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Aithisg Oifigeil

DRAFT

Public Audit Committee

Comataidh an Sgrùdaidh Phoblaich

Thursday 24 September 2026

Session 7



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PUBLIC AUDIT COMMITTEE

5th Meeting 2026, Session 7

CONVENER

*Neil Bibby (West Scotland) (Lab)

DEPUTY CONVENER

*Dawn Black (Angus North and Mearns) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Edinburgh and Lothians East) (Con)

*Alan Brown (Kilmarnock and Irvine Valley) (SNP)

*David Kirkwood (South Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Tim Bridle (Audit Scotland)

Ray Buist (Audit Scotland)

John Cornett (Audit Scotland)

Derek Hoy (Audit Scotland)

Martin McLauchlan (Audit Scotland)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament Public Audit Committee

Thursday 24 September 2026

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Neil Bibby): Good morning. I welcome everyone to the fifth meeting in 2026 of the Public Audit Committee. Agenda item 1 is a decision on whether to take agenda items 4, 5, 6 and 7 in private. Do we agree to do so?

Members *indicated agreement.*

“The National Fraud Initiative in Scotland 2026”

09:30

The Convener: Agenda item 2 is consideration of the report “The National Fraud Initiative in Scotland 2026”. I welcome our witnesses, who are all from Audit Scotland. They are: John Cornett, executive director of audit services; Martin McLauchlan, a senior manager; and Tim Bridle, an audit manager. I invite John Cornett to give an opening statement.

John Cornett (Audit Scotland): Thank you for the opportunity to present the report. I will keep my opening statement quite brief, as I am keen to get into conversation with you. Tim and Martin undertook the detailed work on the national fraud initiative, so they will pick up on some of the more detailed conversations and questions that members might have.

The report in front of us was published in August 2026, and it represents the conclusion of the work on the 2024-25 national fraud initiative’s data matching exercise. The national fraud initiative is a United Kingdom-wide exercise that is undertaken every two years. It is designed to prevent and identify fraud and error.

Data matches are not conclusive evidence of fraud, but they are indicative of potential fraud or error, and they highlight areas that are worthy of further investigation. We undertake our work in Scotland in partnership with the Public Sector Fraud Authority, and the report summarises the outcomes from the work that we have undertaken.

There are 127 organisations in Scotland mandated to participate in the exercise, and around 1,000 organisations across the UK. The work that we do on the national fraud initiative is particularly important, given the ongoing pressures in the public sector and the need to secure probity and regularity in transactions that take place in the public sector.

Beyond financial recovery from fraud and errors that are identified, the exercise also acts as a deterrent. One of the requirements of the exercise is that all employees who work in an organisation must know that the exercise is taking place, and that visibility acts as a strong deterrent across the sector.

Cumulative outcomes since the work began in Scotland, nearly 20 years ago, in 2006-07, total approximately £201 million. The 2024-25 exercise generated total reporting outcomes of just under £22 million—about £21.7 million. Those outcomes are split into three broad areas. Roughly £6 million comes from overpayments or additional income

that is due to organisations, just under £9 million is in estimated forward savings and additional income that will be received in the future, and about £6.8 million is made up of notional outcomes that are estimated through the work that we have undertaken.

The three main areas where savings have accrued are recovery of overpayment of pensions, where the amount is about £4.8 million; council tax single-person discount—which means instances in which people have inappropriately claimed the single-person discount—where the savings are about £4.1 million; and the council tax reduction scheme, where there are savings of about £1.7 million. Those are the three main areas where savings accrued from the 2024-25 exercise. The outcomes in the 2024-25 report are slightly less than those in the previous exercise, but we have concluded in the report that the NFI continues to play a vital role in protecting public funds, deterring fraud and preventing errors from arising.

Excluding housing benefit outcomes, overall outcomes have increased. There is a link between the workload that goes through the housing benefit system. Because that workload is decreasing there is consequently a decrease in issues arising through housing benefits. We have also reported that there is an improvement in the delivery of NFI, with fewer bodies having significant issues in following up the data matches and investigating them, which is a positive outcome. However, we recognise that there is still scope to improve timeliness with better and more focused follow-up of the data matches.

We make four recommendations in the report. One is around using the NFI self-assessment checklist at the level of the individual audited body or organisation, to ensure that the planned approach is clearly articulated and gets best value from the work that is undertaken by an individual organisation. The second is to review payroll-to-payroll matches sooner—that is, as soon as those matches become available—rather than waiting for the exercise to conclude.

The third recommendation is to put in place arrangements for regular monitoring and follow-up activity and, where necessary, to seek to understand the reasons where there are low or nil returns. It is about not simply accepting a low return as an outcome but trying to understand the reasons behind that and what activity a body is undertaking to support that. The fourth is that, where auditors have identified delivery issues around the NFI exercise in their individual annual audit reports, it is incumbent on bodies to follow up the recommendations in those reports.

We will continue to work with public bodies and the Public Sector Fraud Authority to support the

effective and efficient delivery of NFI through our ongoing activities.

I will pause at that point. I am happy to explore any of the issues that I have talked about. If there are issues that you thought I was going to talk about but that I did not, I am also happy to pick those up.

The Convener: Thank you for your report and your opening statement. We are keen to explore more of the details around the fraud and error that have been identified.

In opening, I will ask about some of the potential gaps. Are you able to estimate in any way the levels of fraud in the public sector in Scotland that have not been identified by the national fraud initiative?

John Cornett: The short answer to that is no.

We struggle to access data that is not part of the national fraud initiative. We do not extrapolate from the data that we have in order to draw a conclusion or to cover the data that we do not have. However, you could probably take that as a proxy for the level of fraud that exists. It does not necessarily identify all fraud, but it covers most of the areas that are susceptible to fraud and where there is a high risk of fraud. My view is therefore that we cover most, but not all, areas of fraud.

Martin McLauchlan (Audit Scotland): Good morning, all. I do not have much to add.

Certain categories of fraud, such as cyberfraud, are not something that we look at specifically within the NFI. However, what we have done over time, and what we continue to do, is gain coverage through new data matches, new ways of investigating fraud and error, and the work that Tim Bridle continues to do on how effectively issues that are identified are followed up.

As John Cornett said, we cannot extrapolate from the NFI data, but it provides that wider aspect of assurance as well as deterrence.

The Convener: On page 16 of your report, in section 27, you state that you will

“consider expansion of the exercise during discussion of fees with the PSFA”,

which is the Public Sector Fraud Authority. What would need to come of those discussions to expand the exercise?

John Cornett: I will respond to that and will then perhaps bring in Tim Bridle, who is quite involved in the detailed work around that.

The fundamental thing that we need in order to expand the exercise is agreement on the areas that will be subject to data matching. Bodies have to sign up to data matching in those areas, and the PSFA then has to co-ordinate that work nationally. We could do something locally in Scotland, and we are exploring that. Tim will pick up on that point.

Fundamentally, it is about bodies being able to access the data and then provide that data—that is the key issue. At the moment, we are working on the basis that the exercise is mandated for all of those bodies in relation to which the Accounts Commission or the Auditor General is responsible for appointing the auditor. Any participation beyond that is on a purely voluntary basis. Some of the work that Tim Bridle is doing is about expanding that voluntary participation in the exercise, and we are piloting some of that, particularly for universities. A number of factors have to be in place if we are to be able to expand the exercise.

Tim, do you want to share some insights into the work that you are doing?

Tim Bridle (Audit Scotland): We have a couple of pilot exercises at the moment, which are looking at areas where we data match. For example, we are doing some work with Social Security Scotland to look at residency checks on some of its payment streams, and there will be an expansion if that proves to be fruitful. We also have a pilot with the City of Edinburgh Council, which is looking at offering short-term council house lets via online platforms, which would also represent an expansion. The third area that we are looking at is second homes. We have a working group that is looking at how we can help to identify what we call “silent” second homes—second homes that people have declared to be main residences in order to avoid paying premium council tax. Those are the areas we are working on.

We have invited a few more bodies to participate in the next exercise, and one of the universities in Edinburgh has volunteered to participate. That will be a useful pilot for that sector, and it will be interesting to see whether they get good value from participating.

The Convener: Before turning to other members, I will ask a specific question about the adult concessionary travel scheme. You have reported that an estimated full-fare value of £200,000 of fraud has been identified where bus passes were used and

“where the passholder’s death had not been previously reported”,

leading to an underlying cost of £110,000 to Transport Scotland. Have you any further details about the number of times that has occurred or the number of passes that have been misused?

John Cornett: Tim has the detail on that, so I will hand over to him.

Tim Bridle: I apologise—I could probably have included that in the report. The last matching run that we did showed that just over 600 passes were used fraudulently after the date of the passholder’s death, with that figure representing around 1 per cent of all badges that were cancelled. I do not have a breakdown of the figures, but there will be a distribution of usage, with a number of those passes having been used extensively, persistently and to a high value and others having been used just once or twice.

The Convener: You are saying that 600 passes that were used had belonged to passholders who died. Who was using those passes?

Tim Bridle: That is a good question. Transport Scotland follows up on any potentially fraudulent use. There is a careful process of cancelling passes, because it wants the opportunity to catch people in the act. The difficulty is that we do not know that fraud is happening unless people are caught. As the passes are matched, cleared and cancelled, there is a timeline that enables Transport Scotland to follow up, and I would have to defer to it regarding its findings. I am not sure whether it has actually caught many people in the act, as it were.

The Convener: Everyone over the age of 60 is entitled to concessionary travel, so one would assume that it is people who are under 60 who are fraudulently using those passes.

Tim Bridle: Exactly. We do not look at minors; we look just at the adult concessionary travel scheme, which is for disabled people and the over-60s.

The Convener: That leads on to my other question. We are looking at adult concessionary travel and at fraudulent use of passes belonging to over-60s who have died. There is nothing in today’s report about possible fraud by young people. Why is that?

Tim Bridle: I think it is a policy thing. The national fraud initiative does not look at minors. I am not sure that I can tell you why not, but we do not do that.

The Convener: When you say “minors”, do you mean under-16s?

Tim Bridle: We mean young adults. I am not sure whether that means those under 18 or under 16, but we look only at adults.

The Convener: Young people under the age of 22 receive a free bus pass, so there is nothing to prohibit your looking at that age group.

09:45

Tim Bridle: Yes. You have got me there—that is a good question. I would have to clarify whether we include over-18s and under-22s. I have a feeling that we probably do, but I am on unsure ground—you have caught me cold on that one, I am afraid—so I would not like to commit definitively.

Martin McLauchlan: There is a timing issue, too, because these are the outcomes of the 2024-25 exercise, and, from memory, the under-22 policy came in—

The Convener: It came in before that.

Martin McLauchlan: It was prior to that, but there might have been a lag in setting up the systems to enable that.

The Convener: You have identified that there is the potential for fraud in relation to older persons' bus travel, so there would certainly be potential for fraud in relation to younger persons' bus travel, through peer-to-peer or inter-household sharing of bus passes. Could more be done to identify such fraud? There is no mention of that as a possibility in the report, but you think that that can be investigated in future years.

Martin McLauchlan: I would not give that commitment. We can discuss that with the PSFA, and Tim Bridle can take that forward with the forum that he interacts with. It is obviously a Scotland-specific policy, so it might be that we can conduct a type of data matching exercise in Scotland. We can certainly give an undertaking that we will take that issue away, explore it and, if possible, look at how we can roll it into future exercises.

The Convener: We will now have questions from members, and Miles Briggs is first.

Miles Briggs (Edinburgh and Lothians East) (Con): Good morning, and thank you for joining us. Tim, you mentioned universities, and I think that you said that one university has now agreed to be part of a pilot exercise. I am interested in the part of the report that states that you had invited universities to take part on a voluntary basis in the past, so it is good to hear that this might be the start of universities coming forward. Given the financial crisis that universities are facing, to what extent do you believe that participating in NFI and, potentially, identifying fraud and error in their systems would be beneficial? From your experience, what might you find?

John Cornett: There are a number of aspects to that question. There is the element around the assurance process. NFI provides bodies with a significant degree of assurance around the operation of their controls and processes, as well as data matching in relation to identifying potential fraud. However, the fact that data is matched does

not necessarily mean that the fraud exists in that organisation—it might exist somewhere else—so a balance needs to be struck.

The work that we are doing with the university is a pilot-type exercise to understand the scale of matches that we might get and what assurance the bodies might take from the exercise itself. We hope to be able to use that almost as a pitch to bring other bodies into the exercise. It could be that having a single university take part in its own right does not give rise to many data matches, because the data matches might be with other universities and, if those universities are not participating in the exercise, there is a potential gap. We will need to explore that and understand it.

The other challenge in relation to universities—as well as other bodies—is the data sharing requirements while necessarily complying with the general data protection regulation requirements. We think we have a solution to that, which is what we are piloting through the university that Tim referred to. If that works, it will open up the opportunity to expand the work elsewhere. Fundamentally, it comes down to whether the body will get benefit from the exercise, and I think that that comes from the assurance in relation to processes and systems. There is a challenge in relation to the data matches, and we need to explore what that might look like and how we might be able to take that forward, depending on the data matches that exist.

Tim, do you want to add anything?

Tim Bridle: To start with, the main data match areas are payroll and creditor payments. We have had a good level of identification of duplicate creditor payments. That is a direct saving for the bodies involved, which can seek credit notes or recovery as appropriate. That is the main area of monetary benefit that they can get, in addition to the assurance and deterrence that John has mentioned.

Miles Briggs: These are all independent institutions. Is it easy enough for all universities to provide the data sets? When I was on the Education, Children and Young People Committee, we did a lot of work on the University of Dundee situation, and it seems that universities often have different processes for accounting and finances. They are complex organisations when it comes to budgets, legacies and so on. If the participation of universities is to go ahead in the future, perhaps there should be a framework, which you could work on with Universities Scotland, so that it could go live more quickly than if it were just one pilot.

John Cornett: Again, Tim is closer to the detail on that, so I will ask him to come in.

Fundamentally, for most organisations, the data has to be put into a certain format. A piece of work at the organisation level is required to be able to do that, which is simply because different organisations use different systems and ledgers that are configured slightly differently and work in slightly different ways. We are used to going through the process to get the data into the required format when delivering the exercise. Tim might have more insights on the situation with universities.

Tim Bridle: Yes. It is not too onerous. For new bodies to participate, there are some governance hurdles to clear under UK GDPR, including data protection impact assessments and privacy notices. The data then has to be extracted, which is fairly straightforward for information technology folk, I believe—I would probably find it quite challenging. Once the script has been written, the same script is used every time that the body participates. If we can demonstrate that it is not a lot of work for universities and that there is value in it, I am very hopeful that we can get more on board. Ideally, it would be good to get them all on board, as Miles Briggs said.

There are wider benefits from the data matching haul of data, because, in addition to providing matches back to the university, its payroll data, for example, would be matched with council payroll data and other council data sets for things such as single-person discount and council tax reduction schemes. Wider matches might indicate that someone who is claiming a council tax reduction, for example, has undeclared income. It is a win on both sides.

Miles Briggs: Reading the report, it struck me that there are organisations—specifically, the national health service—that are not involved when there would be a lot of merit in and benefit from their being involved. There will obviously be a lot of public service reform during this parliamentary session, so I would like to get your view on other organisations using the initiative, especially if we are going to move to having much larger bodies. Is it an opportunity to ensure that there are data sets and an investigative function in place early on, in order to prevent potential fraud?

John Cornett: I might bring in Martin McLauchlan on that in a moment. The NHS Counter Fraud Authority delivers work across the UK to prevent and detect fraud in the NHS. Therefore, a deliberate decision was made to exclude the NHS from the initiative, simply to avoid duplication. We could be challenged if we simply repeated the work that another agency was doing, so we have tried to avoid duplication by excluding the NHS. All the other public sector bodies that are included are those for which the auditor is appointed by the Auditor General for Scotland and

the Accounts Commission, and we go through a decision-making process on their inclusion. In essence, there is a cost benefit assessment of the value of including all organisations. Consequently, 127 organisations are included in Scotland, as we have reported.

That does not mean that we are not open to including other bodies. As we have talked about, we are very open to the idea of other bodies participating voluntarily, but there has to be a genuine reason why the data matches could work, because if an organisation wants to join, but the data matches would not work, it is almost wasted effort. We are not closed to the idea of bringing other organisations in, but, as I say, we are conscious of the duplication, and of the benefit that might accrue from their participating in the exercise.

Martin, do you want to add anything?

Martin McLauchlan: Yes, I will just talk through that process. A large factor in why certain bodies will not be included is size and scale. For a very small body, the costs of running the exercise as a whole will outweigh the benefits.

The other side of that is that, as we mention in paragraph 9—this is where John Cornett may get me into trouble—we audit 226 organisations—

John Cornett: Is it not 250?

Martin McLauchlan: It is 250; 127 take part in the NFI, but some of those bodies are included by proxy. Councils will be included, depending on their relationship with certain arm's-length external organisations and the system sharing that they have in place. So, 127 perhaps understates the number, but there is a specific rationale for why we do not include some bodies.

Dawn Black (Angus North and Mearns) (SNP): I go back to your opening statement, and this is also mentioned in the report. You highlighted £6 million of overpayments and additional income. Could you dig down a bit deeper into whether those overpayments were made as a result of purposeful fraud or administrative errors?

John Cornett: Tim Bridle will have a lot more of the detail on that than I do.

Fundamentally, we generally do not make that distinction in the report, because the report is written at a point in time when fraud investigations or investigations of data matches may not have concluded. They may have concluded that there is an error or an issue but may not have concluded whether that is deliberate fraud or an administrative oversight. Although the issue can be identified and the saving can be quantified, more work might still be needed behind that.

We generally focus on the total that we are looking at rather than the underlying reasons. We are very clear that investigating and concluding on that is a management responsibility of the individual organisation. Organisations will have their own reporting mechanisms to highlight this but, fundamentally, we approach it at a much higher level to quantify the issue and the work behind that.

Tim, do you have any more detail?

Tim Bridle: It is a tricky one. It is a balance of probabilities as to whether something would be judged as fraud or error. A lot of the additional income could relate to the single person discount, for example—if someone has moved in and has forgotten to notify. That could be deliberate or it could be an error.

Likewise, it may well be that someone who is in receipt of a council tax reduction has returned to work but forgotten to declare their income. There will be a mix. It is fair to say that people have busy lives and make genuine errors. However, you get to the point at which, on the balance of probabilities, some of that is fraud.

Dawn Black: Is there any mechanism for looking retrospectively at previous years, once those kind of investigations have gone by, to give us an idea of how many people are purposely defrauding the state?

Tim Bridle: Realistically, probably not. We get some prosecutions of payroll, which is a bit clearer. For example, someone may have been doing two full-time jobs, which could lead to dismissal and a prosecution. However, for a lot of the recovery around SPD and the council tax reduction scheme, I am not aware there is ever anything categoric in terms of a prosecution. I suspect that that is because it is less frequent and the information is not readily collectible.

10:00

Martin McLauchlan: I can give a tangible example of that, which relates to John Cornett's point about the timing issue. When there has been a duplicate payment because an organisation has been invoiced twice, the NFI will flag up the fact that that invoice has been paid twice. It will not identify whether that is an error, because there has been a delay in payment by the public body and a second invoice has been issued, or whether a second invoice has been issued with the express purpose of being paid twice. Our expectation would be that the NFI match would flag that, the public body would investigate it and then, as Tim Bridle said earlier, it could seek a credit note or recovery.

That does not take place in isolation. We would expect those outcomes to be reported

appropriately within the individual body's governance frameworks, but there are wider professional networks whereby if, for example, a corporation has defrauded a council, that knowledge will be shared.

John Cornett: The other thing to bear in mind is that, even if there is fraud, that does not necessarily always result in a prosecution. It can often be dealt with through disciplinary processes within the organisation, and we do not get particularly close to such processes as part of the NFI exercise.

There can be a range of outcomes, some of which are more visible than others, so it can be difficult to do a retrospective review to understand what the outcome has been.

The Convener: Alan Brown has a supplementary, as well as some other areas that he wants to ask about.

Alan Brown (Kilmarnock and Irvine Valley) (SNP): I will start with the supplementary. I recognise what you have said, but, following on from Dawn Black's questions about looking at things retrospectively, it strikes me that, given that the whole process is called the national fraud initiative, we should be able to gain a wider understanding of how much fraud there has been, relative to error or underpayment. That seems fundamental, given the title of the exercise. Therefore, I would have thought that somebody somewhere should look at what the scale of fraud is, with a view to understanding that and improving systems.

John Cornett: Meeting the definition of fraud is quite a high legal bar, so organisations often do not pursue the issue to the nth degree, because they might well not meet that high legal bar. However, an organisation can still take action to address the issue. For example, as Martin McLauchlan said, it could recover the overpayment of the duplicate payment.

If an organisation wants to carry out an investigation into whether the second invoice was issued fraudulently, it would have to consider whether that invoice was issued simply because of an administrative process. An organisation might have a process whereby, if an invoice has not been paid 30 days after it was issued, a reminder invoice is issued. If both invoices get paid, that is simply a process issue. It is for the organisation to decide whether it wants to get involved in the detail of investigating the situation or whether it is satisfied that recovery of the overpayment is sufficient.

Most organisations do not go beyond the point of recovering the overpayment, because the activity that would be required to proceed with a

fraud investigation could be quite expensive. There is a process that organisations go through. Because the work usually stops at the point of recovery, that makes it incredibly difficult to conclude whether such overpayments were the result of fraud or of error. That is simply down to organisations deciding that the economic value of pursuing the matter further might be disproportionate to the value of the transaction.

Martin, do you want to expand on any of that? I am sorry; I should have given you a heads-up.

Martin McLauchlan: That is fine—thank you, John.

As far as the semantics of the title of the exercise are concerned, I think that the purpose of the national fraud initiative is not only to highlight areas of fraud and error; it has the wider purpose of highlighting weaknesses in controls and systems. Although I take your point about the title of the exercise, the NFI is about the wider aspects that we have spoken about; it is not simply a case of saying, “It’s resulted in X prosecutions.”

Alan Brown: I am probably being a pedant, but I note that the initiative is actually called the national fraud, overpayment and error initiative, not just the fraud initiative. It is probably a Government badging thing.

Moving on, I know that you will not be able to give exact detail on this, but according to the forward look, one of the biggest things predicted relates to the recovery of pension overpayments. I presume that you will not know how much of that is fraud or just a matter of people not knowing how to report the death of a spouse. There might be an emotional issue involved, or pensions might be getting paid into an account that the person in question does not have access to or that they are unaware of. Is that correct?

John Cornett: Again, I will ask Tim Bridle to come in with some of the detail, but you are absolutely correct: the data matches match mortality against pensions. There might be a whole number of reasons for an individual not notifying whichever pensions agency it is of somebody’s bereavement, not least the fact that that might not be top of their list when a person passes away.

There is work on this that can be done nationally. This has already been referred to, but you could have a tell-us-once system in which the agency that you tell shares the information more broadly across other public agencies. Where there has been such an approach, it has been very successful in preventing the likes of pension overpayments, regardless of whether they have happened by error or fraud. That sort of process provides a strong control; however, it is dependent on an individual notifying whichever agency that

somebody has passed away, and it is also difficult to determine whether an overpayment is fraudulent or has happened by error.

You could argue that, if somebody allows it to continue for a long period of time—and there have been examples elsewhere in the UK of pensions continuing to be paid for 10, 15 or 20 years—such activity, at some point, becomes fraudulent, because you must know that you cannot claim a pension for that long after somebody has died. However, it is a fine line between error, oversight and fraud.

Alan Brown: I just want to flip things round slightly for my final question. Obviously, the initiative requires a lot of data sharing in order to understand people’s financial circumstances. I note that one of the benefits that is underclaimed is pension credit; the UK Government is always encouraging people to check whether they are eligible for and due pension credit, as it is also a passport to other benefits. Could the UK Government, if it so desired, use these data sharing platforms for the wider scheme, in order to understand who is eligible for, say, pension credit but is not claiming it?

John Cornett: I will bring Tim Bridle in on this, but yes, that is possible. Some of the data matching exercises that we carry out do highlight where people have underclaimed pensions that they are entitled to, so there is almost a positive benefit to individuals from some of this work. However, what you suggest would require some work on data protection requirements to bring the data set for UK pension credits into the system, and configuring the system to do the matches would require quite a lot of work, too, but theoretically it is a possible data match. I am content to take that away and see what can be done about it, but that would have to happen on a UK-wide basis, because of the way in which the pension credit system works.

Tim, do you want to add anything?

Tim Bridle: There are a couple of things to say. First, with regard to pensions, we do mortality screening of deferred pensions—that is, those instances where someone has moved employer, and their pension has sat there and not crystallised. Often, when we identify a bereavement in such cases, the person’s estate or spouse will receive the deferred pension, so that is a benefit. Indeed, it also helps the pension fund administer pensions if it can, for example, pay deferred pensions that are due. Therefore, this is not all about stopping payments. Sometimes payments are enabled, which is a good thing.

We are a little bit limited in what we can match. Our statutory powers concern fraud prevention, essentially. We do not data match for things such as debt recovery. However, I am aware that, for example, councils explore ways of identifying where there are benefits that have not been claimed, because that has a knock-on effect in terms of council tax arrears and so on. It is important that people receive what they are entitled to, as that helps councils collect amounts that are due. That is very much within the remit of those bodies, whereas we are limited to a certain extent in that regard. We would have to explore what we could do under our fraud powers, as it were.

Alan Brown: But if there was a will, there could be a way. The scripts could be written and the powers could be used, if there was a will to do that.

John Cornett: Theoretically, there is a potential fraud element to bear in mind, as there could be pension credits that are being claimed when they are not entitled to be, either because of the person's income or because the person is deceased. We could investigate and see what the art of the possible is in taking that forward.

The Convener: The general issue of social security is related to pensions. Earlier, you mentioned the pilot that is taking place with Social Security Scotland on residency checks in relation to welfare payment recipients. Page 17 of the report says:

"If the pilot identifies significant levels of fraud, we will incorporate the match into future NFI exercises from 2028/29."

What, in your view, would constitute significant levels of fraud? The reason I ask that is that, previously, you have qualified Social Security Scotland's accounts due to millions of pounds of estimated fraud and error, but previous reports have also indicated fewer than 20 cases of clients who were not entitled to benefits.

John Cornett: It is a subjective judgment. However, there are two elements to the transactions and to the benefits that Social Security Scotland pays. There are those that sit within Social Security Scotland that the organisation is responsible for and pays, and there are those that are currently being paid by the Department for Work and Pensions on behalf of Social Security Scotland. I am very aware there is a transition process to bring the DWP payments into Social Security Scotland, but, at the moment, we do data matches only on those transactions that sit within the remit of Social Security Scotland. Fundamentally, what we would need to do is to understand what the additional transactions are and what the scale and potential scale of fraud or error in those transactions is.

There are two ways of looking at whether there is a significant level of fraud. One is the volume of data matches—whereby a high volume of data matches, albeit of a low value, would be a significant indicator—and the other is the value of the data matches themselves.

What we have not done is set out at the very beginning of the process the benchmark—that is, X number of cases and Y value of cases—that would meet the definition of "significant". What we want to do is to see what the outcome is. However, regardless of the outcome, there is not necessarily a blanket yes or no in terms of whether we proceed with the process, because it might well be that the data matches indicate that more work needs to be done and more thought needs to be given in relation to the data matches to enable us to understand what the impact is.

I am conscious that that is not a direct answer to your question, but, fundamentally, what we want to do is to wait and see what the outcome looks like first, and then come to a view on what the next steps should be.

The Convener: Earlier, we discussed the problems around looking at Scotland-specific policies, such as the Scottish child payment and the adult disability payment, which are not currently covered in the report. Will that pilot look at all benefits that people receive through Social Security Scotland that are subject to the residency checks?

10:15

John Cornett: I will bring Tim Bridle in on that, convener.

Tim Bridle: The main payment streams will be included. It is in essence just a residency check. Whether it becomes business as usual is the value in the exercise, and that will be the case on both sides.

If Social Security Scotland finds that it is not a fruitful avenue, we would not go ahead. Likewise, we need a certain amount of actual fraud. The fraud risk is there. Obviously, some of those payment streams are particular to Scotland, or are perhaps slightly higher in Scotland, so there is an incentive there for cross-border flows, as it were.

I would not like to say that I am 100 per cent certain that it is all payment streams. We have yet to do the matching run. I understand that it is the main ones, and it will include adult disability payments, for example, which is obviously a key stream in terms of value.

David Kirkwood (South Scotland) (Reform): I will pick up on a point that my fellow pedant here made. The name does not seem right. It is more of a national financial audit than a national fraud

initiative, is it not? You are looking for aberrations that may or may not be fraud but could just be sloppy bookkeeping. Is that correct?

John Cornett: I am very conscious that I do not want to get into a debate around semantics. Having said that, I know that the origins of the exercise were in England and Wales close to 30 years ago, when the scope and the scale of the data matches were much narrower than they currently are. That work was very much driven towards identifying fraud—that was its *raison d'être*.

The geographical coverage of the work on data matches has expanded considerably over that time. The name has not changed, so I think that your assessment is probably correct, but I do not know whether we want to get into a debate about what the name should be.

David Kirkwood: That is fair enough.

Once you identify a financial aberration in a book somewhere, what happens? What are the next steps? What is the mechanism to rectify that? Do you go back to the organisation to ask it to identify the issue first, or do you contact the police?

John Cornett: Again, colleagues will correct me if I am wrong but, fundamentally, the exercise provides a series of data matches to individual organisations. Those data matches are prioritised into high, medium and low risks, and a series of algorithms in the system do the categorisation. The information is provided to the individual body, and it is for that body to investigate and follow up those data matches. It then becomes a management decision as to whether any of those data matches need to be referred to the police. It is not an auditor's responsibility in that respect; it is a management decision.

That goes back to our earlier answers. Often, the matters are dealt with through an internal disciplinary process when something genuine needs to be looked at. Occasionally, the police are brought in, and sometimes that is when we have recovered the overpayment, whatever that might be, and we draw the line there.

The responsibility for the follow-up sits with the individual organisation. What individual auditors do on our behalf is assess the adequacy of the follow-up work that those bodies undertake in terms of timeliness, pace and thoroughness, and give an overall view of the adequacy of that follow-up, but it is a management responsibility to follow up the data matches.

Martin McLauchlan: I draw your attention to exhibit 1, which sets out that process. The NFI provides the matched data, and then it is incumbent on the body, as John Cornett said, to take those steps. We have the classic auditor's

role of assessing the internal systems of controls, rather than detecting fraud on behalf of the body, or indeed following up the matches on behalf of the body. It is very much a data provision exercise.

David Kirkwood: You have identified £22 million of potential savings, recoveries and notional payments going forward. However, the Scottish Government's spending this year is to be £120 billion. Although £22 million is a big number in itself, it is not a large proportion of Government spending. What is the total spend universe that you have audited to come up with that figure of £22 million?

John Cornett: There are two points in that. First, yes, nearly £22 million as a result of fraud, error or administrative oversight has been identified, but the exercise gives assurance on the rest of the number that you talked about, on which there are no issues. Bodies take a lot of assurance from how small the number is in proportion to the totality.

I think that Tim Bridle has more detail on the total value of the transactions that are part of the exercise. However, as I said, the key thing is assurance over the bit that is not shown as a data match, as well as the data matches themselves.

Tim Bridle: I am not sure that I have an awful lot more detail about the spend universe, to be honest—not at my fingertips. We could probably come back to you on it. The coverage of the whole council tax base, for example, involves big figures, as do the payrolls for all the audited bodies. I do not know what those figures are. I apologise that I am ill-prepared in that regard.

Martin McLauchlan: We can come back in writing if you require that. As John Cornett rightly pointed out, we also look at the nature of the transactions. My knowledge will be slightly outdated, but councils spend probably £18 billion a year, and 60 or 65 per cent of that is on staff costs and salary costs. That alone gives you an idea of the NFI's coverage.

It is not as simple as looking at the totality of spend. It is about the nature of the spending that is covered in the NFI. We can give you figures for the expenditure of the 127 bodies—gross expenditure, net expenditure and so on—but, really, the exercise is about assurance and the nature of the matches. The council tax base is covered; payroll is covered. That is a significant amount of spending not only for councils but across the public sector.

We will provide the information if it is wanted, but I am not quite sure how helpful it is.

David Kirkwood: It would give me a better understanding of the scope of what you have

found in terms of the totality of what you have inspected. It would be very useful.

How much does the NFI programme cost to run per year?

Martin McLauchlan: For this exercise, £220,000 in fees was paid to the Public Sector Fraud Authority. That is the direct fee for the public bodies in Scotland taking part.

The actual cost is higher than that. We could quantify our direct staff costs, and other costs will relate to individual bodies, depending on their size. For a small body, it might take one or two days to follow up a match, while a large council could involve weeks of work. However, the majority of direct cost is covered as part of the day-to-day duties of existing staff. The additional costs are a small proportion of our internal time. The indirect costs are from the input by other public sector bodies.

The direct cost for the exercise is therefore £220,000 plus whatever our overhead is. That has generated, as you said, £6 million in direct savings and £20 million in total. If the underlying point of your question is whether we see value in continuing the exercise, we can give an unequivocal yes.

David Kirkwood: Is the main value of the exercise in the assurance of the existing accounts and the deterrence of future fraud?

John Cornett: Yes—I think so. That is fundamentally where the value is. If the exercise did not take place, or if we put some sort of economic value on where we pitched the level of data matches, that would, in effect, transmit a message that a certain level of fraud or error was acceptable. What is not something that we would sign up to as auditors, when it comes to addressing fraudulent issues.

The value lies very much in the assurance process and the deterrence that exists, as well as in the actual transactions that are identified through the process.

Alan Brown: I am probably being a bit pedantic, but on deterrence, if we do not know the scale of fraud because of a mix of error and pensioners not being notified in time, how do we estimate the deterrent effect? Who knows about the NFI and would say, “Right, I am not going to fraudulently make a claim because the NFI will pick up on it?” I am curious to understand how the deterrence works. I absolutely take the point about the assurance process and all that, but I am struggling to get my head around deterrence.

John Cornett: I understand and will bring in Martin McLauchlan in a moment. Fundamentally, the way in which the exercise works is that,

because of GDPR and data protection requirements, all staff who work in an organisation must be informed that their data is being used as part of the exercise. Similarly, to go back to Tim Bridle’s example about benefits and Social Security Scotland, people who receive benefits are informed that their information will be used as part of the exercise and are told how it will be used and the purpose for which it will be used.

I accept your point. It is incredibly difficult to quantify the value of deterrence, because, fundamentally, you do not know how many people might have committed a fraud if they had not been alerted to how the exercise works. My comeback to that is that I would not want to test the waters by stopping the exercise in order to see the level of fraud that then occurred. Deterrence cannot be underestimated, but I accept that it cannot be quantified very easily.

Martin McLauchlan: It is exactly as John Cornett said about proving the counterfactual—we cannot put a number on it. We can say that there was a general acceptance that the risk of fraud occurring increased during the Covid pandemic. Counter-fraud professionals, of which I am not one, have developed what they refer to as a fraud triangle, which comprises pressure, opportunity and rationalisation.

There is a pressure not only on public finances but on individuals’ circumstances due to the ongoing cost of living crisis. The opportunity is that, in the environment now operating across individual public sector bodies, with better IT and better understanding, there is greater scope to commit fraud. It is not wide-scale, sophisticated fraud; it is perhaps opportunistic fraud in that people think, “Actually, I will try and claim something.” On rationalisation, we have seen in recent years that there is potentially a greater appetite and greater rationalisation along the lines of, “Well, it is only that one claim, so I will do it.”

We cannot talk through the deterrence but, as John Cornett rightly said, we would not want to be in a position where we were seen to withdraw the NFI as it stands. In terms of awareness, everyone who is employed by any body that is involved is directly notified about the NFI, because their data is entered.

Alan Brown: That is helpful and I understand deterrence better. I understand that everybody is notified, so that is useful.

Martin McLauchlan: For example, we all receive an email from Audit Scotland saying that our details are being entered into NFI data matching, and that is standard practice for all 127 bodies.

The Convener: On delivering the NFI, the report says:

“Two bodies were assessed as having fundamental issues with submission of datasets for matching”.

Which organisations were they? It appears that one is in local government and the other is in the colleges sector. What specific support or intervention is being proposed to them to help them deliver on their NFI arrangements?

10:30

John Cornett: Apologies, convener—my Gaelic is not very good, so I will say that the local government body is Western Isles Council. As you may well be aware, it was subject to a cyberattack a couple of years ago, which fundamentally disabled its financial systems. Because of that, it was not in a position to submit data.

I believe that the second body is Perth College; I do not know the details of why it has not been able to submit the data. Tim or Martin might have the detail on that.

Tim Bridle: I think that that was an accident of circumstance, which probably involved a change in the staff who were responsible. Perth College has put arrangements in place, and I have been liaising with it actively around submission for the next exercise. I believe that it was one of those unfortunate circumstances.

The Convener: Thanks for that clarification. The report mentions that there were

“Two cases of dual full-time working”—

that is, someone having more than one full-time job—and

“Three cases of working in a secondary role while off sick from the main employer.”

I understand that more such cases were identified previously. Is there a risk of that increasing with more home working? Can you clarify who those individuals were working for? Were both the organisations that were being worked for covered by the national fraud initiative, or was it one organisation?

John Cornett: Again, Tim Bridle has the detail. However, it is important to highlight that someone simply having two jobs is not necessarily fraudulent. It can be entirely legitimate that a person works two jobs.

The Convener: Yes, but we are talking about two full-time jobs.

John Cornett: Agreed. However, the challenge is to determine whether they are able to deliver those jobs. There is also a wider challenge around whether there is a health and safety risk involved in whatever work they might be engaged in. If

somebody is a driver and is working two full-time jobs, does a health and safety risk come out of that?

Tim has the detail on the data matches and how that came through.

Tim Bridle: There will be an A and a B match for these people, but the A and the B will not always be both in Scotland—sometimes the B side will be in England or Wales. We have had one or two of those instances over the years. Essentially, though, they get counted only once, but it will be affecting two organisations.

The Convener: Are the two organisations covered by the national fraud initiative?

Tim Bridle: Yes.

The Convener: So there could be more cases where an individual is working for one organisation that is covered by the national fraud initiative, but also works for somebody else entirely. There can be a gap there.

Tim Bridle: Yes. That is another reason why we are keen to expand the data pool to include payrolls for housing associations and universities, for example.

The Convener: There is nothing to stop somebody working for a private sector organisation—but I know that that is outwith the remit of what we are talking about.

Tim Bridle: I was going to say that there was a case from the previous exercise of someone having two full-time jobs with bodies in Scotland, another job with a council down south and two jobs in the private sector.

The Convener: Well, they were very busy. I am glad that that was revealed by the audit—it is working effectively when that happens. As you said, we need to look at areas where we can extend it so that it can pick up more.

I have one more question, which is on the use of blue badges. The report says that 5,000 blue badge passes of people who had deceased were cancelled in 2024-25. In the case of bus passes, you were able to say how many times they had been used, but I imagine that that is difficult with blue badges. Is there any indication of how many times they may have been used?

Also on blue badges, I noticed that, in terms of outcomes, the financial impact had come down marginally. Has that 5,000 figure significantly changed? Is that comparable with previous years?

John Cornett: I think that the position is broadly comparable with previous years, and you are absolutely right that the challenge with blue badges is that we cannot estimate how many times they are used. Therefore, the calculation is a

notional figure of how many times the blue badges may have been used, on a reasonable basis. I do not remember the detail, but it might be reasonable to assume that they are used once a week, for example. There is also the notional figure of, for example, how much a car park would have cost if the individual had paid, and that can vary quite considerably. Therefore, it is a best estimate of the number of fraudulent uses and the value of the transactions that have been forgone.

The primary challenge in relation to blue badges is that, even if a badge is cancelled, it is not recovered, so a cancelled badge can continue to be used. It is only when a badge expires that it becomes evident to a parking enforcement officer that it is being used inappropriately. There are a number of system weaknesses that are highlighted at a local level. Fundamentally, the blue badge figures are a best estimate. I think that Tim is a bit closer to that calculation than I am.

Tim Bridle: The numbers for the cancellation of blue badges remain fairly consistent—about 5,000 have been cancelled. The values that are attached to that and the levels of abuse are an estimate, and there is probably a range of reasonableness in relation to the estimate.

In relation to tax and welfare, where there is better evidence, 5 per cent is the figure that is often quoted for fraud rates, so it would not surprise me if, for example, 5 per cent of the blue badges that were cancelled were being used fraudulently. That would be a typical top end of the range of reasonableness, which would result in a financial value that is in line with what we have reported.

In fact, we have identified a lower rate of abuse for concessionary travel passes. The estimate for that might be at the bottom end of the range of reasonableness, so we might use 1 per cent for that, rather than 5 per cent. In essence, we apply the Public Sector Fraud Authority methodology, and the figures come from the system.

The Convener: I understand that there is a limit to what you can do on the data. We have talked a lot about deterrence. If the numbers are remaining consistent, I think that deterrence needs to happen through enforcement as much as the data matching exercise.

We have no further questions, so I thank you for your extensive evidence on the national fraud initiative in Scotland in 2026.

We will suspend the meeting to allow for a change of witnesses.

10:38

Meeting suspended.

10:41

On resuming—

“Scotland’s colleges 2026”

The Convener: Welcome back. We move to item 3, under which we will discuss the report entitled “Scotland’s colleges 2026”. I welcome our witnesses: Stephen Boyle, Auditor General for Scotland; and, from Audit Scotland, Derek Hoy, senior manager, and Ray Buist, audit manager. I invite the Auditor General to give an opening statement on his report.

Stephen Boyle (Auditor General for Scotland): Good morning, everyone. I am very pleased to be with you to present our report, “Scotland’s colleges 2026”, which we published on 10 September. The report outlines the financial sustainability and overall performance of Scotland’s colleges during 2024-25.

As the committee will know, colleges play a hugely important role in Scotland’s economy and for the people who use their services. They also play a key role in providing a skilled workforce that meets local and national requirements, as well as offering important learner pathways for people who pass through their doors.

In my recent reports on the sector, I have highlighted the financial challenges under which colleges are operating, given rising costs alongside real-terms reductions in funding. In the current report, I conclude that those financial challenges have deepened. Scotland’s incorporated colleges reported a collective deficit of £5.6 million in 2024-25, which is an increase of £1.9 million on the previous year. They are forecasting further deficits in future years, and the Scottish Funding Council has assessed that half of all colleges face a high or very high financial health risk.

Colleges have already taken steps to make savings, reducing their workforce by almost 8 per cent in 2023-24 and by a further 4 per cent in 2024-25. Despite the financial challenges and reductions in their workforce, colleges are showing resilience. Satisfaction rates among students remain high. A high proportion of students leave college for positive destinations and success rates improved during 2024-25. However, the number of students being taught and trained in Scotland’s colleges has decreased for a second consecutive year.

The Scottish Government recognises the need for fundamental reform of Scotland’s college sector, but progress in delivering that reform has been slow. The committee will note from my report that I have not made any new recommendations to the sector this year; rather, I take stock of what we consider to be slow progress in implementing the

eight recommendations that we made in the previous year.

The report recognises that the Scottish Government and the sector believe that their reform programme, college sector of the future, will address many of the recommendations from last year's report. Progress on that is due to be reported by the end of this year.

As ever, convener, we will continue to track and monitor the progress of reform and the financial health and performance of the sector through future reporting on the college sector. Derek Hoy, Ray Buist and I will do our utmost to answer any questions that you have on today's report.

10:45

The Convener: Thank you very much, Auditor General. I will move straight to questions from members.

David Kirkwood: The headline figure from the report is the £5.6 million deficit, but I note that there is a £7.2 million charge for voluntary redundancy payments. Without that one-off charge, there would be a slight surplus.

You note that the forecast is challenging, and you are forecasting deficit in the future, but are there likely to be many large redundancy charges again, or have most of the redundancies already happened?

Stephen Boyle: I do not know whether I can give you a definitive yes or no answer to that, Mr Kirkwood. Your arithmetic is right. Part of the reason for the £5.6 million deficit relates to a reduction in head count, and that has been the pattern in the sector for a number of years. Colleagues can say a bit more, if they wish, about the detail of that trend.

You also asked about what is coming next. The overall judgment that we make, as I mentioned in my opening remarks, is that the sector remains under significant pressure in terms of its financial position and the number of courses that it can offer. We are seeing a reduction in the number of students passing through Scotland's colleges.

I particularly highlighted in my opening remarks the strain on the sector and the Scottish Funding Council's assessment of the need for continued financial support, whether through business planning arrangements, financial arrangements or liquidity support from the Scottish Funding Council.

There is enough evidence, in the round, on course provision, the number of staff working in Scotland's colleges and the number of students passing through the doors to continue to support

the judgment that we make in today's report that the sector remains under strain.

I again highlight to the committee that there has been talk of reform in this sector for a long time. Indeed, last week, the committee considered our report, "Post-school education and skills reform", but the pace of delivery has not been quick enough to address the stark challenges facing the sector as a whole.

Derek Hoy will elaborate on that a little.

Derek Hoy (Audit Scotland): To return to your original question, Mr Kirkwood, it is difficult for us to say whether we are past the stage where we will see a lot of redundancies. At some point, obviously, the sector has to reach a point at which that simply is not sustainable anymore. As the Auditor General said in his opening statement, the sector has remained resilient so far and colleges are continuing to deliver, albeit for a smaller number of students. However, it is difficult to say how much longer they can keep doing that.

One important consideration in relation to the voluntary redundancy schemes is that we are not aware of those being targeted. They are being applied across the college workforce—to teaching staff and support staff. That could impact colleges in different ways. Teaching staff are the heartbeat of a college, delivering the teaching that the students need, but support staff are crucial as well, especially during a period of significant financial challenge. Finance staff and those responsible for the governance of a college are really important. If staff are being lost in those roles, the capacity of teams to deliver on those fronts could be reduced. It could mean the loss of some of the corporate knowledge that could help to steer the college through difficult times. It would be interesting to look at the profile of the redundancies. As far as we are aware, the approach to redundancies has largely been a blanket one; there have not been targeted policies in that regard.

The other important point to add is that the savings from the voluntary redundancy schemes have largely been eaten up by pay increases, national insurance costs, increased pension costs, et cetera. Those are costs that colleges must absorb, so it is not as though the redundancy savings so far have generated space for colleges to reform; rather, they have helped them to keep their heads above water.

David Kirkwood: Over the past few weeks, and since taking up my current post, I have talked to quite a few college principals and senior lecturers, and I have been hugely encouraged by the way in which they are approaching their future business plans and the various plans that they have for the colleges. I think that they are doing a good job, given the situation that they are in. A lot of what

will happen will depend on what the SFC decides over the next few months in terms of its announcement for future funding.

Obviously, the future framework for universities identified a £200 million shortfall for universities, but that is not particularly applicable to colleges. However, I see the colleges becoming much more financially entrepreneurial and reaching out in relation to commercial activity.

I do not have any more questions at the moment.

The Convener: I have a follow-up question, which touches on the value of voluntary redundancies. Appendix 2 of your report sets out the situation with voluntary redundancies. It says that, in 2024-25, 36 staff at UHI Perth took voluntary redundancy, with an exit package cost of £651,000, while 37 staff at South Lanarkshire College took voluntary redundancy at a cost of £1.168 million—that is a difference of one member of staff, but half a million in terms of the overall cost.

Further, at Glasgow Clyde College, 17 members of staff took voluntary redundancy at a cost of £339,000, while, at Glasgow Kelvin College, 15 staff took voluntary redundancy at a cost of more than £500,000. There is quite a disparity in terms of the amount being spent, particularly in the first example. Do you have any comments on that? I presume that the issue involves more senior staff.

Stephen Boyle: I am happy to say a word or two about that, and Derek Hoy can offer more detail, if he wishes.

You rightly point out that there can be variation within redundancy schemes. Derek Hoy can tell you how they are framed and then offered to particular types of workers. As you will know, convener, much will be dictated by the age and the length of service of an individual employee, and whether they are deemed to be eligible to participate in the scheme. The variability that you highlight is, therefore, probably to be expected.

The one thing that I would draw the committee's attention to is that the Scottish Government has issued guidance to public bodies to the effect that there should be a cap of £95,000 per individual employee with regard to voluntary severance and exit arrangements, together with a period of—Derek Hoy will keep me right on this—12 months during which any costs of the severance should be recovered through the overall running costs of the college.

I will make one last comment on the issue. In the previous session, your predecessor committee took evidence on UHI Perth following statutory reports that I prepared on that organisation, given some of the challenges that it had experienced in

terms of producing an annual budget and delivering financial balance. We reported that there had been significant progress in that organisation, but I am not surprised to see some of the numbers in the table that you refer to, because I think that they are indicative of the wider trend in the sector of reducing head count and applying voluntary severance schemes.

I have said a few times that I will bring Derek Hoy in, and I will do so in a moment, but first I say that it is worth stating for the record that the college sector is very unusual. Other sectors of public service in Scotland are not yet in a place of reducing head count in a managed way through redundancy arrangements. It is important that, if there are head count reductions as the public sector embraces a public service reform programme, some of the lessons from the college sector are known and shared more widely.

Derek Hoy can say a bit more about the specifics.

Derek Hoy: In turn, I will pass to Ray Buist, who can talk about the details of the capping guidance and so on.

On appendix 2, we do not have any underlying data on the individuals or the level of staff who took packages. However, as the Auditor General pointed out, there will be variation due to the seniority of staff who left the service.

I invite Ray Buist to say more about capping.

Ray Buist (Audit Scotland): It is worth bringing a couple of things to the committee's attention. Convener, you compared South Lanarkshire College and UHI Perth. Last year's report, "Scotland's colleges 2025", contains similarly appended data. South Lanarkshire College had no voluntary severance last year, whereas at UHI Perth, I think that 50 staff were affected. It reflects the point that we are going to be seeing a change in the profile of staff and the activity that colleges are undertaking as part of those voluntary severance programmes. The staff profile could be different in those institutions.

The Convener: So colleges are at different stages of the process, but when you look at it over a two-year period, it is broadly in line.

Ray Buist: That is right. Mr Kirkwood mentioned £7.2 million as the cost of voluntary severance schemes. In 2023-24, it was £9.6 million, so there has been a decrease in the cost of those schemes. However, we cannot predict what will happen in future. It will very much depend on the funding that is available to colleges.

Alan Brown: I am sure that I read somewhere in the report that the payback period was 24 months.

Derek Hoy: That is right—it is in paragraph 23.

Alan Brown: Has there been any assessment of severances? There is a payback period, so eventually it comes to recurring savings. Has there been any assessment of whether that has created a more sustainable environment? Obviously, there are still pressures, but the whole purpose of severance is to make colleges more sustainable.

Stephen Boyle: That would be a question for colleges, which will have gone through the governance arrangements to determine, in relation to an individual post, what the parameters of any scheme are and whether that translates into recurring savings. Typically, if it is a voluntary exit, it is not just the individual but the post that should be taken out of the structure.

My only caveat is that there is still sustained pressure in the system that probably indicates that a voluntary severance scheme, in and of itself, will not be sufficient to tackle the totality of the pressures that Scotland's colleges face. That is why, as we step back to consider the evidence before us from auditors, we bring back the point about reform and the funding arrangements; the ask of Scotland's colleges will be as important in delivering financial balance and clarity for their roles and responsibilities as will equally valid efficiency savings and severance schemes. However, it will be for individual colleges, alongside the Scottish Funding Council, to make an analysis of whether that will be delivered.

Alan Brown: If I do a real glass half full, there is a £5.6 million deficit in a budget of £721 million. Is that correct?

Stephen Boyle: Yes.

Alan Brown: In that context, it is 0.8 per cent, which is small, in relative terms, notwithstanding the financial challenges.

Stephen Boyle: I accept that, as a proportion of the overall budget allocated to colleges. However, if we look at the trend, this is a sector that has continued to illustrate signs of financial pressure. Some colleges are in that bracket one year, and then out of it, and then back in.

What is really important, though, is the ongoing monitoring of financial health that the SFC is doing. More than half of the college sector is deemed to be at high or very high financial risk. The SFC is looking at the forecasts, colleges' ability to generate income and the capital maintenance challenges facing the sector. There is enough evidence to say that there is current and projected financial pressure, notwithstanding the fact that, in overall terms, it can vary from year to year and that, compared to the total budget allocated to the sector, it remains small.

Alan Brown: Referring to that deficit, the figure that you have quoted is £5.6 million. In exhibit 3, however, you highlight that

"the SFC provided a total of £13.9 million in additional financial support across five colleges."

In reality, therefore, should the deficit be considered as being the £13.9 million plus the £5.6 million, because of that additional support?

11:00

Stephen Boyle: It is hard to be 100 per cent definitive on this, but your point is not unreasonable. Had the colleges not got that support—and notwithstanding all other things being equal—you could add those two figures together to come up with a larger deficit. Whether that would have transpired in reality, if different decisions had been taken, who knows?

The point absolutely stands: the Scottish Funding Council finds itself having to provide additional funding or financial support to individual colleges to support their ability to deliver financial balance. That feels material in itself and is indicative of financial pressure on the sector.

Alan Brown: Is there a danger here? I am looking at the report and at the situation in a cumulative way—such as that cumulative £5.6 million. There seems to be a very mixed picture. You mention UHI with reference to a section 22 report. It is clear that UHI and New College Lanarkshire are the biggest recipients of additional funding. Does that mean that the picture is not quite as bad if you look at it cumulatively, but that individual colleges have far bigger challenges? Would that be correct?

Stephen Boyle: You are right to point out that, as exhibit 3 says, three of the five colleges that received additional financial support from the Scottish Funding Council in 2024-25 are under the umbrella of the University of the Highlands and Islands. I agree with your wider point—that there is variation therein.

Appendix 2 to the report sets out some of the detail on voluntary severance arrangements and also provides detail of individual colleges' adjusted operating positions. You can see variation therein.

We have not drawn a wider view on the University of the Highlands and Islands—albeit, in the previous session of the Parliament, we prepared a statutory report on UHI Perth and on one of the other UHI colleges. While there is variation, we still make the judgment that the sector remains under significant financial pressure.

Alan Brown: To go back to the additional funding aspect, paragraph 16 of the report confirms that New College Lanarkshire was

awarded £4.5 million to deal with the nationally agreed pay awards. That jumps out. That seems to have been part of the budget pressures that every other college has been dealing with under the nationally agreed pay award. Why did New College Lanarkshire get £4.5 million of additional support to deal with that when every other college is dealing with it, too? It seems that that £4.5 million has then been labelled as transformational funds. Is there a lack of transparency there? Is there an ongoing issue about the money being rebadged?

Stephen Boyle: I will bring in Ray Buist to give a bit more detail on that. One of the key messages from today's report is that we think that there is a lack of clarity around how individual colleges that are experiencing financial strain are supported by the Scottish Funding Council. The subheading above paragraph 16, to which you referred, says:

"Arrangements for the settlement of SFC-provided financial support can be unclear".

We know that the SFC provides a range of supports. That is not just additional financial allocations; the SFC will provide support and scrutiny of arrangements—finance department support, capability and capacity arrangements. "Ambiguity" is probably the word that resonates the most clearly with me: it could be clearer how financial support is provided, how it is repaid and what the overall arrangements are. That is one of the key findings from the report.

Ray Buist has examined that closely, so he can say a bit more.

Ray Buist: As shown in paragraph 16, a £4.5 million advance was first approved and awarded to New College Lanarkshire in 2023-24 to help the college meet the cost of the nationally agreed pay awards. It was to be repaid in 2024-25 and, in 2024-25, the college and the SFC came to an agreement that the £4.5 million would be rolled forward for transformational purposes, which is what we have reported in exhibit 3.

Alan Brown: Was it repaid and then given back or was it just rebadged?

Ray Buist: You are hitting on the point that we are making, which is that it is quite ambiguous. If you ask the SFC, it is clear that the £4.5 million was repaid. The mechanism by which that happened is a reprofiling of the funding allocations for the subsequent year. Each college has funding allocations that it can draw down and, in this case, the college's allocation will have been reduced by £4.5 million to, in effect, repay that. In a small number of cases, towards the end of a year, a college will again be in a position where it needs short-term liquidity support and it will go back to the SFC to request further assistance.

Alan Brown: If I were a college principal—I will be parochial and mention Ayrshire College, which does a great job in my constituency—why would I not get that money to deal with the national pay awards? Is it really just the case that the college has said that, because it is facing such financial pressures, it needs extra support?

Stephen Boyle: You make an important point, and we have previously reported—not just in the college sector but similarly in the NHS—on the circumstances for individual public bodies that face financial challenge and how their funders support them. The SFC's arrangements are broader than a retrospective analysis—they are not just about funding; they look at the financial health of the sector and individual colleges.

More clarity is needed, because this probably speaks to the point that you are making about equity. I am quite sure that many college principals will think that they are doing all that they can—making really difficult and challenging decisions about their cost base and exploring all available avenues to generate additional income to support their financial position. The situation probably reflects the fact that the sector is not entirely homogeneous. Some will have income-generating opportunities available to them; some have done more on making earlier decisions on their cost base. However, those decisions will be known and understood if there is further transparency from the Scottish Funding Council, and we think that that is the key next step.

Alan Brown: I have one more question about finance. A few years ago, Ayrshire College had the big financial burden of a private finance initiative legacy cost for one of its campuses. I think that that has now disappeared, but has any assessment been made of ongoing PFI legacy issues? A lot of those contracts have now come to an end, so is there light at the end of the tunnel for sustainability in some cases, where PFI contracts are coming to an end? Is that being looked at?

Stephen Boyle: Audit Scotland has done a fair bit of reporting on PFI over the years, particularly as we came to the end of the previous session of Parliament. You rightly mention former college PFI contracts, but Kilmarnock prison was the first example of an asset returning to public sector ownership following a PFI contract. The Scottish Prison Service put in place arrangements to have the asset assessed in order for it to return to public sector ownership. The return of other such assets is pending in the NHS and local authorities.

A key role across the public sector estate management is to have a clear understanding of rights and obligations in relation to assets returning to the public sector following a PFI contract, and the Scottish Government and its bodies are

looking at that closely. I stress that it will be complicated, because there was no uniformity of contract in some of the early PFI deals, so it will take a lot of preparation time and the right governance to ensure that, when the assets return, the public sector knows what it is taking back.

Alan Brown: I was as much thinking that there is a saving in repayments, but you are right—obviously, with the Edinburgh royal infirmary, there is also a potential burden of capital investment; however, that is not apparent in the sustainability analysis that has been done.

Stephen Boyle: Colleagues might want to say a bit more about some of the infrastructure investment planning that is taking place in the sector. It is a significant plank of reform activity. Whether it relates to PFI and the existing estate, the maintenance or the investment requirements, it has to be fundamental to that longer-term financial planning and activity outlook.

Derek Hoy: On PFI, we have not done any detailed audit work but, as far as I know—I can come back and confirm this to the committee—there are no colleges that still have PFI arrangements in place. The ones that were in place are now done. I think that three colleges have non-profit-distributing model arrangements in place and will continue to incur costs from that. We can certainly look at that and confirm it to the committee.

The general point on estates and infrastructure is interesting. The Scottish Funding Council aims to publish its infrastructure investment plan in the autumn. We do not yet have a specific date for that. That exercise follows on from the SFC's capital investment strategy, which sets out its overall high-level approach to infrastructure investment. The plan has various pillars, but one of the key exercises is data gathering on the condition of buildings and estates, to identify the costs that would be associated—the needs for colleges when it comes to their infrastructure investment.

The SFC is gathering that information at the moment, and it is taking a bit longer than expected, I think. As far as I know, it has been a complex process. That will feed into decision making on the future allocation of infrastructure investment and any bid that the SFC makes to the Scottish Government for capital funding. Colleges previously provided a figure of around £1 billion that they said would be needed to address maintenance backlogs and meet net zero requirements. We have not audited that figure and we cannot speak to exactly how they calculated it or where it comes from. Obviously, it is a huge figure, especially when compared with the capital funding that currently goes into the sector.

However, importantly, last year, when the Scottish Funding Council talked us through how it was going through the infrastructure investment plan process, we took assurance from the fact that it is encouraging colleges to look at the estate needs of the future—not what they need to maintain what they currently have but what they will need five, 10 or 20 years down the line. It is almost future proofing the situation rather than maintaining crumbling estates—as some might say—as they are. It is thinking about the future needs, which will change. There are all sorts of reasons, including growth in technology, why colleges' estate needs will be different in future, so it is right that any plans that are made are focused on that, rather than purely on what it would cost to fix what colleges currently have.

Alan Brown: Thank you.

The Convener: To follow up on one of Alan Brown's previous questions, on page 17 of the report you say:

"College auditors have reported financial management capacity issues at some colleges".

Is there a link between the colleges that have financial management capacity issues and the colleges that are at very high risk of financial unsustainability?

Stephen Boyle: Colleagues might have that detail, convener. However, you might expect me to say that when, in particular, public sector bodies are under pressure—for example, in their financial position—they will very quickly look at what might be termed back-office functions to support savings plans. However, in going through change, financial pressures and reform arrangements, they need to make sure that they have the right balance between support functions and front-line service delivery arrangements.

I do not characterise it as a universal issue but, in the wider scope of audit, we ask auditors to report publicly on what arrangements were like for delivering financial balance and financial management in the round—for example, on whether they were able to support an annual audit—and some auditors have drawn attention to some of the capacity constraints that exist in colleges. On whether there is a direct connection and whether that is indicative of financial pressures, it can be, but that is not always the case.

If anybody wants to add to that, they are more than welcome.

Ray Buist: We have not set out that information in the report, and we do not have it with us today, but we can certainly commit to writing to the committee, if you are interested in having that matching of audit management issues.

11:15

The Convener: I just wanted to query it because, if some of our colleges are at very high risk, and if those same colleges do not have financial management capacity, that is a serious concern. I just wanted to get further information on that.

Stephen Boyle: We are happy to look at our records and get back to the committee on that in writing, because it is one indicator of financial health and stress in the system.

The Convener: That would be helpful. Thank you.

I call Dawn Black.

Dawn Black: I want to stick with the theme of financial sustainability. We hear repeatedly that multiyear funding is needed in organisations in all sectors. What are the barriers to having a multiyear funding approach that could enable colleges to plan and invest in a more strategic way? As Alan Brown mentioned, some colleges have had single-year uplifts, but that gives them only short-term relief. How do we get to a point where colleges can begin to put a medium-term financial plan in place to better ensure that they are sustainable into the future?

Stephen Boyle: Medium-term financial planning should be a hallmark of every public body, regardless of whether they receive multiyear funding arrangements. This probably speaks to some of the recommendations that we have made in previous years, but there is a certain ambiguity facing the sector. In that respect, I am thinking of much of the work of the Scottish Funding Council; if you go back five years or so, you will find that, in an earlier iteration of its review of the sector, the Funding Council recommended multiyear funding arrangements as necessary. We will take a keen interest, as I am sure the committee will, in the finalisation of the college sector of the future work that is due to conclude towards the end of the year.

The status of the sector has changed over the past 10 or 15 years. During that time, Scotland's colleges have become public bodies. Prior to that, they operated differently—for a start, they were able to hold reserves—and those arrangements were then moved into aligned charitable and arm's-length foundations. It matters that the position is settled and that there is clarity because, at the moment, the sector is almost waiting for confirmation of multiyear funding arrangements.

Indeed, it has been waiting many years for that. Whether it comes or not is, of course, a policy matter to be decided by Government, but clarity is needed on the extent to which they will or will not have the financial flexibilities that they are asking for. At the moment, it feels like something of a halfway house, with colleges getting financial support when they need it from the Funding Council.

That brings me back to Mr Brown's point about whether such an approach is equitable across the sector. Can colleges plan for future service models if they do not have all the levers and the clarity that they need? The best outcome would be for colleges, the Funding Council and the Government to be clear on what is going to happen. That is why it is so important for the college sector of the future review to be settled as quickly as possible.

Dawn Black: My next question follows on partly from that, but also from other things that have been mentioned this morning. There are the front-of-house and back-of-house functions to think about, but there is the infrastructure, too—that is, the actual buildings that the colleges work in. It is good that a college infrastructure investment plan is coming forward, but how likely is it to meet the capital funding that is required for what is becoming a crumbling estate?

Stephen Boyle: Ultimately, that will be a decision of prioritisation for the Government with regard to the funding that is allocated to the sector—by which I mean not just revenue funding but funding for the management of the estate that you have just referred to.

Of course, estate management is not just about funding; it is also about how buildings are used and having, as Derek Hoy has suggested, a clear and rational approach to what the service models will be, how technology might change the use of the estate and the extent to which there is hybrid course provision or whether it all happens on site. It is all connected, but it will come down to the prioritisation of the funding that Scotland's colleges receive relative to the Government's other priorities.

Dawn Black: That was helpful. Thank you.

The Convener: The Government has made much of the 9 per cent increase this year, but a lot of that has been consumed by severance payments and pay. In terms of what that is delivering, it seems to be keeping the lights on, rather than delivering any sort of meaningful change or reform.

We have talked about the number of colleges that are at high risk with regard to their financial sustainability. Is there one college that has

transitioned from high risk to stable purely because of this year's uplift? You have mentioned West Lothian College, but there are a number of factors in that regard. Are there any colleges that have moved to a more sustainable position because of the uplift?

Stephen Boyle: My colleagues might have that specific detail.

Ray Buist: I think that we mention the issue in the report. From speaking to the SFC about the impact that the 9.3 per cent revenue uplift for colleges could have, I think that it recognises that that delivers some short-term relief for colleges, as you have described, but it also takes the view that it will not have a material impact on the long-term sustainability of the sector. That is why we conclude that we need more clarity in this area. There is ambiguity about how much sustainability exists and how much reform is needed.

The Convener: It suggests that the funding system remains fundamentally broken if it is not improving the situation significantly.

Stephen Boyle: Colleges are having to live within their means. As well as making savings, another option that they have taken is to reduce service provision. On a national basis, over the past two years, there have been 70,000 fewer course enrolments and a near 16 per cent reduction in student head count. That is partly connected to the Scottish Funding Council reducing the credit threshold or the amount of services that must be provided. Funding is really important to support financial balance, but it reflects what colleges are here to do, and colleges are having to take difficult decisions about what courses they can offer.

We have not been able to conclude in the report what that means for the future. Are colleges delivering for their local communities and supporting businesses in the way that they would want to?

The Convener: We have had a 195 per cent increase in the collective fiscal deficit of colleges—that is nearly three times the previous position—and a quarter of Scotland's incorporated colleges now rely on emergency funding cash advances just to maintain daily operations.

We have covered a bit of this already, but at what point do those temporary advances risk becoming permanent, unrecoverable bailouts? Given that we have these deficits, which look like they are increasing, what would trigger Audit Scotland to declare that an individual college was financially unviable?

Stephen Boyle: We would definitely do that individually, following the conclusions of auditors, based on the evidence that they gather. As I

mentioned, auditors in the public sector in Scotland who are appointed by me or the Accounts Commission are required to make conclusions on financial sustainability.

All committee members will be familiar with the fact that, in a private sector context, the audit opinion that an auditor makes includes whether something is a going concern. That typically involves a 12-month forward look, based on the assessment that the directors of the organisation have made. For public sector auditors in Scotland, the process goes further, and there is a medium-term analysis of how financially sustainable an organisation is or is not.

Through the work that Derek Hoy and Ray Buist do in engaging with auditors throughout the course of the year, I receive intelligence that enables me to say whether there are particularly acute financial pressures on an individual college, and I will then take a view as to whether to produce a statutory report for the committee on the conclusions that the auditor has made.

However, your wider point has reflected what we say in today's report, which is that financial pressure remains an issue in Scotland's college sector.

Miles Briggs: Good morning, Auditor General. Thank you for joining us. I will return to themes that other members have touched on, because I was interested that you did not suggest any more recommendations as part of the report.

Given what has been put forward by Colleges Scotland on future sustainability, for example, was there no opportunity to look at a sector that is completely reliant on the funding that the Government decides that it will get? Any solutions to get the sector to a better place purely rest on the Government giving bailouts or significant additional sums of money.

Could you have looked back at what Colleges Scotland highlighted around potential diverse income streams and the private sector being more directly involved in the delivery and funding of courses, considering the huge issue of the future capital spend and need of the sector? I can understand the rationale for trying not to add more to a problem, but I wondered whether you had considered trying to find solutions.

Stephen Boyle: We thought carefully about whether to repeat recommendations that we had made in previous years. I refer the committee to appendix 1 in today's report, where we make an assessment of the progress made on the recommendations that we made last year. We also thought about value, repetition and impact.

As we set out on page 6 of the report, the fact that we have not made any new recommendations

is unusual, but so is the reason why. It is the Scottish Government's view that the work that is being undertaken in the Scotland's college sector of the future workstream will address the recommendations that we made in previous years.

For us, the pace is what really matters. It is a sector that, for some of the reasons that you have outlined, needs clarity in its roles, responsibilities and funding arrangements, whether those are multiyear or otherwise. It has matters to tackle in its estate and in the contributions that it can make to its communities and local businesses.

Miles Briggs: What is your opinion on the impact that clawback is currently having on the sector? I used to raise that consistently when I sat on the Education, Children and Young People Committee last session. It seems quite strange for an institution to be given money and then have it taken back, purely because it has not achieved the right head count. Being able to get more students in the future will not be easy when the money has been grabbed back. Have you done any work on that as part of the report?

Derek Hoy: I can talk about that. Changes were made to the funding allocation model in 2023-24 that were, in general, targeted at reducing the likelihood of funding recovery. Things such as a 10 per cent lower credit threshold were accompanied by an increase in the price per credit paid. In essence, colleges could deliver 10 per cent fewer credits without a reduction in funding, which created a bit of headspace for them to do other things.

Various changes were made around that time. The calculation that the SFC made suggested that, if those changes had not been made, clawback could have been in the region of £12.5 million. In reality, because of the changes, it was £1 million, and the changes remain in place. We are awaiting a more fundamental review of the funding allocation model, but the changes in 2023-24 seem to have reduced the likelihood of funding recovery for colleges.

Miles Briggs: That is helpful.

The huge issue with the Office for National Statistics classification was touched on. Are there any flexibilities in that? It seems that, until we test it and see where colleges could potentially start to borrow money as institutions, there will be no flexibility for them, and things will just get worse, as we are seeing. On the ability of colleges to invest in the future, to hold reserves and to maximise their finances as they currently stand—as I say that, I am not quite sure what they could do to maximise any finances—could borrowing get them into a much better place, as with other institutions that have the power to do that?

Stephen Boyle: I am cautious about giving a view—

Miles Briggs: I know that that is a political decision.

Stephen Boyle: Indeed, but I recognise that the change in the status of Scotland's colleges, and the impact of that on the sector, is a long-debated topic.

11:30

As I said earlier, I think that the issue is clarity. I do not think that it is helpful that the matter of classification remains unresolved for the sector. Colleges need to move forward with a clear understanding of the constraints, or otherwise, on what is available to them, whether they can borrow and what that means for multiyear funding arrangements.

Briefly, on your point about the ability of Scotland's colleges to generate additional income, we looked at that in section 3 of the report. Again, I think that it speaks to something that I hope that I have made clear this morning: this is a resilient sector, and it is making difficult decisions and looking for other income sources.

In the report, I give examples of a couple of case studies that we undertook during the audits at Glasgow Kelvin College and North East Scotland College. Colleges are all responding to the individual community circumstances that they face. However, the ability of colleges to do that is variable. In exhibit 9 in the report, we set out some of the barriers that Scotland's colleges are telling us about—the factors that are relevant to their ability to undertake business development activities.

Those are the variables at play with regard to income generation: clarity around funding arrangements, public body status, and borrowing and multiyear funding arrangements. That comes back—I hope that you do not mind me repeating myself—to the real need for clarity, on the completion of the public service reform process, as to what the sector is here to do, so that it can fulfil its duties to people going through college and using its services and to local businesses.

Miles Briggs: Last week, we touched on the unauditing—if that is even a word—of the apprenticeship levy. Are there any reforms around that which would involve looking for additional income streams? There is a clear connection between businesses who pay into that scheme and the skills that they are looking to have developed for their businesses and, therefore, the ability to access that money. Those are significant sums of money—off the top of my head, £180

million was potentially allocated for Scotland—so that could be another available income stream.

Stephen Boyle: It was not a key feature of our work as part of the college overview this year, but, as ever, we are mindful of its importance, and I think that we can reflect on that point as we develop the scope for future activity in this report. As we touched on last week, we can factor that into our future programmes as we follow up on the progress of post-school education and skills reform.

The Convener: With regard to the questions about the recommendations not still being outstanding, your previous report talked about plans being put in place within 12 months and the importance of positive reform to transform our colleges for the future, and the timing of that. There is a plan due to be published by the Government later this year. Can I take it from what you are saying that, given the current financial risks to it, the college sector cannot afford for that to be delayed in any way into the new year?

Stephen Boyle: I do not think it would be helpful if there were delays. In my view, given the challenges that are facing the sector, and the Scottish Funding Council's assessment that more than half of Scotland's colleges are at high or very high financial risk, the sector needs clarity so that it can spend public money well and deliver outcomes for its students and for communities.

As we have touched on, there are a number of live workstreams, some of which relate to infrastructure, but it is important that pace is maintained in the wider programme.

The Convener: With regard to providing clarity to the sector, your report talks about the colleges receiving £21 million this year through the Scottish Government's plan to tackle child poverty. That is to support improved training and development opportunities for parents. It is part of the Scottish Government's plan to reduce child poverty by 2031—to which the Parliament recommitted just on Tuesday.

If the sector is part of that plan, I assume that clarity from the Scottish Government would be welcome as to whether that money is more than just a one-off, one-year payment. Has the Scottish Government given any indication of why it is only a one-year payment and not multiyear funding, when it is part of a longer-term plan?

Stephen Boyle: We have not specifically looked at that, but we can consider it when we look at the various funding streams as part of the preparation for our following report on Scotland's colleges.

We currently have an audit under way on the Scottish child payment, which will report before the end of the year. At the conclusion of that audit, we

will take stock of our work programme. As we have shared with the committee, we are considering when to undertake any further audit work on the progress that has been made towards meeting child poverty targets. We will factor all of that into our work, but that specific question may be for the Scottish Government or the Funding Council.

The Convener: Yes, I am sure that we will take it up with them.

Finally, I will ask about student head count, which you have talked about already. We have talked about a lot of numbers and budgets, but we need to fully recognise the impact that those have on students. The student head count has plummeted by 16 per cent, which is a drop of almost 40,000 students, and the number of course enrolments has dropped by more than 70,000. Both figures are now at their lowest level in a decade. Has that decade of decline been driven primarily by a lack of student demand, or is it a direct result of colleges intentionally shrinking course availability?

Stephen Boyle: The statistics that you mentioned are really important. There has been a reduction in the number of courses and in the student head count, with fewer people working in Scotland's colleges. Those statistics are indicative of some of the colleges managing finances in the ways that they need to in order to deliver—we have already talked about variability in the ability of colleges to generate additional revenue streams.

We also draw out in the report that three quarters or so of students fully complete their courses, with the non-completion rate nearly 13 per cent. Separately, about 20 per cent of student withdrawals from courses are undertaken for unknown reasons. Therefore, there are opportunities to better understand the learner journeys that students are taking through Scotland's colleges.

One point of resilience that I will reiterate is that students are generally happy with the services that they receive from Scotland's colleges—there was a 95 per cent satisfaction rate in the sample that was undertaken. There is resilience, but there is also still significant pressure, and colleges are cutting their cloth to deliver services within the financial resources that they have available.

The Convener: That is certainly my experience of dealing with my local college. Student satisfaction is high and colleges are resilient, but they are under significant pressure, which we have seen from the significant reduction in the student head count.

Your report rightly warns not just of the impact on potential students but that, without urgent

reform, colleges may fail to deliver for employers. You also talked last week about the importance of having joined-up education and economic policies. How has that decline in student head count impacted Scotland's key growth sectors, and has Audit Scotland quantified the broader economic cost of that reduction on the regional workforce?

Stephen Boyle: We have not done any dedicated audit activity on the connection between economic performance and some of the challenges that Scotland's college sector is facing, but we are actively thinking about undertaking some audit work on economic development activity. We have not set out the timescale or scope for that work yet. However, I reiterate the point that I made to the committee last week about the success—that is, having better outcomes and better value from public spending—that will come from having a more connected policy and delivery landscape than has been the case.

The sector is not operating in isolation. The success of outcomes for people who pass through colleges will, of course, be felt keenly by them, but it also affects the contribution that they can make from an economic perspective. We are thinking carefully about what future audit work we can undertake in that space.

The Convener: That is welcome, because it is difficult to see how the Scottish Government or the Scottish Funding Council could argue that their national skills targets are being met or that they are supporting economic growth with such a reduction in student head count.

Dawn Black: I will just follow up on that point about the reduction in college student numbers. To what extent does the increase in apprenticeship numbers and the uptick in apprenticeship schemes actually impact on college courses? It used to be that people who wanted to do vocational courses went to college to do them, but now they have another potential pathway.

Stephen Boyle: That is a really important point. We have to understand why there has been such a significant change. As well as apprenticeships, there are also higher education options.

In the report, we note that about 85 per cent of students go on to positive destinations. However, we do not have the granular detail that sits beneath that statistic about what happens thereafter. The statistic might not be indicative of a successful transition into longer-term employment, because "positive" also includes short-term and interim arrangements.

I agree with the point that better data supports our understanding of the choices that people make, whether they are in further education, apprenticeships or higher education. It is also vital

to know what happens thereafter and whether they made a successful choice or otherwise.

Derek Hoy: In response to the deputy convener's question, and one of the convener's previous questions, I point to one of last year's recommendations, which was that the Scottish Funding Council should carry out some analysis on unmet demand in order to understand demand among students and employers and what is not being met. It is important to highlight that, as far as we know, that analysis has not yet been done as part of the review of the funding model.

To cover both lines of questioning, I hope that the analysis will provide some information on what is missing and on what learners and employers are looking for.

Alan Brown: I was about to ask about unmet demand, which you just touched on. You recommended that the analysis should have been undertaken last year. Does it not need to be done alongside the work and reports on future costs and future investments? We need to understand course demand and actually plan for the outcomes. Is it not a key piece of work that needs to go alongside the other work?

Stephen Boyle: That is a really important point. Understanding what happens to people, whether they are able to access a college course or not, means that there can be a rounder assessment of whether the investment that supports various streams of public funding is delivering as intended. The committee might wish to further explore that with the Government and the Scottish Funding Council.

Alan Brown: To go back to the 40,000 headline figure, it might be because, in some cases, people are, as you said, going into higher education or taking up apprenticeships. Whose responsibility is it to analyse that data? Do we know how the 40,000 reduction is spread across colleges? Is there a much bigger reduction at certain colleges? Do we know the demographic spread in terms of the student number reduction? That is also really important.

Stephen Boyle: I think that the Scottish Funding Council collects and reports on the number of student enrolments at individual colleges. I do not have that detail to hand, but we can certainly point the committee to those statistics.

To address the point about responsibilities, I would note that, in light of some of last week's discussion at committee on post-school education and skills reforms, one change that has been made is that the Scottish Government itself has taken more of a direct responsibility for skills planning arrangements. Reliable data is fundamental to understanding that, to supporting

policy decisions and then to assessing whether the outcomes intended from those policies are actually achieved.

Alan Brown: Returning to the unmet demand analysis, what is required? If there are 40,000 fewer people at college, is that because of fewer applications? Do we know the trend in applications compared with successful entrants?

11:45

Derek Hoy: That information is missing, Mr Brown. There are various parts to the analysis. It is about understanding the demand and where it comes from. Has the level of demand decreased? Is it the case that not as many students are looking to attend college in the first place, or are there still as many as there ever were, or possibly more, but that colleges do not have the capacity to take them in? That is the fundamental reason why we included the recommendation in last year's report and carried it forward this year.

Alan Brown: We also need that information to understand which courses are oversubscribed, which are undersubscribed, and whether people who start a course are taking their second choice.

Derek Hoy: There are two important parts: learner demand and employer demand. What skills are employers looking for? What skills are learners looking for? Is there a mismatch? Are learners looking to attend courses that employers are ultimately not looking for? Understanding that will help to feed into the discussion on whether our colleges are delivering what the key economic sectors are actually looking for in terms of skills and future employees.

Alan Brown: Are there any timescales for the SFC to produce the unmet demand analysis?

Derek Hoy: Ray Buist might be able to say more, but I believe that it will be produced as part of the funding model review that will take place over the next couple of years or so. I do not know when that specific analysis will take place, but it will be part of the funding model review.

Ray Buist: As we point out in appendix 1, the SFC is progressing the recommendation to identify and understand unmet demand as part of its fundamental review of the funding model. That work is ongoing, and the expectation is that recommendations will be due at the end of 2027 and for any changes to be implemented in the academic year 2028-29. I expect that addressing the unmet demand recommendation will go hand in hand with that piece of work.

Alan Brown: I will get this clear in my mind: we have a college of the future report coming out imminently, and we have a future investment plan

coming out imminently, but the actual college funding model review is coming later, and the unmet demand analysis will follow those reports. Is that not a bit out of kilter, potentially?

Stephen Boyle: What we have found through our work is that reviews are regularly undertaken. The sector is perhaps no different from others in that respect, but the pace of the delivery of recommendations is not always aligned with what was initially intended. I accept your wider point, which is that it is clear that reviews of future provision, demand and funding arrangements are all important, but the alignment and scope of those reviews have to be really clear.

We will welcome the next steps and the clarity that that provides and we will take a view thereafter about what it means for future arrangements, but a lot of ongoing threads need to be addressed.

Alan Brown: Thanks.

The Convener: There were some really important points there that I am sure that we will want to take forward.

Thank you for your evidence this morning. We look forward to taking further evidence on the issue in due course.

11:49

Meeting continued in private until 12:19.

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