

AUDIT COMMITTEE

Tuesday 30 October 2001
(*Afternoon*)

Session 1

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AUDIT COMMITTEE

15th Meeting 2001, Session 1

CONVENER

*Mr Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Mr David Davidson (North-East Scotland) (Con)

COMMITTEE MEMBERS

*Scott Barrie (Dunfermline West) (Lab)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*Paul Martin (Glasgow Springburn) (Lab)
*Mr Lloyd Quinan (West of Scotland) (SNP)
Mr Keith Raffan (Mid Scotland and Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Mrs Margaret Ewing (Moray) (SNP)
Barbara Hurst (Audit Scotland)

WITNESSES

Mr Greg Cooper (Moray College)
Mr Ian Kerr (Moray College)
Mr Ian Urquhart (Formerly of Moray College)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Seán Wixted

LOCATION

The Hub

Scottish Parliament

Audit Committee

Tuesday 30 October 2001

(Afternoon)

[THE CONVENER opened the meeting at 14:02]

The Convener (Mr Andrew Welsh): Welcome everybody. I have received an apology from Keith Raffan. Are there any other apologies?

Scott Barrie (Dunfermline West) (Lab): Lloyd Quinan did not seem to know that there was a meeting. I presume that he meant to give his apologies, because he is attending the European Committee.

The Convener: If there is a clash of committees, we will take that as an apology.

Items in Private

The Convener: Do I have the committee's agreement to take agenda items 2 and 6 in private, both of which are housekeeping matters concerning Moray College?

Members indicated agreement.

14:03

Meeting continued in private.

14:11

Meeting continued in public.

“In good supply? Managing supplies in the NHS in Scotland”

The Convener: We move to item 3. I make the usual announcement about turning off mobile phones and pagers.

A copy of the Auditor General's report, “In good supply? Managing supplies in the NHS in Scotland” has been given to all members. Barbara Hurst, who is the director of performance audit at Audit Scotland, will brief the committee on the report.

Barbara Hurst (Audit Scotland): The report, which we published earlier this month, covers an important and pretty large area of health service expenditure that is estimated at around £600 million per annum. Supplies management covers a wide range of goods from uniforms, surgical gloves and stationery through to a wide range of services such as catering and repairs to medical equipment. Although supplies in the health service do not have the same public profile as clinical services, they are pretty important: it would be difficult to support patient care without them. That is the background on why we considered this area.

“In good supply? Managing supplies in the NHS in Scotland” is probably one of the most critical baseline reports that we have published to date. A succession of reports have been published over the past decade or so. All of them have really said the same thing and not much has happened. We probably endorse most of what those reports have said. We believe that there is significant room for making savings in the management of supplies in the health service, but without good information it is difficult to put a figure on how much those savings would be.

In essence, the report has four key messages. First, basic management information on supplies management is poor. That means that it is difficult to monitor supplies management performance. In particular, it is difficult to put a confident figure on what supplies are costing and monitor the performance in terms of how supplies are actually being used. If the health service is to proceed with performance monitoring in an active way, it must tackle the availability of information.

The second key message covers issues around national contracts. National contracts are in operation for supplies, but there is little consensus about what should be contracted for at national, regional or local level. That leads on to the third point, which is that although there are national

contracts they are not considered mandatory, so quite a few trusts use them as a starting point for their own negotiations with suppliers.

14:15

I want to make clear that we are not recommending centralisation of all supplies procurement. One model will not fit all. Just in time purchasing is an example of that: it is great for trusts in the central belt, where there are good transport links, but it would not be such a good option for a trust that serves a rural area. I want to make that point clear to the committee.

The national health service has significant purchasing power so, where it is appropriate, national contracts would be a way of getting better value for money.

Finally, one of the ways forward is for much more to be done using information technology, specifically using e-commerce for the purchasing function and using IT to support the management of supplies within the trust.

Having said that those are the key messages, I want to pre-empt a question about whether this is going to be another supplies report that sits on a shelf somewhere and gathers dust. We are fairly confident that that will not be the case, for two reasons. First, Audit Scotland is working with a group called the strategic alliance partnership, which is a group of procurement managers in the NHS. We are working with it to develop performance indicators on supplies management, which we will use to monitor progress in this area and bring back to this committee. Secondly, we will report back to the committee. That will provide a major impetus for driving change in supplies management in the health service.

The Convener: Thank you very much for that comprehensive introduction. Do members have any comments?

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I was involved in some issues in relation to previous reports, the impetus of which was centralisation of procurement. We seem to have moved away from that again. We are swinging one way then the other. Your report shows that for the past 20 years detailed work has been undertaken, yet no one seems to have taken ownership of it.

There is a lack of trust that individuals are procuring at the best price, hence trusts taking the national contract price as a starting point and negotiating downwards. That suggests that we have a problem, as it has shown that people can save pence, pounds and even hundreds of thousands of pounds in some cases. How can we tackle that to ensure that there is trust within the trusts?

Barbara Hurst: You have put your finger right on it. There is tension between national agreement making and being able to get a better price. Our suspicion is that a trust can get a better price if it is one of the bigger trusts with its own purchasing power. We think that there should be much more of a national lead, to get some better prices up-front nationally, rather than attempts to get those prices in pockets around Scotland.

We want to see change at a local level, which I think we will do if we can get performance indicators in and trusts realise that we are reporting back on that to this committee. We must also see change at a national level in national contracting.

Mr David Davidson (North-East Scotland)

(Con): In the past—I have no connection with it now—I was involved with a pharmaceuticals distribution company that also did sundries and so on. We were in the vanguard of purchasing systems with the NHS in that sector, which you report on favourably, although it was not necessarily the bee's knees. One of the biggest impacts of that work was the provision of an invoice with goods, which is a huge on-cost. I wonder why that was not a stronger recommendation—although you commented on it—as, at a stroke, it would speed up the administration. One of the bogeys in any large organisation is having a piece of paper with goods at one end of a system and somebody else having to look at another piece of paper that they have to match up. I thought that invoicing goods would have been standard practice throughout the hospital service by now. I am surprised that more attention is not being paid to that.

Through work in pharmacy, I have experience of the way in which local deals are made. Often, several companies are able to meet the contract price but some may offer local incentives and be able to deliver something locally that they could not deliver nationally. That needs to be teased out. If you are going to do more work on that, you should gather some evidence to discuss with those who are involved.

However, what leaped out of the paper at me were the passing comments about the management executive. I was under the impression that it had a responsibility in this area and offered leadership. You seem not quite to have passed it by, but to have been very gentle with it. What did you get from the management executive and why did you pay so little attention to that aspect at this stage of the report?

Barbara Hurst: I shall address your questions one at a time, beginning with the invoice with goods. We will certainly pick that up in the follow-up work that we are doing. I take your point and will not come back with a defence explaining why

we have not put enough emphasis on that. We will follow that up.

Your point about local incentives in pharmacy raises an interesting issue. We are pursuing some work on hospital prescribing, which we are kicking off just now. In some ways, it would be better for us to pick up those specific pharmaceutical concerns in that context.

The most difficult issue concerns the management executive. In part, that difficulty is historical. When we kicked off this work, we did not have a locus in auditing the management executive. We brought that aspect in towards the end of the reporting stage. We did not want to duck the issue, as we think that there has not been a national lead or a drive in supplies management. We wanted to make that point, but we did not feel able to make it strongly because we were not auditing the management executive at that point. Nonetheless, we wanted the point to be made in this report so that we could follow it up and ensure that the management executive is taking a national lead in this area. It is astute of you to pick that up in the report.

Mr Davidson: It helps if one has a little knowledge, even if it is out of date. It is important that the management executive plays a key role. It is a bit like some of the work that we discussed previously regarding the roles of the relevant Government agencies, the advisory board and whatever else in the chain. We are considering what you have come up with across a major part of public life and public expenditure in Scotland, and it is important that you delve into all the nooks and crannies. I accept totally what you have said and I look forward to the outcomes of your further deliberations.

The Convener: There are no more questions or comments.

This is a very important report and the statistics are quite impressive. It details the second largest expenditure heading in the NHS: £600 million a year for a massive range of services and items—more than 100,000 items worth £250 million and involving 800 suppliers—but there is poor data and information. What you have presented is a baseline report. A follow-up report will be published. We can wait until we hear more detail before we decide whether to call for evidence. I wish you success in your investigations and we look forward to receiving the follow-on reports. Is that agreed?

Members *indicated agreement.*

Audit Scotland (Corporate Plan)

The Convener: Item 4 is the corporate plan for Audit Scotland, copies of which have been included in members' papers. I invite the Auditor General to outline the plan to the committee.

Mr Robert Black (Auditor General for Scotland): Members of the committee will recall that, in early September, I presented to you a strategic statement that set out the priorities and the direction for public audit. We had a dialogue at that point and the committee expressed its general support for the direction in which Audit Scotland would be moving.

The next stage was to finalise a corporate plan, which will function as an action plan for Audit Scotland. Members have a copy of that plan for their interest and information. The plan runs until 2005 and sets out a vision for Audit Scotland. It also sets out what happened during Audit Scotland's first 18 months and the priorities for the next 18 months. The plan's final section indicates how we intend to measure and report on progress and performance within the organisation.

The vision is about better delivery of public services and better management of public money. Audit Scotland must contribute in those areas to prove its worth. We will do that through the application of rigorous standards of public audit across all public bodies and against the background of the expectations and priorities in the strategy that I have shared with you.

One of the areas where we will have to be especially active and vigilant is in ensuring that audit by Audit Scotland is co-ordinated well with the panoply of inspection activity throughout Scotland. We are working closely with HM inspectorate of constabulary, HM fire service inspectorate and with other regulators, such as the Clinical Standards Board for Scotland.

Pages 5 to 10 of the corporate plan outline what has happened during the first 18 months of Audit Scotland's existence. I do not intend to go into that in detail, but I would be happy to answer the committee's questions. The organisation's activity divides into three parts. We have been sorting out the governance arrangements of Audit Scotland and are just about there on that. We have been creating the organisational structure, appointing staff, matching staff in, and creating an appropriate package of pay, terms and conditions and so on. A huge amount of activity has gone on in that area, as you might imagine.

At the same time, however, I think that we have kept our eyes on the ball. We have brought in tighter deadlines for completing and reporting audits—particularly in local government—with

some success. Over the year, we have published more than 40 reports and 25 technical notes. They are listed on page 23 of the plan's first appendix.

The next 18 months' priorities will take us firmly ahead on the road to 2005. Within the framework of the mission statement—which is now agreed and is set out in the corporate plan—we have developed a set of values that will govern how we do our business. The values are to do with people, performance, communication, good management of the organisation, and the basic value of integrity, which will govern and drive everything that happens in Audit Scotland.

Within that framework we have adopted six priorities for the next 18 months or so. The first is to deliver the audit. The second is to support democratic scrutiny, which is primarily the work of the Audit Committee and the Accounts Commission. The third is to maximise the value and benefit of audit. The fourth is to create an integrated organisation with good business processes. The fifth is to support the learning and growth of our organisation—for the record, that does not mean expansion, but growing the organisation's capacity and performance. The sixth priority is to address the agenda of applying best value principles to our organisation.

The next section of the plan, from pages 14 to 19, has a description of the activity that we intend to undertake under each of those six headings. At the end of the plan we draw together our measures of performance. Page 22 has a summary of the key performance indicators that we will put in place and report on in the Audit Scotland annual plan. In appendix 2—page 25 onwards—members will see that against each of the main themes that I have outlined there is a summary of the action that will be taken, along with a time scale and an indication of how delivery will be measured.

I know that the Audit Committee always has a full agenda and we had a constructive discussion in September about Audit Scotland's strategy. It is probably appropriate that the committee concentrates on the strategic direction. However, I am happy to answer the committee's questions and receive comments on the corporate plan, which is the next level of activity. Now that the corporate plan is in place, there will be further planning to produce business plans and performance review systems within Audit Scotland.

The Convener: I thank you for packing a great deal in to a short statement. There are no questions, so you have satisfied everybody.

Auditing more than 200 bodies is an impressive record for an organisation that is only 18 months old. There are three audit reviews, four statutory

reports, two overview reports, 33 performance audit reports, two introductory leaflets for stakeholders, a new code of audit practice and a statement of responsibilities of auditors and audited bodies. You have not been—and with the future programme, you will not be—unbusy. I look forward to the results of your work as the public financial watchdog.

I thank the Auditor General and Audit Scotland.

Moray College

14:30

The Convener: I welcome our colleague, Mrs Margaret Ewing MSP. Questions have been allocated to committee members and they will get priority, but Mrs Ewing should let me know if she wishes to contribute. I will try to accommodate her request.

We return to the Auditor General's report on governance and financial management at Moray College. This is the committee's second evidence-taking session on the report—we have taken evidence from Dr Logan, Professor Sizer and Mr Frizzell. There has been an overview and we will now focus on the college itself, take evidence from people who were there and receive information on what happened.

I welcome Mr Ian Kerr, who is the chairman of Moray College board of management, Mr Ian Urquhart, the recently retired convener of the finance committee of the board of management, and Mr Greg Cooper, who is the former acting principal of the college. I thank the witnesses for attending.

Before we move to questions, does any witness wish to make a brief opening statement?

Mr Ian Kerr (Moray College): I do, thank you. I am grateful for the opportunity. I have been before the committee before and am aware of how it does its business.

I refer members to the written statements that we provided. I do not intend to address issues that are dealt with in the statements, but I would like to draw attention to the fact that the college has moved forward considerably since the investigation that began in summer 1998, and since the report to the Scottish Further Education Funding Council meeting in February 2001 in particular.

The process of achieving all the actions arising from the recommendations of Professor Sizer's report and the financial appraisal and monitoring services report has been undertaken in a complex and demanding set of circumstances. The college identified a number of additional, significant problems that had to be addressed alongside the matters that were identified in the external reports.

It has therefore taken longer to meet all the recommendations than might be thought reasonable if the issues were considered in isolation. The appointment of a new principal, who took up post in April 2001, has ended a long period of uncertainty and provided a solid base for future development.

The Convener: In today's session, we will ask questions on whether initial allegations of impropriety at Moray College were brought to a satisfactory conclusion, on why the college took so long to remedy the weaknesses that were identified and on why the college has incurred a financial deficit of £2.5 million.

I will start by asking Mr Kerr some general questions. What was the role of the board of management at Moray College? How did that fit into the framework of accountability for expenditure of public funds?

Mr Kerr: The role of the board of management has successfully changed in the time that I have been involved with it. The board started with the belief that its job was to support the principal in all his endeavours. There is nothing terribly wrong with such a motive. However, over the years, and particularly since reports came to our attention, it has become clear that the board also has a supervisory role. We are much better at that supervisory role than we were in the beginning. I am sure that board members are more aware that it is not enough to support everything; they must monitor work too.

The Convener: When did the board know about the college's serious financial and managerial problems?

Mr Kerr: The blunt answer is that the board knew only when people sent letters south. Our then chairman, principal and a member of our audit committee were invited to St Andrew's House to be apprised of the complaint. That is when the board sat up and took notice.

The Convener: In your letter to me, you point to the principal and the relationship between the principal and the board as major problems. You say that the principal prevented documents from being distributed, decided agendas and controlled the information that reached the board. Surely the board had experienced members—did they not notice what was happening?

Mr Kerr: They noticed eventually. The members of boards of management are volunteers. People give of their time and talents. Perhaps the situation is different in larger areas, but in a small place such as Elgin, we demand much time from our people. I suspect that most board members accepted the agendas and information that they were given.

The Convener: Are you saying that board members realised that something was wrong only when the matter was reported and an external investigation took place?

Mr Kerr: Yes. Many board members might not have appreciated the chosen style of management, but I do not think that they fully

realised how serious some of the effects of that management style were until those effects were drawn to our attention. That is always a problem for people who are not involved in an organisation 100 per cent of the time.

The Convener: Were any issues raised before the external report was made?

Mr Kerr: Individuals raised issues about their treatment, a lack of good manners and an unfortunate management style, but they did not raise the larger issues. We read various suggestions in the press.

The Convener: Did the college's board of management obtain sufficient support and advice from the relevant Government department and the Scottish Further Education Funding Council to pursue its duties efficiently and effectively?

Mr Kerr: The quality and amount of advice improved. The board of management was not particularly helped. This is a factual statement—it is not a statement of blame. In the eight years in which I have been a board member, our superior—if I may use that word—has changed from the Scottish Office to the funding council. The efforts of those bodies were identical, but their styles were different. The situation is improving all the time. We are receiving more advice and guidance than we did.

The Convener: In your letter to me, you say:

"The relationship between the Principal and the Board needs to be defined in terms of agency within the framework of Delegation."

Are you not satisfied that the current funding council and Scottish Executive guidelines do that?

Mr Kerr: They are extremely helpful—there is no doubt about that. However, the board now has its own robust, tight scheme of delegation. The board knows what it expects of principals and others. It knows what can be delegated to the chair and similar details. We had assistance in producing our scheme.

The Convener: Having considered the general issues, I want now to focus on the specific issue of whether initial allegations of impropriety were brought to a satisfactory conclusion.

Scott Barrie: Before we move on, I would like Mr Kerr to clarify one thing that he said. You said that the board of management did not appreciate the former principal's style of management. Do you mean that you did not understand his style or that you did not agree with it?

Mr Kerr: Both. Some people are happy with an autocratic style, others are not.

Mr Davidson: Allegations of misconduct at the college were first made in 1998. The report shows

that the results of the department's examination of those allegations were presented to the college's board of management in July 1999. What was the board's initial reaction to those results?

Mr Kerr: The best word to describe it is shocked. The board was shocked by the details that the report provided and angry that such things had happened in its college.

Mr Davidson: Was there an initial feeling among members of the board that they had played a part in what had happened, or was it felt that they had—to use newspaper parlance—been sold out?

Mr Kerr: Both. My feeling was one of disappointment and a kind of outrage that we as a board had let some of the things that were described in the report happen. We then set about doing something about them. We think that we succeeded in that.

Mr Davidson: I want to go back to the time when the report was issued and everyone was in the state of shock to which you refer. How did the board get involved collectively in responding to the report and in coming to a conclusion? How quickly did that happen?

Mr Kerr: The board reached a conclusion by December 1999. The college's solicitor and I did a study of Professor Sizer's report, for two reasons. First, we wanted to ensure that it was accurate and to gauge our reactions to it. Secondly, we wanted to make a recommendation to the board about what should happen next. We took those actions on the evidence of a draft report. The final report did not appear until some months after that. After the solicitor and I had made our findings, a recommendation was made to the board that we should suspend the principal and initiate the disciplinary process. As members know, that was stymied when the principal became extremely seriously ill—so ill that he never returned to work.

Mr Davidson: In your letter to the convener, you pointed out that you failed to receive letters that should have been submitted to the board and that you felt

"remote from the staff and students".

As soon as the report appeared, did the board take steps to address those two issues?

Mr Kerr: The first thing that the board tried to do was to address what we identified as the main points in the report, which related largely to the then principal of the college. The other points were dealt with, but the priority was very much to address the comments that had been made about the senior manager of the college.

Mr Davidson: So you went from July 1999 right up to January 2000 before you decided to take

any action. From what you have just said, part of the reason was that you were deliberating and seeking to produce evidence, and you took legal advice. Did you contact the members of staff and student representatives who were on the board with you?

14:45

Mr Kerr: Yes. I tried to say that our priority in dealing with the report was, in the first instance, to deal with the matters concerning the principal. We tried to contact people. I repeat that the board did its best in difficult circumstances. Not only did we find it necessary to suspend the principal, we were not in a position to replace a body in the management team, and the number of senior staff at the college dropped at that time by one.

We also discovered that some of the managerial work that had been done had to be looked at again, because our previous principal was someone who did everything by himself and therefore there were no ready-made deputies to step in and pick up the situation.

All through the life of the board, as far as I can see, we have had a problem—I have said that we need to find another way of consulting the students—with student attendance and with students becoming part of the board. That may be partly to do with the size of the college. We need to be better at dealing with students. We also need to be better at dealing with the staff of our college. We have taken a number of steps to remedy those failings.

Mr Davidson: In the six-month period, how soon did the board conclude that it had to get intimately involved in running the college? Did that take months, or did it happen immediately?

Mr Kerr: It happened immediately. It was clear that we had been more remote than we wanted to be and than we should have been. We were keen to get involved.

Mr Davidson: In that case, my last point will give you another chance at the same question. Why did it take you so long to come to the conclusion that you had to embark on a disciplinary process?

Mr Kerr: It took us only three months. We got the report in September, and the board decided in December that the principal should be suspended. We suspended the principal from the beginning of the first week of January.

The Convener: How often did the board meet? Did you have extra meetings during the period?

Mr Kerr: Early in the board's life, there was a time when it met approximately once every three months, but as our awareness of the problems

grew, it got to the stage that the board was meeting approximately twice a month.

Paul Martin (Glasgow Springburn) (Lab): Paragraphs 3.6 and 3.7 of the Auditor General's report describe why the board decided not to proceed with disciplinary action against the former principal. Ultimately, you agreed to the principal's early retirement. Given the nature of the former principal's misconduct, how can you justify the decision to allow him to take early retirement?

Mr Kerr: This is a good opportunity for me to say that the board did not give the principal early retirement. The board's intention was to bring the principal before a disciplinary hearing. I could not prejudge what the result of that hearing might have been.

We took advice as Robert Chalmers's illness continued and we continued to get medical certificates. We took advice from our lawyer on how we should deal with that, and it became clear from that advice that we would be in extremely dangerous territory if we tried to hold a disciplinary hearing when the principal was absent. We were quoted the Disability Discrimination Act 1995, which carries a penalty without financial limit. We then received a request from the Scottish Public Pensions Agency to agree a date for the principal's retiral on health grounds. We were not asked to approve his retiral; we were asked simply to agree a date, because the SSPA had decided that the principal qualified for a pension on health grounds.

Paul Martin: So you took the decision because you were contacted by the SPPA during that period. The only reason that you decided that early retirement would be the route to take—

Mr Kerr: I am not making myself clear. We did not decide the early retirement. We were stymied in our attempts to bring the principal before a disciplinary hearing because of the advice we received about his health.

Paul Martin: An important point, which has been raised previously in the committee, is why the matter was not reported to the police. I am sure that there are many colleges throughout Scotland where there have been issues of misconduct and fraudulent claims. I would expect all such issues to be reported to the police, but no contact was made with the police about this serious issue.

Mr Kerr: The convener has a letter about the situation from our present principal, which the principal agreed to provide after the committee's previous meeting.

The report was not Moray College's report. It was carefully pointed out to me in all the meetings that I had with the chief executive of SFEFC that

there were certain things we could not do with the report without SFEFC's permission, such as show it to various people. The findings were not the college's findings, because we had not gone through the disciplinary hearing. At the same time, our legal advice was that there were no grounds for criminal proceedings on the prima facie evidence that we had had before the committee. The matter arose, but it was not proceeded with because of the advice that we received.

Paul Martin: Is there not an important point here? Surely it should have been for the police to decide whether there was any prima facie evidence that could have been made available. Have there been examples of misappropriation in the college's history, in which people have been reported to the police? I am sure that there have been instances in colleges throughout Scotland where people have been reported to the police and the matter has been allowed to be subject to a police investigation.

Mr Kerr: I cannot really add to what I have said. Our advice was that that was something we should not do. Also, we were always conscious that it was not our report.

Paul Martin: You are saying that the legal advice to the board advised you that the matter should not be reported to the police.

Mr Kerr: No. When the question arose of the possibility of reporting the matter to the police, we were advised that that was not a course of action that we should take.

The Convener: The other witnesses should feel free to intervene.

Mr Kerr: Mr Cooper, who worked with me during the interim period, might want to add to what I have said.

Mr Greg Cooper (Moray College): It has to be remembered that most of what has been discussed so far took place before I was acting principal. However, I was aware that there had been preliminary discussions about the possibility of approaching the police in respect of what was contained in Professor Sizer's report and the conclusions of the chairman and the lawyer, who had reached a recommendation to the board that there was a case for the principal to answer. My understanding is that that was not proceeded with because the issue was about the Nolan principles as opposed to a "caught with a hand in the till" kind of suspicion. It was on that basis that the college's legal adviser indicated that it did not appear to be a police matter.

Margaret Jamieson: If you are saying that the college's legal adviser gave that information, that certainly clarifies things. I have genuine concerns that the board of management did not understand

that it was there as a custodian of the public purse, and that it allowed the principal to do his own thing. When there was any difficulty the board ran to the college's legal adviser, but it did not seem to have an understanding of its obligations to the public purse.

Many colleges have evolved in the period of time in question, but your college appears to be the only one that has experienced this difficulty. All the colleges were, in effect, starting from a clean sheet of paper, so they were all having to find their way, to set up procedures and so on. Why do you think that your college was different from any other college?

Mr Cooper: Financial procedures and regulations existed. However, the financial appraisal and monitoring services—or FAMS—team found that the procedures needed to be updated, not just because that had not been done for several years, but because of the need to take into account some changes in the way that people were interpreting what was required of the colleges.

During this period, I attended a very instructive lecture by Professor Sizer on the history of accountability in the tertiary sector in the UK and specifically in Scotland. Professor Sizer's presentation boiled down to the fact that it does not matter what the rules, regulations and procedures say, there is sometimes tension between the behaviour of particular individuals and what is down on paper.

I repeat that the college was not criticised for not having regulations and procedures; the criticism was that the regulations and procedures had not been updated sufficiently recently and needed to be, and that they also needed to address some issues in more detail than had been done originally.

Margaret Jamieson: Forgive me, but I understood from Mr Kerr that board members were unaware of what responsibilities were delegated to them and to the principal. They felt that those at the centre—by which I mean the Scottish Executive and previously the Scottish Office—had left them on their own and that they were acting at the whim of the principal. I picked up that impression from Mr Kerr's comments.

Mr Kerr: I am sorry; that was not the impression that I wanted to give. I wanted to make it clear that the college was run by the principal.

Margaret Jamieson: Not by the board of management?

Mr Kerr: At the beginning, the board of management felt that its duty was to support the principal instead of to manage him. As one of our submissions points out, the then chairman, not the

board of management, managed the principal.

Margaret Jamieson: I want to tease out that point a bit more. Did you get that assumption from your letter of appointment, the principal or the previous chairman? How did people come to have that view?

Mr Kerr: The only answer to that question is that we were presented with items on agendas and that some things were done outwith agendas. Initially, the board was not given its place, which might well have been the board's fault. Although we are better now at getting our place, I am pretty certain that, to begin with, the board received rather than promoted.

Mr Ian Urquhart (Formerly of Moray College): Perhaps I can add some background remarks to what Mr Kerr said. The previous Scottish Office department—and now SFEFC—had a financial memorandum between itself and the colleges. The 1992 copy of that memorandum says that the principal

"shall advise the Board of Management on the discharge of their responsibilities under this memorandum".

With that statement, the Scottish Office education and industry department and the Secretary of State for Scotland put the principal in quite an important position. The statement also gives an idea of the reporting responsibility, because the principal, as the accounting officer, had to report to the secretary of state or the relevant department on matters of finance and even to advise the board on such issues. In subsequent issues of the financial memorandum, that wording is changed slightly. Nevertheless, the principal is in a very important position.

Mr Davidson: I want to clarify one point. At the time of the previous principal's reign—if you want to put it that way—were the members of the board offered any training as members? If they were not, did they ask for it?

Mr Kerr: Training has always been an issue for members of the board, right from the beginning. People asked for an induction and they got an induction. The quality of that left a bit to be desired. Events have moved on since then to the extent that the two bodies who are involved—the Association of Scottish Colleges and the Scottish Further Education Unit—are now producing manuals that will help board members understand the job that they have to do.

15:00

Mr Davidson: I accept that that is what is going on now because I have spoken to the ASC.

Many people on the board were involved in other activities; they were volunteers and that is fine. Did they think from their experience outside

that something was going on? Did they not question the principal?

Mr Kerr: It was rare for people to question the principal.

The Convener: Did you ask for information, Mr Urquhart?

Mr Urquhart: Yes, but asking for information was discouraged.

The Convener: Did you raise your questions with fellow board members? We are talking about financial regulations and procedures—very important documents. As board members you have legal responsibilities.

Mr Urquhart: A small number of board members were what you might call active governors in terms of trying to find out more and to learn, but that was actively discouraged. The difficulty was in not knowing what we could do. Some board members continually chipped away to try to make progress and that was eventually possible, but it was quite difficult.

The Convener: I thank Mrs Ewing for her patience.

Mrs Margaret Ewing (Moray) (SNP): I am sure that people from Moray will be pleased to see that I can be kept in order by colleagues in the Parliament.

I do not want to go on a witch hunt. I know a great deal of the background to what my colleagues are exploring. There is a little gap in my knowledge, which I have never been able to get to the root of, and would like a clear explanation of. It relates to what Paul Martin was pursuing.

The board decided to suspend Dr Chalmers as of 6 January 2000. That decision was taken in December. How was that suspension relayed to Dr Chalmers? Did it have to go through various authorities? On 10 January, Dr Chalmers submitted a sick line indicating that he had been medically unfit for work since 5 January and that he was to take an extended period of sick leave. It seemed to me—this was also local chat—that there was a coincidence there. I want to make sure that the board followed all the legal procedures at that stage in indicating Dr Chalmers's suspension to him.

Mr Kerr: Mr Urquhart will explain why he is answering that question.

Mr Urquhart: The background is that the college received the SFEFC draft report in the early autumn. An extensive investigation was immediately begun because the report belonged to another body and the college had to get its own information and evidence. As soon as an interim report was given to the board on something like 19

December—I cannot remember the exact date—the board was advised by the college solicitor and agreed that based on the information and legal advice that it had, the principal should be suspended. Whatever the date was, it happened to be the last day of the session.

The board decided that the principal would be suspended immediately prior to his return to the college. If we had done anything other than that it could have been construed in other ways. Another board member and I went to the principal's house on the day prior to the return of staff and students to the college. He was handed a letter that indicated that the board had suspended him from his duties.

The letter contained the date on which he was invited to attend a disciplinary hearing—I seem to recollect that it was 14 or 15 January. Therefore, not only had the board decided to suspend him, it had already set in place arrangements to progress from that. When the letter was handed over, it was accepted and a signature, I think, was received. It was a matter of some surprise, therefore, that the college received a sick note thereafter.

Mrs Ewing: Was disciplinary action then automatically dropped?

Mr Urquhart: We were advised that it is not possible to have a disciplinary hearing in absentia. The principal had handed in medical certificates and the college was advised that it would not be a fair hearing if he was not available to be present.

Mrs Ewing: At any stage, did Dr Chalmers ask for legal representation?

Mr Kerr: Dr Chalmers had his own legal representation—more or less from the beginning of events—which was not provided by us.

Mr Urquhart: Indeed, the college solicitors ensured that he was properly advised. Initially, there was correspondence. At a very early stage, the college solicitor indicated that, as long as Dr Chalmers had proper advice, the college could do nothing other than deal with the matter.

The Convener: No matter how one looks at them, these were not normal circumstances. One other thing intrigues me. Why was the SPPA not informed about the background to the case?

Mr Cooper: The answer comes in two parts. First, the SPPA's documentation and guidelines were quite explicit about what information was required. The documentation at no stage asked for any supplementary information, nor did it ask for any broader comment. The only details that were required were factual, such as the date of employment and national insurance number. At no stage did the guidance notes or the form suggest that the college should have provided anything more than was being asked for.

The Convener: I can see that there were strict rules, but given the abnormal circumstances did no one make inquiries to find out whether it was appropriate to mention the background?

Mr Cooper: The second part of my answer is that by the time Dr Chalmers's application for early retirement on the ground of ill health was being processed by the college, there was concern, arising from advice that was given by the legal adviser, about the possible impact of the Disability Discrimination Act 1995. It was difficult for the board to know—I am familiar with this because of the advice I was given when I was working with the lawyer—whether it could volunteer information that might act to the detriment of an individual who was in the process of applying for early retirement on the ground of ill health.

The Convener: So you were acting under advice.

Let us now consider why the college took so long to remedy the weaknesses that were identified.

Margaret Jamieson: I address my question to Mr Kerr. The current principal, Dr Logan, said in evidence to the committee on 2 October that the college's lack of governance arose from

"the failure of the then chairman of the board to exercise due control."

You were a member of the board at that time. Do you agree with Dr Logan's view?

Mr Kerr: Yes.

Margaret Jamieson: Did the board take any action to remedy the situation?

Mr Kerr: We have since changed our structure and now have a robust delegation scheme and robust standing orders. We have put into place much more detailed—I must use this word—controls than we had before. I am as confident as one can be that such a situation will not happen again. We are quite upbeat about that. We have been on a steep learning curve, but we are almost there.

Margaret Jamieson: If you consider the situation and the procedures that you have now, it is clear that what you had previously provided you with absolutely no assistance in making head or tail of the college accounts or the auditors' reports.

Mr Urquhart: Throughout the period in question, internal and external auditors were giving the board clean audit reports. The college is also audited by other bodies, which are largely educational control bodies but also cover governance activities. I am unaware of any untoward report from any of those bodies throughout the period in question. There was nothing to indicate to board members that matters

were not as they should have been.

Margaret Jamieson: Mr Cooper, during the period that you were acting principal and accountable officer, were you constrained in making changes to the governance arrangements? Did you take any action to address the college's shortcomings as raised in the SHEFC report?

Mr Cooper: The one major constraint that I felt personally was that when I was first asked to be acting principal there was a possibility that it might last for only three weeks, but a sick note came in for a month, and then another month, and so on. There was a constraint as to how much I felt it would be reasonable to propose to the board should be changed. The other difficulty was that the extent of change might be interpreted as reading something into the outcome of the disciplinary procedure. That was the only constraint.

I took two immediate actions. First, I invited the chairman of the board and the conveners of all the committees to specify to me and the college managers exactly what they wanted on the agenda for every board meeting, which I agreed would be set up according to a predetermined calendar so that we would know when the meetings were and what issues they wanted to address. Secondly, I encouraged the key college managers to have direct contact with conveners in relation to the operation of the committees of the board. Ian Urquhart would work directly with the finance manager, the chair of audit and so on. Those were the two immediate responses to the issue of information flow between the board and the college.

At this stage, they do not sound so much, but at the time I believed that they were very important early steps. I think that that has been vindicated.

The Convener: How much was there a sense of crisis? I believe that there were staff strikes and problems with the management of buildings and funding. How much urgency was there in dealing with the problems, given that sense of crisis?

Mr Cooper: There were no strikes at that particular time—the strikes came later when the financial position meant that not only could I not recommend a pay rise, but I had to let the board know that if it decided to opt for a pay rise, I would have to contact the Scottish Further Education Funding Council about affordability. The fact that there was no pay rise and that there were possible redundancies led to the industrial action towards the end of my time as acting principal.

The sense of crisis arose from discovering the magnitude and range of issues of which the board was not aware and of which it needed to be made aware very quickly.

The Convener: Were you the first person to discover that when you looked at the books? When did you become aware of the problem?

Mr Cooper: As early as the first week, certain issues and gaps in relation to the funding of major capital building projects came to light. That was the first incident. Senior managers were relieved to have the opportunity to discuss the matter with me, knowing that I would take it to the board and that together we would work out resolutions.

The Convener: Was this made known to the board as and when you knew?

Mr Cooper: Absolutely. I hope that my colleagues can confirm that.

Mr Urquhart: Yes.

Mr Kerr: Yes.

The Convener: I welcome Lloyd Quinan to the meeting.

Mr Lloyd Quinan (West of Scotland) (SNP): I apologise for being late, but I was at the European Committee.

15:15

Paul Martin: Part 4 of the Auditor General's report tells us that between July 1999 and January 2000, the department and SFEFC produced reports highlighting the significant weaknesses in governance and the arrangements at Moray College. We also know that there were concerns about why little was done to resolve those issues. Why were the issues not resolved?

Mr Cooper: Some of the issues were resolved relatively quickly. We thought that we had resolved other issues but later found out that the responses were not meeting the recommendations of SFEFC, and we revisited them.

During that period we had to get to grips with everything everybody needed to know and to ensure that everybody knew it. Also, we were in a dreadfully embarrassing position due to how late we were with the 1998-99 accounts, which caused the 1999-2000 accounts, which covered a 16-month period, to be late as well. The chap in charge of finance and resources had not been able to secure replacement staffing that was required because of long-term sickness leave and other problems—two posts were concerned: the financial controller and a post in debt management. The finance committee agreed to my recommendation that, irrespective of everything else, we needed to spend money to fill those posts so that we could find out where we were. Until the accounts for the two financial years were done, it would be difficult for the board and the finance committee to get a handle on the situation.

The Convener: We will deal with finance in detail in the next session. Today, we are dealing with governance.

Paul Martin: I appreciate that you faced a mammoth task and had to prioritise the work that you were doing in respect of governance. In what areas did the board let the college down? What areas could have been improved? Paragraph 4.14 of the Auditor General's report states that little was done to resolve many of the issues. Did SFEFC provide the necessary information? Were there issues with staff morale or board morale?

Mr Cooper: I have no complaints about the level of support that SFEFC provided. I felt that issues such as financial regulations and procedures, governance and the scheme of delegation had implications in terms of the structure of the college. However, the situation was not as systematic as that. The urgent requirement was to resolve the situation by finding out what had been going on, sharing the information as an executive, bringing it to the board and agreeing what the state of play was with each of the issues. At that point, we would be able to move forward.

The Convener: The Auditor General's report says that, in eight major areas of governance, a year passed with no action being taken following a clear report on the fundamental issues. Why does nothing appear to have happened?

Mr Cooper: There was a misunderstanding between us and SFEFC on one of the issues. We had taken advice from SFEFC as to a likely source of a model for the scheme of delegation. We gathered some information and submitted it. We felt that that was a useful basis on which to make progress. It became clear only at the time of the FAMS revisit in January 2001 that SFEFC wanted further development in significant areas. I understand why that would be recorded as a lack of significant progress, but that is different from saying that no action had been taken.

A lack of progress was also reported on an issue about the clerk to the board. We did not have an opportunity to correct that before the report went to the council. The same applies to the statement that we had not followed up one matter with the internal auditors and another with the external auditors: we had done those things and were subsequently able to satisfy SFEFC that we had done them.

The Convener: Margaret Ewing.

Mrs Ewing: Thank you, convener, but you have already asked the question that I was going to ask.

Mr Davidson: Does Mr Cooper feel that, during the period when he worked with the FAMS team, the board could have given him more support and guidance?

Mr Cooper: The board was going through a difficult and traumatic period. Especially in the 11 months up to the end of November, a tremendous amount of time was spent on dealing with the continuing disciplinary proceedings and the then principal being on sick leave. In addition, for the best of reasons, board members left the area, or changed their jobs, so there was a significant changeover in board personnel. It took new board members some time to come up to speed. However, I had no complaints about the support I received. Indeed, towards the end of the period, I sometimes felt a little embarrassed at the extent to which board members had to take a hands-on approach in attempting to help the college.

Mr Davidson: Did the new board members receive better training than previous board members? Did their induction training inform them of what was really going on in the college?

Mr Cooper: Yes—that is what they have told me.

The Convener: Will Mr Kerr clarify one of the points on declaration of interests that he raised in his letter to me? It appears that, even where procedures were in place, they were not carried out properly. You say in the letter:

"There was a failure of regular declaration."

How irregular was it?

Mr Kerr: We asked people to repeat their declaration of interests once a year. We should have done a better job and encouraged people to make a declaration whenever things changed. Our new principal uses the word "iteration". I think that that describes it—the process should have been continual.

Taking the opportunity that you have offered to talk about declaration of interests, I would like to say that people had to be more or less instructed that anything that seemed to be remotely connected should be declared. That is why, meeting after meeting, we had someone declaring his membership of Moray Badenoch and Strathspey Enterprise. Now, we all know that the guy in question works there, but he declares it dutifully every day because we have required that.

The Convener: That surprises me. That problem can usually be overcome. In most organisations, instead of repeated declarations, another form of words would be used.

Mr Kerr: I am enlarging on the point to indicate that we took the issue extremely seriously.

The Convener: We now move to our final group of questions, which are to find out why the college has incurred a financial deficit of £2.5 million.

Scott Barrie: I will direct these questions to Mr Urquhart, who was a member of the board until

recently and was convener of the college's finance committee. Since May 1998, the college's financial position has deteriorated severely. How much did you, as a board member, know about the financial position—both when Dr Chalmers was principal and since the appointment of Dr Logan? How did the board react to information that it received?

Mr Urquhart: The finance committee and the board received regular financial accounts. At times, they were based on assumptions of the income that would come through. Before SFEFC came into being, funding was based on activity that was carried out 16 months previously. In any year, you could say roughly what you would get, but you did not know what you would get 16 months later. That made things difficult and assumptions had to be made. With the introduction of SFEFC, we moved to real-time funding and we had to put in a bid for a certain level of activity. Accounts were based on the assumption that we would get that activity.

Although there were difficulties at some points during the period to which the member refers—because of new computer systems and so on—which meant that some of the information was not as up to date as it should have been, we have now moved on. We have spent a considerable amount of money to ensure that everything is now reported correctly. Scott Barrie asked how the board reacted to the difficulties that we had in the past. It made clear to the management that each year it wanted there to be no deficit. In the year that has just passed the board took the view that, because of the mammoth hill that had to be climbed, there could be a small deficit. It would have been difficult in one year to go from where we were to where we wanted to be. The situation was quite challenging.

Scott Barrie: You have raised a number of issues. With the benefit of hindsight, do you think that the board was sufficiently apprised of the college's financial position, particularly in the years 1998-99 and 1999-2000? You say that the board clearly said to the management that there should be no deficit but, ironically, the deficit increased greatly during that period. Can you explain how that came about?

Mr Urquhart: We are talking about a fairly long period. As I said, the funding at one point was different from the funding at others. As was said at the committee's previous meeting, at times the reporting was not as good as it should have been. The difficulty was that the situation changed over a year, as new and up-to-date information became available. The board took a fairly rigid approach and insisted that the ship be turned round. The difficulty was in deciding how that should be done.

Scott Barrie: I accept that. I must return to a question that was asked earlier. Do you think that

the board had sufficient information? Was the problem a lack of information? When the board was informed of the financial difficulties that the college faced, did it fully appreciate how severe those difficulties were? If it did, why did it find it so difficult to produce a financial recovery plan? I am asking specifically about the time when you became convener of the finance committee.

Mr Urquhart: You are referring to a fairly lengthy period. At times, the board would not have had information that was as up to date or as accurate as would have been desirable. There were difficulties in the finance department: there was long-term sickness, which affected the staffing situation, and a new computer system was introduced. In some years, the information about expected results changed. At the beginning of the year a budget would be agreed, but the situation would change during the year. The board would then indicate that changes had to be made to the budget.

Scott Barrie's final question related to the recovery plan. That was begun in the summer and worked on during the autumn. In January, the plan was submitted in draft form to SFEFC, which indicated that it felt that the plan should be "more robust". It offered the assistance of external consultants to help the college develop it. That offer was readily accepted.

To sum up, work was done on the recovery plan from the summer, feedback was received from SFEFC and offers of assistance were made and accepted. From that point, the plan moved forward quite rapidly. The basic information had been assembled, and the consultants were able to help the college beef it up. A new principal was then appointed. After two or three drafts had been completed, he provided some input to the report and spent a considerable time developing it. There was a considerable amount of activity over a long period.

15:30

The Convener: Who was in charge of that? The financial memorandum that was issued by the funding council says that the college has to

"ensure that it has a sound system of internal financial management and control and a robust mechanism for considering financial issues."

It also has a duty to "clear any cumulative deficit", yet it has experienced four consecutive years of deficit. The college accounts for 1999-2000 indicated

"an historic deficit which would further increase the deficit on the Income and Expenditure Reserve to £1.7 million".

That deficit seems to have been on-going. Who was in charge and why was there not a robust mechanism?

Mr Urquhart: The principal and the board together were responsible for the deficit during the period that Mr Barrie specifically asked me about—from last summer until recently. I answered on that basis.

The Convener: The principal and the board are ultimately responsible, but they must have got their specialist financial advice from somewhere. Do they take a hands-on approach to finance, or was the advice supplied by somebody else?

Mr Urquhart: As I say, external consultants were brought in early this year. Prior to that, it was down to the financial people and the principal at the college.

The Convener: Who did not supply robust mechanisms and was responsible for consecutive years of financial deficits?

Mr Urquhart: The principal and the board of management.

I hope that this does not sound like an excuse but, between 1995 and 1999, core funding to further education colleges fell by 17 per cent. In the past year, core funding to colleges has in effect risen by only 1 per cent, although according to the publicity, it has grown by 5 per cent. That is because a lot of the funding in recent years has been ring-fenced. Funding core activity over a lengthy period without taking inflation into account perhaps needs to be looked into. I am not saying that the blame lies elsewhere—the responsibility is as I have said—but members must understand the context and the background to the difficulties that organisations face.

The Convener: We are trying to clarify the matter.

Mr Davidson: What was the perceived remit of the board's finance committee and did it make any efforts to get advice from outside? Did it challenge the principal at any time on the quality of the information that it appeared to be receiving?

Mr Urquhart: I shall answer your second question first. Yes, there were challenges to the information that was supplied. Because of the culture at the time, it was rather difficult to pursue those challenges, but some people continued to inquire about the information.

During the transitional period when Mr Cooper was the acting principal, there was a huge backlog to catch up with. Last summer, when I became the convener of the finance committee, there was much to be done. One would have liked to do a lot more, but one had to be realistic. We produced two sets of financial accounts, to catch up, and did a lot of other things with the staff.

Mr Davidson: I presume that, before you joined the committee, its members discussed matters

with the rest of the board, including Mr Kerr. Did you feel that they were on top of the job?

Mr Urquhart: As I have said, there were difficulties in that department. At the last meeting, the principal indicated that the resource capability in that area was perhaps not as it should have been. That is what I would say as well. It could have been better and it would have been extremely helpful if it had been better.

The Convener: The 2000 FAMS report made eight major recommendations, which were not followed through. The report said, for example, that college procedures did not

“comply with the college's Financial Memorandum and SFEFC's Code of Audit Practice”.

That is pretty fundamental stuff. The report's recommendations were not implemented over the whole year.

Mr Urquhart: Management started working on the financial regulations in autumn last year and a draft was produced early this year. However, the members of the college's finance committee felt that the regulations were not as they should be. Members of that committee—including me—took it upon themselves to write them. That indicates that the committee members felt that the standard of some things was not as it should have been and that the only way forward to help the organisation was to sit down and write the things themselves.

The Convener: Did you not get any help from outside to do that? I am aware that you hired experts.

Mr Urquhart: They were helpful, but we had to focus their activity and effort on the important aspect of the recovery plan. It was decided to deal with that by diverting them to things that other people could perhaps have done. Throughout the period, it was a question of prioritising and trying to get a grip on the accounts and so on. Those other things are important, but it was a matter of setting priorities to get on top of the whole thing. It was a time when a lot was being done.

The Convener: Did you feel that you had been set adrift? Was there any organisation to which you could turn for assistance? It seems that you were beset by various problems. What help did you seek and get from outside in searching for a solution?

Mr Urquhart: There was quite a bit of seeking. The current structure and external capability perhaps does not exist to help colleges in such a situation. The funding council has a finance team, which is really a monitoring service. That team was helpful in providing consultants, but one wonders whether the ASC or SFEFC could consider providing additional help and support to organisations in recovery such as ours.

On management skills and capabilities, executive people in colleges will, hopefully, not have had much experience of such situations. Similarly, boards of management are structured for when the going is quite good. When it becomes difficult, a different set of skills and capabilities is required and an advisory service for the further education sector might be useful, both in the context of recovery and to uplift the existing standards in the sector.

The Convener: From whom did you seek help and advice?

Mr Urquhart: From the funding council and the ASC. We also spoke to the college solicitors about some aspects of the situation and we sought help in the form of documentation from other organisations in the higher education and further education sectors. They were extremely helpful in providing us with things to help us to ascertain what would be approved documents.

Mr Cooper: Approaches were made to other colleges using our network of contacts, which also proved to be helpful.

Mr Kerr: On recovery, the robustness of the college's financial management system is being addressed, in that we are aware that we were weak in that area and need to tighten up. That will happen from top to bottom in the context of the recovery plan.

Scott Barrie: All members of the Audit Committee are well aware of the financial difficulties that a number of FE colleges have faced in the past few years. However, given the fact that other colleges are facing exactly the same difficulties, or at least some of the same difficulties, why did Moray College find it so difficult to come up with a manageable solution to address a continually deteriorating financial position?

Mr Cooper: If I may, I will add a dimension that may answer that question. Over the piece, the board grew a little tired of my voicing to them the implications of the college's significant commitment to the development of the UHI Millennium Institute, as it is now called. In my written submission, I referred to the funding that a full-time HE student attracts in comparison with that attracted by a full-time FE student. Members of the committee will be more aware than I am of the political imperative that lies behind the development of the university of the Highlands and Islands, in which we were a significant partner. We were disappointed that it took so long for designation and the associated increased funding to come through. We were developing and delivering full-time HE provision at FE rates for at least five years before designation, which has only just affected us. Even the most conservative estimate would have suggested that an additional

income of £500,000 would come to Moray College in the two years immediately prior to 2001, if we had been funded at the same rate as the Scottish Higher Education Funding Council funds its students.

It would have been the easiest thing in the world to say, "If we pull out of this and drop these courses, we can immediately save on staff", and how tempted I was to say so. Mr Urquhart and I are the best of friends, but we locked horns on more than one occasion over the fact that I felt that, strategically, the college should hold out educationally for the brave, new, promised land. We had committed ourselves to a course of action that was costing us dear. I do not have detailed knowledge, but I understand that we are not the only college involved in the UHI that has found this to be a particularly difficult period.

As I have the floor, I should address the year in which I was acting principal. The sudden increase that Mr Barrie referred to did not arise as a result of our financial difficulties or our financial systems and procedures. There was a failure on my part properly to address the fact that, in the context of the UHI, we had changed from a computer-based management information system, which we knew and for which we had customised the information that we needed, to a new system. I take ultimate responsibility for not ensuring that the manual information that I received and relayed to the board and SFEFC was up to date. In the middle of the year—in the middle of February—when the financial forecast update was required, I had the worst working day of my life. The situation that I had communicated to SFEFC only two days previously, with the chairman sitting next to me, was blown out of the water.

I ask members to forgive me, as I do not want to go into where in the college the problem arose, but it happened and it was dealt with. Because of what we found out, we recovered to a better position than we would have otherwise, but the problem was a significant factor in the worsening of the position. After the finance committee said that it was aiming to more or less break even, my failure to co-ordinate the manual returns and to keep on top of the situation was a factor. As soon as we knew what the situation was, all the financial scenario planning was redone and presented to the board and to SFEFC, so that everyone was made aware of the situation.

Mr Urquhart: May I follow on from the question that Mr Barrie asked about the recovery plan?

The Convener: No problem.

Mr Urquhart: As members know, I am no longer a board member, but I am helping with the overlap. A meeting of the staffing committee was held yesterday. The board will meet next week to

continue to monitor the recovery plan and its implications and repercussions. The situation is on-going and, as has been said, iterative. It must be monitored and taken forward. The contingency and such matters will be dealt with at the board meeting next week.

15:45

Mr Kerr: I should tell the committee that it was reported to us yesterday that the teaching staff's reaction to our recovery plan, which depends on growth and enterprise, is not one of support.

The teaching staff told us yesterday that they are in dispute with us about parts of the recovery plan and the implications for staffing. A meeting will be held with staff tomorrow. The board will meet a week tomorrow to deal with any repercussions. We have a contingency plan, which the board will consider in a week's time if that proves necessary. I will then be happy to send the contingency plan to the convener. It is vital that we do not leave without the committee being made aware that the teaching staff in the college have given notice of a dispute with us about some aspects of our recovery plan.

Mrs Ewing: My understanding is that the Educational Institute of Scotland and the College Lecturers Association have sent a letter to the Minister for Education, Europe and External Affairs in the context of the recovery plan. You said that there would be continuing discussions with the staff. Are there negotiations with the staff? That may sound like a semantic point, but some of the difficulties might be overcome if the officials representing the staff were given a right to negotiate rather than meetings being called for everyone to have a general discussion, which is what seems to be happening.

Mr Cooper: A joint consultative committee meeting was held, in accordance with the recognition and procedure agreement, at which proposals were presented. Following that, the principal made himself available to meet all members of staff at a series of four meetings. A JCC was held subsequent to that. We are not yet at the stage where we would go forward to a joint negotiating committee; that would be the next stage of both our ordinary JCCs, if I can call them that, and of the JCC that will meet tomorrow in the context of the disputes procedure having been raised. I was unaware of the letter to which Mrs Ewing referred.

The Convener: I gave you the opportunity to respond to that point, but we are in danger of opening a brand new inquiry.

I thank the witnesses. Do they want to make a final statement?

Mr Kerr: I express gratitude for the courtesy that we have received from the committee. I thank you all very much.

The Convener: We should express our gratitude to you. I thank all our witnesses, because this has been an important meeting and their contributions have been important in ascertaining what happened. I hope that it will teach us lessons.

The committee will now consider in detail the evidence that we have received. It will issue its findings and recommendations in due course.

15:48

Meeting continued in private until 16:20.

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