not know whether it is helpful for me to speculate on that. Inevitably, beforehand, what would happen is what we have seen examples of already, such as emergency support—liquidity support—coming from the Funding Council to avert that cliff-edge scenario that has been referred to.

That illustrates the wider point that colleges have already taken some of the very hard decisions that other parts of the public sector have not taken. Voluntary severance schemes are not normal elsewhere in the Scottish public sector, but they have become embedded within Scotland's colleges as a means of managing their financial position. They are taking the difficult decisions.

To go back to some of our earlier discussion, it is about whether they can continue to do that. I know, Mr Simpson, that you and other members of the committee will be familiar with the fact that some of Scotland's colleges are already considering very difficult decisions about individual campus services. That is an example of an incredibly difficult decision that some colleges are having to take to support their financial position, which other parts of the public sector are not.

If those measures do not work, we might be in the scenario that you referred to. However, the Funding Council's support that we have examples of, alongside some of the very hard operational decisions that colleges might take, might avert the closure scenario. It all speaks to a sector that is under severe pressure.

Graham Simpson: In the interests of time, I will leave it there.

The Convener: Thank you very much indeed. In the interests of time, I will go straight to Colin Beattie.

Colin Beattie: Auditor General, I would like to have a quick look at estates. Paragraph 31 of the briefing says:

"The chair of the College Principals' Group recently told MSPs that the cost to cover backlog maintenance ... and transform campuses to"

comply with

"net zero emission targets is now estimated"

to be nearly

"£1 billion."

Paragraph 32 explains that colleges are

"considering physical and digital estate rationalisation to help achieve savings."

Can you provide any more detail on what the colleges are actually considering by way of physical and digital rationalisation? What additional challenges are raised by their attempts to meet net zero targets?

Stephen Boyle: I will start with a specific example and then bring in colleagues on some of the broader ways of potentially addressing such a large number, if it is possible. A billion pounds is such a significant number in terms of the overall funding position of Scotland's colleges. There are equally large numbers elsewhere in the Scottish public sector in relation to backlog maintenance, so the issue of addressing maintenance of the estate is not unique to Scotland's colleges, but it is a very real challenge.

I will mention some of the specifics around how colleges manage their estates. We said in the briefing that the funding that individual colleges receive is not keeping pace with their maintenance requirements. For example, the City of Glasgow College is cited in the briefing as needing many times more investment in its estate than it receives in its share of capital maintenance funding from the Funding Council. That is replicated with other colleges.

At the more acute end of the scale, some members of the committee will be familiar with the processes that Forth Valley College is going through in respect of its Alloa campus. The most recent position is that it has stepped back from some of the decisions, to allow for further discussion with the Scottish Funding Council, employees and students.

That illustrates the significance of the decisions that colleges are considering to balance their financial position. They also look at their estate and the services that they provide in different locations, and at what that means. All those considerations have to go through a really important process before any decision is made.

I will pause at that point. Derek Hoy or Ray Buist may wish to say more about the maintenance requirements across the sector.

Colin Beattie: Before they respond, I should say that I am not just asking about the maintenance of the buildings. I want to understand more about digital rationalisation, because I do not quite grasp all of that.

Derek Hoy: We are still to see some of the detail of that come through. Colleges are working on their estate strategies at the moment and considering estate rationalisation. That is being supported by the Funding Council.

Encouragingly, from the conversations that we have had with the Funding Council, we know that it is supporting colleges to take a forward-looking approach to their estate rationalisation and look not just at what they have in place now and how they maintain that, but at what their estate needs are for the future. That will be a difficult thing for them to predict, obviously, and they are looking at

demographic trends and so on. What estates do they need in the years to come?

Those strategies are in the process of being developed in the lead-up to the SFC publishing its infrastructure investment plan—which it will do next year, we hope—so I do not have much detail, although Ray Buist might want to add to that.

The encouraging thing for us is that the SFC is supporting colleges to take a forward-looking approach and plan for the future, not just think about the here and now and try to prop up what is already in place.

Ray, would you like to add anything on the specifics of digital rationalisation?

Ray Buist: On paragraph 31, due to the scope of our overview we cannot talk about specific colleges, but in simple terms we are talking primarily about selling land, buildings or campuses.

As for digital rationalisation, I will perhaps use the City of Glasgow College as an example. The City of Glasgow College has talked about the funding that it requires to upgrade its digital network under its capital plan. I think that it requires something in the order of £2 million—I cannot remember the details, but they are in the briefing—but its funding does not meet that. That is an example of the digital transformation that is being proposed.

Colin Beattie: The cost of digital rationalisation would actually be a relatively small figure compared to £1 billion.

Stephen Boyle: Yes—it would be a component of that.

Ray Buist mentioned that the way that colleges are delivering learning is changing. We give a bit more detail on that at paragraph 36. Pre-pandemic, most of that would have been done face to face, but there is now a digital component. It is the norm for many courses to take a hybrid approach to learning with a mix of digital and face to face. We make the point, which is consistent with the briefing on digital exclusion that we brought to the committee last year, about the need to strike the right balance between the needs of learners across the sector.

Digital rationalisation, managing the sector risks and embracing new technologies are all harder when there is a maintenance backlog that will also be a call on the already constrained capital budget.

Colin Beattie: Okay. In the interests of time, I will move on and look at something slightly different.

Paragraph 42 of your briefing says:

“The Scottish Government is keen that colleges identify additional ways of generating income”.

Can you provide a bit more information on that? I recall that, in previous years, colleges’ ability to gain income from external sources by running courses for businesses and so on was actually shrinking. Where are they now? Are colleges diversifying into other areas outside of that?

Stephen Boyle: I will turn to colleagues to give you a bit of detail on how the breadth of income-generation activities across the sector is developing.

As I mentioned to Mr FitzPatrick when I spoke about colleges broadening their reach, you can clearly see the signal from the Scottish Government on income generation. It is supportive of it.

Broadening income-generating activities is perhaps necessary, but it has to be managed in a really careful way. If colleges are going to broaden their reach into commercial activities, they should do so with a full understanding of the necessary skills, the risks and the governance that is needed to support such activities, so that they do that as safely as they can. Doing that means that colleges are taking on more risk at a time when they are facing significant pressures, and pressures in that environment have to be managed.

Although I understand why broadening income generation is a necessary step that colleges will have to take, given the financial pressures, that brings an additional layer of risk, which we have seen in some of our recent reporting on individual colleges that have not quite got the balance right.

12:00

Colin Beattie: Where will colleges try to identify external sources of funding?

Stephen Boyle: My colleagues might want to come in and give a bit more detail on that.

Effectively, that income will come from individuals and businesses in colleges’ communities. Colleges have to tailor their offer to what their communities require and provide the pipeline of support and talent that businesses in their areas want. Colleges need a commercial component to their work so that they get the right engagement.

As we say in the briefing, colleges are starting from a good foundation. Colleges know their communities and they know what businesses need, and they need to find a way to evolve with the changing ways of business and industry and have relationships that allow them to benefit from that financially.

Ray Buist might want to come in.

Ray Buist: To answer your question, Mr Beattie, that is why we make a recommendation to the tripartite alignment group, which consists of the Scottish Government, the SFC and colleges, through Colleges Scotland. The group has a workstream specifically on exploring opportunities to increase income generation. We make the recommendation that the tripartite alignment group should, within the next six months, set out plans for that. We are yet to see those plans, but that is the vehicle by which we would expect to see that.

Colin Beattie: We have seen that some colleges have set up subsidiaries, with varying success. Is it within their capability to do that? You touched on that, Auditor General. Is it within their capability to manage subsidiaries and the new income-driven aspect to what they do? Is that really where their expertise is?

Stephen Boyle: It is for the boards of management and the Funding Council to satisfy themselves that colleges are taking on additional risk and activity in a managed way. I would not want the recent examples where we have reported on a small number of colleges that have not got this right to give the impression to the committee that that is symptomatic of there not being the skills in the sector to do that. That would not be a fair conclusion. The breadth of skills and backgrounds that are represented on the boards of management of Scotland's colleges, along with the backgrounds of the executive leaders, suggests that, fundamentally, with their relationships with business and other people who are interested in their services, they have the right platform to do this. However, it is important that they get the underpinnings right so that the governance, risk management, scrutiny and oversight are all appropriate for a different model, in which they are not necessarily managing a college, especially if they are going into a commercial subsidiary model. Fundamentally, it is for the board of management to satisfy itself of that but to do so in the full knowledge that the new activities that the Government is supportive of them undertaking are a new risk.

Colin Beattie: As colleges are putting more effort into this area, everybody is now fighting for funds from the private sector. Is there not a lot of competition there, even between the colleges? As I have said before, in the past, we have looked at reports where there has been shrinking rather than expanding revenue from that source. Is that not a challenge that they will struggle with?

Stephen Boyle: That is a very important point. We cannot assume that this will be the route to financial balance for Scotland's colleges. I suspect that, in and of itself, it will not be. You are right that there will be competition between colleges. Universities will also be operating in this market.

Colleges have to be clear about what their offer is and clear that their forecasting assumptions are realistic. There has to be real scrutiny from the board of management when it casts its eye over forecasts that show that an individual commercial activity will solve a college's financial problems, I suspect that it will take a combination of factors such as funding, management of the estate, staffing and course content along with commercial activities that a college might undertake.

Colin Beattie: Let me move on to a final area, which is the credits and funding model. In paragraph 49 of your briefing, you say that credit-based funding is "output driven" and that colleges must

"meet their credit target to avoid funding being recovered by the SFC."

Can you explain in a bit more detail how the credit system works for colleges and their funding?

Stephen Boyle: I will bring in colleagues to set this out in a bit of detail. It is complicated. As I alluded to earlier, the system has changed in recent years in terms of the targets and the greater flexibility that the Funding Council is affording colleges over how many courses they must provide to individual students. Ray Buist can set that out for the committee.

Ray Buist: I will certainly do my best to try to explain it. In the first bullet point in paragraph 52, we make the point that, from 2025-26—the current year—the SFC has changed the way in which the distribution model works. From this year, each college receives a single core credit price for each credit of teaching that it delivers. Fundamentally, there is an agreement between the college and the SFC on the number of credits that it is expected to deliver, with a specific credit price for each of those credits, which, multiplied together, comes to a funding allocation for that college. We are not yet at a point of saying that this is happening, but in the report we are recognising a potential risk that I think colleges recognise exists, which is that, as they increasingly find it challenging to achieve financial balance, and given that there is a set core credit price that they are allocated for all credits that they deliver, regardless of the specific course and the cost to deliver it, they may feel pressured and pushed towards delivering more of the courses that are more cost effective to deliver, potentially at the expense of courses that are more expensive to deliver but more in demand. In a sense, we are moving to a position where those more cost-effective courses are in effect subsidising those that are more in demand.

I can give you an example. A course that requires expensive machinery or equipment that can be delivered only to a smaller class size for

health and safety reasons would become more expensive to deliver a single credit on, compared to others that can be delivered to a larger class size and do not require the expense of those pieces of equipment. Ultimately, that leads us to a position where, in the current funding model, a college could achieve credits more efficiently through the choice of the course that it provides.

Colin Beattie: Is it not inevitable that lower-cost courses will subsidise the higher-cost courses? Is there a problem with that?

Stephen Boyle: I think that it is a possibility, given the financial pressures, that lower-cost courses just become the norm. To build on Ray Buist's example, the report talks about additional support for learning courses, which typically have a far lower number of students in them. That is an expensive model. If that is part of the difficult decisions that some colleges have to take, they may go for larger class sizes as the norm. That might not necessarily suit the needs of their communities or businesses and the courses that they are looking for the college to provide. Colleges will need to strike a balance, but you can see some of the motivations that might be at play, given the severity of the financial position of some of Scotland's colleges.

Colin Beattie: Presumably, Audit Scotland will keep an eye on that and report on it in the future.

Stephen Boyle: I am very happy to confirm that to the committee. We will continue to maintain a strong interest in Scotland's colleges, both through the individual annual audits and through sector reporting, which will feature as part of our work programme and which we will bring back to the committee for consultation.

Colin Beattie: I have one last question. Can you tell us a bit more about how the SFC's college transformation framework will work in practice?

Stephen Boyle: Yes, I am very happy to. We set out a bit of detail about the college transformation framework that is coming in in 2025-26. I have talked to some extent this morning about the additional flexibility from the Funding Council, which no doubt recognises the financial pressures that some of Scotland's colleges are facing. They will be afforded flexibility in terms of the number of learning credits that they can underachieve by without penalty, which will increase to up to 10 per cent. Ray Buist might want to say a bit more about some of the overarching aims, but I think that it is indicative of the need for more flexibility and the evolution of the assurance and scrutiny model, together with the funding that the Funding Council provides.

Ray Buist: Briefly, as the Auditor General has just set out, the fundamental point of the college transformation framework is that it gives colleges a

little bit of breathing space and an opportunity to submit a proposal to the SFC. As part of that, they would be allowed to reduce the number of credits that they deliver by 10 per cent, without the recovery of the funding that equates to those credits.

The SFC has advised that a couple of colleges are going down the road of exploring that with the SFC and have proposals that are being developed. There is certainly one other college that is at an earlier stage of that process, so there is some interest in it. The point that we make, however, is that flexibility will certainly be more suitable for those colleges where there is less unmet demand. For colleges where there is already unmet demand, it does not necessarily have as much value.

The Convener: Before I put my questions, I refer members to my voluntary register of trade union interests.

The accounts of the City of Glasgow College, which has cropped up a couple of times, show that it is carrying cash reserves of £12.3 million, which is up from £10.5 million in the previous financial year. Why is there such a high proportion of cash reserves held by a college in the midst of this financial crisis?

Stephen Boyle: It could be one of a range of factors. I do not have the college's accounts in front of me to see whether there are any trends behind that. If it is coming from the statement of financial position or balance sheet, it is only a snapshot of the cash position, so it could change significantly in the following month or in a month thereafter if there are any large invoices that are due to settle.

Cash balances matter—I recognise that point—particularly with regard to some of the liquidity issues that the sector is facing. The use of medium-term financial forecasting is an important part of how Scotland's colleges do business. If there is a specific challenge for that college or if there is more stability, from our perspective, it does not necessarily change the overall analysis that the sector is experiencing challenge. Cash does matter, so I am happy to look into that.

The Convener: Thank you. In appendix 3 of the report, you set out a table of what is happening to full-time equivalent posts by college. The biggest percentage cut in full-time equivalent staff is at the City of Glasgow College. Incidentally, the second biggest cut—we will come on to it—is at Forth Valley College.

Do you have any understanding of why, at the same time as a college is sitting on significant cash reserves, it is also reducing its teaching and non-teaching staff by such a huge number—160-

odd people walking out the door within 12 months?

12:15

Stephen Boyle: In percentage terms, that is probably moderated by the number of people who work for that college. I understand the point that you are making in that the City of Glasgow College and Forth Valley College are taking the scale of challenges that are in front of them and reflecting that in the voluntary severance arrangements that they are going through. What I do not have in front of me are the accounts that would perhaps allow me to answer your questions more fully about what that means for their financial plans into the future. If there are specifics, I would expect that those cash balances are earmarked for projects. Normally, there would be a correlation between the cash balance and the amount held to deliver activities in the future. If it is helpful, unless colleagues have the detail to hand, we may need to come back to you in writing on those two specifics.

The Convener: Does the Scottish Funding Council need more powers and greater sanctions to stop colleges getting themselves into financial difficulties? Would that work?

Stephen Boyle: In recent years, we have seen an evolution of the Funding Council's roles and responsibilities and of the support that it provides to the sector. The outcomes framework and assurance model provides perhaps the most obvious example, as the Funding Council is clearly setting out what it will do and the role that it will undertake. That is on a spectrum—from monitoring, supporting and engaging with colleges right through to providing financial liquidity support, which we have seen examples of.

Beyond that, I would need to think more carefully about whether Funding Council actions should translate into regulatory interventions. As both a funder and a regulator, the Funding Council is already being much more active than it would have had to be in previous times, because of the financial pressures that the sector is facing.

The Convener: The job evaluation of non-teaching staff came up earlier, as it has come up almost every year when we have had similar evidence sessions or looked at particular colleges, because it is a long-standing and outstanding piece of unfinished business. You mentioned money transferring to colleges and then transferring back to the Scottish Government. My understanding is that the Scottish Government has underwritten the outcomes of the job evaluation. Is that your understanding, too?

Stephen Boyle: Yes—broadly speaking, the Scottish Government is committed to funding the

cost of the job evaluation scheme. As we referenced in paragraph 19 of the report, the cost has been estimated at more than £86 million to date.

I observe that, as we set out in the report, this is taking quite a long time—we are now seven years or so into the process. I am sure that it would be helpful for all concerned for the situation to be resolved as quickly as possible.

The Convener: I am sorry that I am jumping about a bit, but I will take you to paragraph 35, which speaks about the importance of the relationship between a college and the community in which it sits. I cannot help thinking of anywhere except Alloa. Clackmannan College, which was established there in the 1960s, became part of a merged group with a campus in Stirling and the long-standing Falkirk campus. As you alluded to this morning, the Alloa campus is now under threat. In paragraph 35, you describe why the community relationship is so important. Do you want to elaborate on that a bit before I get to another question?

Stephen Boyle: Perhaps there is not terribly much more to say beyond the comments that we have made in almost all the college overview reports that Audit Scotland has produced on my behalf about how central colleges are to the communities that they serve because of the pathways that they provide to education, training and employment. Inevitably, if colleges are having to make really difficult decisions—they are having to do that on their campus provision—they need to do that through careful engagement with their communities.

We can spend a bit of time on considering the frameworks that Scotland's colleges are required to operate under in terms of engagement. Perhaps this reflects the era that the legislation relates to, but neither the Further and Higher Education (Scotland) Act 1992 nor the Post-16 Education (Scotland) Act 2013 directly addresses college closures.

As we reference in the report, there is guidance from the Scottish Funding Council on disposal arrangements. Maybe a better reference is to the steps that the "Code of Good Governance for Scotland's Colleges" sets out for the board of management to take so that the voice of students is central, given the importance of corporate and social responsibility. Over and above legal expectations, that all translates to the importance of proper engagement and consultation with students, staff and communities when any of these difficult processes and decisions are being considered.

The Convener: With that in mind, do you have any oversight of the study that is being established

by Forth Valley College to look at the feasibility of the Alloa campus? What are its terms of reference and what is its scope? Who has been hired to carry out that feasibility study? I think that the Scottish Funding Council is involved in that.

Stephen Boyle: I have no direct role in that; it is a matter between the college and the Funding Council. My interest is served through the work of the appointed auditors, who review the college's arrangements and the audit of the financial statements, together with a wider-scope annual audit report, which will capture some of the decision-making arrangements that the college makes as it goes through that process. As you said, convener, this is a matter between the college and the Funding Council, together with staff, students and the community.

The Convener: I will finish by going back to a point that Colin Beattie raised. With the subsidiaries and other enterprises that colleges are entering into, is there a proper sense of the risk that is involved? Are the governance structures fit for purpose to give proper oversight to and have accountability for such initiatives?

Stephen Boyle: I cannot give you complete assurance on that point. That is informed by the fact that three recent statutory reports from me have referred to engagement with third parties and commercial activities that have not gone well enough.

We expect, as I am sure you do, that statutory reports that are produced on a sector are used by the whole sector as part of any lessons-learned management of risk. It is clear that this is additional risk that the sector is planning to take, and it is important that the sector gets that right. Proper oversight, scrutiny, governance and engagement are all key steps that the sector will need to take as it embarks on new activities.

The Convener: That draws the evidence session to a close; I am sorry that we were a bit pushed for time. I thank the Auditor General, Derek Hoy and Ray Buist very much for the evidence that they have provided. We will need to consider our next steps.

I now move the meeting into private session.

12:24

Meeting continued in private until 12:48.

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